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**As filed with the Securities and Exchange Commission on June 26, 2008**

**Registration No. [ • ]**

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# AMENDMENT NO. 1
# TO
# FORM 10

**GENERAL FORM FOR REGISTRATION OF SECURITIES**
**PURSUANT TO SECTION 12(b) OR 12(g) OF**
**THE SECURITIES EXCHANGE ACT OF 1934**

# TREE.COM, INC.

(Exact Name of Registrant as Specified in Its Charter)

| | |
|---|---|
| **Delaware**<br>(State or Other Jurisdiction<br>of Incorporation or Organization) | **26-2414818**<br>(I.R.S. Employer<br>Identification No.) |
| **11115 Rushmore Drive**<br>**Charlotte, NC**<br>(Address of Principal Executive Offices) | **28277**<br>(Zip Code) |

**(704) 541-5351**
(Registrant's telephone number, including area code)

Securities to be registered pursuant to Section 12(b) of the Act:

| Title of each class to be so registered | Name of each exchange on which each class is to be registered |
|---|---|
| Common Stock, par value $0.01 per share | The NASDAQ Stock Market LLC |

Securities to be registered pursuant to Section 12(g) of the Act:

**None**

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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer o | Accelerated filer o | Non-accelerated filer ☒<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

**This Registration Statement has been prepared on a prospective basis on the assumption that, among other things, the spin-offs (as described in the Information Statement which is a part of this Registration Statement) and the related transactions contemplated to occur prior to or contemporaneously with the spin-offs will be consummated as contemplated by the Information Statement. There can be no assurance, however, that any or all of such transactions will occur or will occur as so contemplated. Any significant modifications to or variations in the transactions contemplated will be reflected in an amendment or supplement to this Registration Statement.**

**INFORMATION REQUIRED IN REGISTRATION STATEMENT**
**CROSS-REFERENCE SHEET BETWEEN INFORMATION STATEMENT AND**
**ITEMS OF FORM 10**

This registration statement on Form 10 of Tree.com, Inc. ("Tree.com") hereby incorporates by reference the information contained in the information statement filed as Exhibit 99.1 to this Form 10 (the "Information Statement"). All information contained in the Information Statement concerning any of HSN, Inc., Ticketmaster or Interval Leisure Group, Inc. (each, a "Spinco") has been provided by such Spinco and Tree.com takes no responsibility for the accuracy of any such information to the extent it does not relate to Tree.com. For your convenience, Tree.com has provided below a cross-reference sheet identifying where the items required by Form 10 can be found in the Information Statement.

| Item No. | Caption | Location in Information Statement |
|---|---|---|
| Item 1. | Business | See "Summary," "Risk Factors," "Certain Information With Respect To Tree.com—Business of Tree.com" and "Certain Relationships and Related Party Transactions" |
| Item 1A. | Risk Factors | See "Risk Factors" and "Certain Information With Respect To Tree.com—Risk Factors Relating to the Business of Tree.com Following the Spin-Offs" |
| Item 2. | Financial Information | See "Certain Information With Respect To Tree.com—Capitalization," "Certain Information With Respect To Tree.com—Selected Historical Financial Data," "Certain Information With Respect To Tree.com—Unaudited Pro Forma Condensed Consolidated Financial Statements," "Certain Information With Respect To Tree.com—Management's Discussion and Analysis of Financial Condition and Results of Operations of Tree.com," "Certain Information With Respect To Tree.com—Quantitative and Qualitative Disclosures about Market Risk" and "Annex B—Tree.com Consolidated Financial Statements" |
| Item 3. | Properties | See "Certain Information With Respect To Tree.com—Business of Tree.com—Properties" |
| Item 4. | Security Ownership of Certain Beneficial Owners and Management | See "Certain Information With Respect To Tree.com—Tree.com Security Ownership of Certain Beneficial Owners and Management" |
| Item 5. | Directors and Executive Officers | See "Certain Information With Respect To Tree.com—Management of Tree.com" |
| Item 6. | Executive Compensation | See "Certain Information With Respect To Tree.com—Tree.com Executive Compensation" and "Spinco Stock and Annual Incentive Plans" |
| Item 7. | Certain Relationships and Related Transactions, and Director Independence | See "Certain Information With Respect To Tree.com" and "Certain Relationships and Related Party Transactions" |
| Item 8. | Legal Proceedings | See "Certain Information With Respect To Tree.com—Business of Tree.com—Tree.com Legal Proceedings" |
| Item 9. | Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters | See "Summary," "The Separation," "Dividend Policy," "Certain Information With Respect To Tree.com—Tree.com Executive Compensation," "Certain Information With Respect To Tree.com—Tree.com Security Ownership of Certain Beneficial Owners and Management," "Certain Information With Respect To Tree.com—Capitalization" and "Spinco Stock and Annual Incentive Plans" |

| | | |
|---|---|---|
| Item 10. | Recent Sales of Unregistered Securities | Not applicable |
| Item 11. | Description of Registrant's Securities to be Registered | See "The Separation" and "Description of Capital Stock of the Spincos" |
| Item 12. | Indemnification of Directors and Officers | See "Description of Capital Stock of the Spincos—Limitation on Liability of Directors and Indemnification of Directors and Officers" and "Certain Relationships and Related Party Transactions" |
| Item 13. | Financial Statements and Supplementary Data | See "Certain Information With Respect To Tree.com—Selected Historical Financial Data," "Certain Information With Respect To Tree.com—Unaudited Pro Forma Condensed Consolidated Financial Statements" and "Annex B—Tree.com Consolidated Financial Statements" |
| Item 14. | Changes in and Disagreements with Accountants on Accounting and Financial Disclosure | Not applicable |
| Item 15. | Financial Statements and Exhibits | See "Certain Information With Respect To Tree.com—Unaudited Pro Forma Condensed Consolidated Financial Statements" and "Annex B—Tree.com Consolidated Financial Statements" |

*(a) List of Financial Statements and Schedules.*

The following financial statements are included in the Information Statement and filed as part of this Registration Statement on Form 10:

(1) Unaudited Pro Forma Condensed Consolidated Financial Statements of Tree.com, Inc.; and

(2) Tree.com Consolidated Financial Statements, including Report of Independent Registered Public Accounting Firm

(3) Schedule of Valuation and Qualifying Accounts

*(b) Exhibits.*

The following documents are filed as exhibits hereto:

| Exhibit No. | Exhibit Description |
|---|---|
| 2.1 | Form of Separation and Distribution Agreement by and among HSN, Inc., Interval Leisure Group, Inc., Ticketmaster, Tree.com, Inc. and IAC/InterActiveCorp* |
| 3.1 | Form of Amended and Restated Certificate of Incorporation of Tree.com, Inc.* |
| 3.2 | Form of Amended and Restated By-laws of Tree.com, Inc.* |
| 10.1 | Form of Tax Sharing Agreement among HSN, Inc., Interval Leisure Group, Inc., Ticketmaster, Tree.com, Inc. and IAC/InterActiveCorp* |
| 10.2 | Form of Transition Services Agreement among HSN, Inc., Interval Leisure Group, Inc., Ticketmaster, Tree.com, Inc. and IAC/InterActiveCorp* |
| 10.3 | Form of Employee Matters Agreement among HSN, Inc., Interval Leisure Group, Inc., Ticketmaster, Tree.com, Inc. and IAC/InterActiveCorp* |

| | |
|---|---|
| 10.4 | Spinco Agreement, dated as of May 13, 2008, between IAC/InterActiveCorp, Liberty Media Corporation, LMC Silver King, Inc., Liberty HSN II, Inc., LMC USA VIII, Inc., LMC USA IX, Inc., LMC USA XI, Inc., LMC USA XII, Inc., LMC USA XIII, Inc., LMC USA XIV, Inc., LMC USA XV, Inc., Liberty Tweety, Inc., BDTV Inc., BDTV II Inc., BDTV III Inc., BDTV IV Inc. and Barry Diller (filed as Exhibit 10.1 to IAC/InterActiveCorp's Current Report on Form 8-K (SEC File No. 0-20570) dated May 13, 2008 and incorporated herein by reference) |
| 10.5 | Employment Agreement between C.D. Davies and IAC/InterActiveCorp, dated as of [ ], 2008.*† |
| 10.6 | Employment Agreement between Robert L. Harris and LendingTree, LLC, dated as of [ ], 2008.*† |
| 10.7 | Employment Agreement between Douglas R. Lebda and IAC/InterActiveCorp, dated as of January 7, 2008.† |
| 10.8 | Employment Agreement between Bret A. Violette and IAC/InterActiveCorp, dated as of April 11, 2007.† |
| 10.9 | Amended and Restated Restricted Share Grant and Shareholders' Agreement, dated as of July 7, 2003, by and among Forest Merger Corp., LendingTree Inc., InterActiveCorp and the Grantees named therein, as amended (filed as Exhibit 99.4 to Amendment No. 1 to IAC/InterActiveCorp's Registration Statement on Form S-4 (SEC File No. 333-105876) filed on July 10, 2003 and incorporated herein by reference)† |
| 10.10 | Correspondent Loan Purchase Agreement, dated as of April 26, 2004, between CitiMortgage, Inc. and Home Loan Center, Inc. |
| 10.11 | Loan Purchase Agreement, dated as of April 16, 2002, between Countrywide Home Loans, Inc. and Home Loan Center, Inc. |
| 10.12 | Tree.com, Inc. 2008 Stock and Annual Incentive Plan*† |
| 10.13 | Warehousing Credit Agreement, dated as of November 26, 2007, by and among Home Loan Center, Inc. d/b/a LendingTree Loans, National City Bank and National City Bank in its capacity as Agent for the Banks (as defined therein) |
| 10.14 | Master Repurchase Agreement, dated as of January 25, 2008, by and among Countrywide Bank, FSB and Home Loan Center, Inc. (the "Master Repurchase Agreement") |
| 10.15 | Notice, dated June 25, 2008, issued by Countrywide Warehouse Lending, regarding certain amendments to the Master Repurchase Agreement. |
| 21.1 | Subsidiaries of Tree.com, Inc.* |
| 99.1 | Preliminary Information Statement of HSN, Inc., Interval Leisure Group, Inc., Ticketmaster and Tree.com, subject to completion, dated May 13, 2008. |
| 99.2 | Supplemental Quarterly Financial Data for the Year Ended December 31, 2007 |

* To be filed by amendment

† Reflects management contracts and management and director compensatory plans

## SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

Tree.com, Inc.

By: /s/ GREGORY R. BLATT

Name: Gregory R. Blatt
Title: Vice President

Dated: June 26, 2008

## EXHIBIT INDEX

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EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement"), dated as of January 7, 2008 (the "Effective Date"), is entered into by and between Douglas R. Lebda ("Employee") and IAC/InterActiveCorp ("IAC" or the "Company"). All capitalized terms used herein without definition shall have the meaning assigned to them in the Prior Agreement (as defined below).

WHEREAS, Employee is currently serving as President and Chief Operating Officer of the Company;

WHEREAS, the Company has announced a plan to separate into five publicly traded companies (the "Spin-Offs"), one of which is intended to comprise the businesses operated within the Company's LendingTree and Real Estate financial reporting segments, which currently include LendingTree, RealEstate.com, Domania, GetSmart, Home Loan Center and iNest (collectively, "LendingTree");

WHEREAS, the Company wishes, in anticipation of the Spin-Off of LendingTree (the "LT Spin-Off"), to appoint Employee to the position of Chairman and Chief Executive Officer of LendingTree, in addition to his continuing in his current position as President and Chief Operating Officer of the Company for a transitional period, and Employee is willing to commit himself to continue to serve the Company and its subsidiaries and affiliates, on the terms and conditions herein provided;

WHEREAS, Employee, the Company and LendingTree are parties to an Employment Agreement (the "Prior Agreement"), dated as of December 14, 2005, which generally became effective as of the effective date (as that term is defined in the Prior Agreement), which the parties intend will be superseded hereby;

WHEREAS, in order to effect the foregoing, the Company and Employee wish to enter into an employment agreement on the terms and conditions set forth below;

NOW, THEREFORE, in consideration of the mutual agreements hereinafter set forth, Employee and the Company have agreed and do hereby agree as follows:

1A. EMPLOYMENT. The Company agrees to employ Employee as Chairman and Chief Executive Officer of LendingTree as of the Effective Date and Employee accepts and agrees to such employment; provided that it is intended that this position be held at the parent entity operating the LendingTree businesses upon closing of the LT Spin-Off (the "LT Parent"). During Employee's employment with the Company, Employee shall perform all services and acts necessary or advisable to fulfill the duties and responsibilities as are commensurate and consistent with Employee's position and shall render such services on the terms set forth herein. During Employee's employment with the Company prior to the LT Spin-Off, Employee shall report to the Chief Executive Officer of the Company and subsequent to the LT Spin-Off, Employee shall report to the Board of Directors of LT Parent (in each case, hereinafter referred to as the "Reporting Officer"). Employee shall have such powers and duties with respect to the

Company as may reasonably be assigned to Employee by the Reporting Officer, to the extent consistent with Employee's position and status. Employee agrees to devote all of Employee's working time, attention and efforts to the Company and to perform the duties of Employee's position in accordance with the Company's policies as in effect from time to time. Notwithstanding the foregoing, Employee shall remain as President and Chief Operating Officer of the Company until the earlier of the LT Spin-Off or such date as is determined by the Chief Executive Officer of IAC.

Notwithstanding anything to the contrary above, Employee may serve as a corporate board member for Eastman Kodak and another entity previously identified to IAC (collectively, the "Current Boards") and such other organizations (not to exceed four (4) in the aggregate) as are approved in advance by the Reporting Officer, provided said service does not (a) interfere with Employee's ability to perform his duties for the Company as contemplated hereunder, and (b) compete with, or present an actual or apparent conflict of interest for, the Company or LendingTree, which shall be determined by the General Counsel of IAC in the case of IAC and the Board of Directors of LendingTree in the case of LendingTree, in each case, in his (or its) sole, good faith judgment. IAC acknowledges that as of the Effective Date, Employee is serving, or has agreed to serve, as a corporate board member on the Current Boards, and that IAC will only claim that clause (a) or (b) of the preceding sentence is implicated if there are changed circumstances after the Effective Date and prior to the LT Spin-Off; provided that the requirement for changed circumstances after the Effective Date shall not be a prerequisite for the Board of Directors of LT Parent to claim that circumstances meeting clause (a) or (b) of the preceding sentence have been met.

2A. TERM OF AGREEMENT. The term ("Term") of this Agreement shall commence on the Effective Date and shall continue through the fifth anniversary of the Effective Date, unless sooner terminated in accordance with the provisions of Section 1 of the Standard Terms and Conditions attached hereto; provided, that certain terms and conditions herein may specify a greater period of effectiveness. Employee and the Company will enter into good faith negotiations to extend the Term no later than six months prior to the end of the Term, provided, that Employee has provided written notice to the Company between eight and six months prior to the end of the Term which sets forth his interest in entering into such negotiations.

3A. COMPENSATION.

(a) BASE SALARY. During the Term, the Company shall pay Employee an annual base salary of $750,000 (the "Base Salary"), payable in equal biweekly installments or in such other installments as may be in accordance with the Company's payroll practice as in effect from time to time. The Base Salary shall be reviewed by the Company, if requested by Employee in writing, no less frequently than annually in a manner consistent with similarly situated executives of the Company and may be increased but not decreased. For all purposes under this Agreement, the term "Base Salary" shall refer to Base Salary as in effect from time to time.

(b) DISCRETIONARY BONUS. During the Term, Employee shall be eligible to receive discretionary annual bonuses in a manner consistent with similarly situated executives of the Company.

(c) EQUITY COMPENSATION.

(i) Grant of LendingTree Equity Incentives. At the time of the LT Spin-Off (which shall be the grant, or transfer, date), Employee shall be granted the following equity awards, with the vesting of each of the awards dependent on the continued service of Employee through the vesting term:

(A) Restricted stock of the LT Parent ("LT Restricted Stock") in an amount equal to 2% of the fully diluted common equity of LT Parent immediately after the consummation of the LT Spin-Off (after giving effect to the grant of LT Restricted Stock and the LT Options (as defined below), but not taking into account any common units of LendingTree, LLC outstanding under the Shares Agreement immediately after the consummation of the LT Spin-Off (whether held by Employee or others)) (the "Diluted LT Common Shares"). The LT Restricted Stock will vest in equal annual installments on the first five anniversaries of the Effective Date; provided that no vesting date may occur prior to the closing of the LT Spin-Off. The LT Restricted Stock will be governed by a new LendingTree stock plan to be established by the LT Parent Board of Directors (or a committee thereof) (the "LT Stock Plan") and a related agreement. In the event of any conflict or ambiguity between this Agreement and the LT Stock Plan or agreement, this Agreement shall control. For purposes of clarity, Diluted LT Common Shares will include, without limitation, any shares in LT Parent that Employee receives in the LT Spin-Off in respect of his IAC shares (i) held as of the Effective Date which were received in exchange for 25% of his LendingTree management equity shares (ii) to be received in exchange for another 25% of his LendingTree management equity shares held as of the Effective Date.

(B) Four separate awards of stock options (the "LT Options"), each award giving Employee the right to acquire 2-1/2% of the Diluted LT Common Shares, with per share exercise prices for each award calculated as follows:

(1) First Award - $250,000,000 divided by number of Diluted LT Common Shares;

(2) Second Award - $300,000,000 divided by number of Diluted LT Common Shares;

(3) Third Award - $400,000,000 divided by number of Diluted LT Common Shares; and

(4) Fourth Award - $450,000,000 divided by number of Diluted LT Common Shares.

Notwithstanding the foregoing, if any calculation above results in a per share exercise price that is lower than the initial trading price of Parent Common Stock immediately following the LT Spin-Off (the "Initial LT Price"), such exercise price(s) shall be equal to the Initial LT Price and the per share exercise price of the Fourth Award shall be adjusted by reducing the $450,000,000 in the calculation under (B)(4) above by $1.00 for each



dollar that the Initial LT Price multiplied by the Diluted LT Common Shares exceeds $250,000,000. The LT Options will be governed by the LT Stock Plan and a related agreement and shall each vest in full on the fifth anniversary of the Effective Date. In the event of any conflict or ambiguity between this Agreement and the LT Stock Plan or agreement, this Agreement shall control.

(ii) The Shares. Section 3(c)(i) of the Prior Agreement shall remain in full force and effect, except that the shares of Exchange Stock shall vest in full and the Target Shares shall be exchanged for 300,000 shares of IAC Common Stock, and all other provisions in the Prior Agreement relating to the Exchange Stock and the Target Shares shall no longer be in effect (A) immediately prior to the LT Spin-Off, provided Employee remains employed by the Company at such time, (B) if earlier than (A), immediately prior to the Company's disposition (either through spin-off or other means) of the last of its Ticketing, HSN and Interval businesses, provided that all three of such businesses have been so disposed of (such third disposition, the "Threshold Disposition"), provided Employee remains employed by the Company at such time, (C) upon Employee's termination of employment in accordance with either Section 3A(e) of the Agreement or Section 1(g) of the Standard Terms and Conditions attached hereto, or (D) upon any Qualifying Termination (as defined in Section 1(d) of the Standard Terms and Conditions).

(iii) Treatment of IAC Equity Awards. All IAC restricted stock units held by Employee on the Effective Date shall vest, to the extent not previously vested, with Growth Shares granted in February 2007 vesting at the target level, (A) immediately prior to the closing of the LT Spin-Off, provided Employee remains employed by the Company at such time, (B) if earlier than (A), immediately prior to the closing of the Threshold Disposition, provided Employee remains employed by the Company at such time, (C) upon Employee's termination of employment in accordance with either Section 3A(e) of the Agreement or Section 1(g) of the Standard Terms and Conditions attached hereto, or (D) upon any Qualifying Termination.

(d) BENEFITS. During the Term, Employee shall be eligible to participate in any welfare, health, life insurance, pension benefit and incentive plans, programs, policies and practices as may be adopted from time to time by the Company on the same basis as that provided to similarly situated employees of the Company generally. Without limiting the generality of the foregoing, Employee shall be eligible for the following benefits:

(i) Reimbursement for Business Expenses. During the Term, the Company shall reimburse Employee for all reasonable and necessary expenses incurred by Employee in performing Employee's duties for the Company, on the same basis as similarly situated employees of the Company generally and in accordance with the Company's policies as in effect from time to time.

(ii) Vacation. During the Term, Employee shall be eligible for paid vacation in accordance with the plans, policies, programs and practices of the Company applicable to similarly situated employees of the Company generally. Any accrued vacation under the Company's plans, policies, programs and practices shall be rolled over and continue to be available to Employee upon his becoming subject to LendingTree's plans, policies, programs and practices regarding vacation.

(iii) Payment of and/or Reimbursement for Certain Relocation Expenses. The Company shall pay on Executive's behalf (or reimburse Executive for) actual, reasonable and documented expenses relating to his relocation to Charlotte, North Carolina, if such occurs, up to an aggregate dollar amount of $400,000 (including tax gross-ups), on the same basis as similarly situated employees and in accordance with Company policy (the "Relocation Expenses"). As required by Company policy and as a condition to the payment of and/or reimbursement the Relocation Expenses, Executive agrees to repay the Company for 100%, 75%, 50% and 25% of such expenses upon a termination of Executive's employment for Cause (as defined in Section 1(c) of the Standard Terms and Conditions) or if Executive voluntarily terminates his employment with the Company (except for Good Reason as defined in accordance with the provisions of Section 1(d) of the Standard Terms and Conditions or termination pursuant to Section 1(g) of the Standard Terms and Conditions) during months 0 through 4, 5 through 9, 10 through 14 and 15 through 18, respectively, of the Term.

(e) SALE OF LENDINGTREE. In the event that during the Term and prior to the LT Spin-Off, the Company sells a controlling interest in LendingTree (i.e., a majority of the outstanding voting power over or substantially all of the assets of the LendingTree businesses), Employee shall have the right to terminate his employment with the Company within thirty days of notice of such sale, and upon the later of such termination and the closing of such sale, the Company shall pay Employee an amount equal to 1% of the consideration received by the Company. The payment shall be in the same form as the consideration received by the Company; provided that the Company may, at its option, elect to pay Employee entirely in cash in respect of the 1% interest. If Employee exercises his termination right under this Section 3A(e), subject to Employee's execution and non-revocation of a general release of the Company and its affiliates substantially in the form attached hereto as Exhibit A and Employee's compliance with Sections 2(a) through 2(e), upon payment by the Company of the Accrued Obligations, payment to Employee of the 1% of the consideration described above in this section and the vesting of equity as provided in Sections 3A(c)(ii) and (iii), the Company shall have no further obligations to Employee hereunder.

(f) INVESTOR IN LENDINGTREE. In the event that during the Term and prior to the LT Spin-Off a third party makes a minority investment in Lending Tree, the Company shall provide notice to Employee of the intended investment along with the terms and conditions of such investment. Within ten (10) days of such notice, Employee may, by written notice to the Company, elect to co-invest in LendingTree for up to 5% of the Lending Tree equity (plus up to an additional 5% with the consent of the third-party investor) on the same economic terms as the other investor, and with other terms reasonable and customary for a minority investment of this nature. Notwithstanding the foregoing, if all or a portion of the consideration to be delivered by the third party for its investment in LendingTree is not in cash or marketable securities, whether it be unmarketable securities, other property, or contractual commitments, the Company shall value such consideration in good faith and adjust the purchase price for purposes of determining the amount the Employee will pay for his co-investment.

4A. NOTICES. All notices and other communications under this Agreement shall be in writing and shall be given by first-class mail, certified or registered with return receipt requested or hand delivery acknowledged in writing by the recipient personally, and shall be deemed to



have been duly given three days after mailing or immediately upon duly acknowledged hand delivery, as applicable, to the respective persons named below:

If to the Company: IAC/InterActiveCorp<br>555 West 18th Street<br>New York, NY 10011

Attention: General Counsel

Or, if after the LT Spin-Off, then to the General Counsel of LT Parent.

If to Employee: At the most recent address on file at the Company.

Either party may change such party's address for notices by notice duly given pursuant hereto.

5A. GOVERNING LAW; JURISDICTION. This Agreement and the legal relations thus created between the parties hereto shall be governed by and construed under and in accordance with the laws of the State of Delaware without reference to the principles of conflicts of laws. Any and all disputes between the parties which may arise pursuant to this Agreement will be heard and determined solely before an appropriate federal court in the State of New York, or, if not maintainable therein, then in an appropriate New York state court. The parties acknowledge that such courts have jurisdiction to interpret and enforce the provisions of this Agreement, and the parties consent to, and waive any and all objections that they may have as to, personal jurisdiction and/or venue in such courts.

6A. COUNTERPARTS. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument. Employee expressly understands and acknowledges that the Standard Terms and Conditions attached hereto are incorporated herein by reference, deemed a part of this Agreement and are binding and enforceable provisions of this Agreement. References to "this Agreement" or the use of the term "hereof" shall refer to this Agreement and the Standard Terms and Conditions attached hereto, taken as a whole.



IN WITNESS WHEREOF, the Company has caused this Agreement to be executed and delivered by its duly authorized officer and Employee has executed and delivered this Agreement as of the date set forth above.

IAC/INTERACTIVECORP

By:<br>Title:

STANDARD TERMS AND CONDITIONS

1. TERMINATION OF EMPLOYEE'S EMPLOYMENT.

(a) DEATH. Upon termination of Employee's employment prior to the expiration of the Term by reason of Employee's death, the Company shall pay Employee's designated beneficiary or beneficiaries, within 30 days of Employee's death in a lump sum in cash, (i) Employee's Base Salary from the date of Employee's death through the end of the month in which Employee's death occurs and (ii) any Accrued Obligations (as defined in paragraph 1(f) below).

(b) DISABILITY. Upon termination of Employee's employment prior to expiration of the Term by reason of Employee's Disability, the Company shall pay Employee, within 30 days of such termination in a lump sum in cash, (i) Employee's Base Salary from the date of Employee's termination of employment due to Disability through the end of the month in which such termination occurs, offset by any amounts payable to Employee under any disability insurance plan or policy provided by the Company and (ii) any Accrued Obligations (as defined in paragraph 1(f) below). "Disability" shall mean a condition, resulting from bodily injury or disease, that renders, and for a six consecutive month period has rendered, Employee unable to perform substantially the duties pertaining to his employment with the Company. A return to work of less than 14 consecutive days will not be considered an interruption in Employee's six consecutive months of disability. Disability will be determined by the Company on the basis of medical evidence satisfactory to the Company.

(c) TERMINATION FOR CAUSE; RESIGNATION BY EMPLOYEE WITHOUT GOOD REASON. The Company may terminate Employee's employment under this Agreement with or without Cause at any time. Upon termination of Employee's employment prior to expiration of the Term by the Company for Cause or upon Employee's resignation without Good Reason, this Agreement shall terminate without further obligation by the Company, except for the payment of any Accrued Obligations (as defined in paragraph 1(f) below). As used herein, "Cause" shall mean: (i) the plea of guilty or nolo contendere to, or conviction for, a felony offense; provided, however, that after indictment, the Company may suspend Employee from the rendition of services, but without limiting or modifying in any other way the Company's obligations to Employee under this Agreement; provided, further, that Employee's employment shall be immediately reinstated if the indictment is dismissed or otherwise dropped and there is not otherwise grounds to terminate Employee's employment for Cause; (ii) a material breach by Employee of a fiduciary duty owed to the Company; (iii) a material breach by Employee of any of the covenants made by Employee in Section 2 hereof; or (iv) the willful or gross neglect by Employee of the material duties required by this Agreement. Before a cessation of Employee's employment shall be deemed to be a termination of Employee's employment for Cause, (A) the Company shall provide written notice to Employee that identifies the conduct described in clauses (ii), (iii) or (iv) above, as applicable, and (B) in the event that the event or condition is curable, Employee shall have failed to remedy such event or condition within 30 days after Employee shall have received the written notice from the Company described above. As used herein, "Good Reason" shall mean the occurrence of any of the following without Employee's written consent, (i) a material adverse change in Employee's title, duties, operational authorities

or reporting responsibilities as they relate to Employee's position as Chairman and Chief Executive Officer of LendingTree from those in effect immediately following the Effective Date, excluding for this purpose any such change that is an isolated and inadvertent action not taken in bad faith and that is remedied by the Company promptly after receipt of notice thereof given by the Employee, (ii) a material reduction in Employee's annual base salary, (iii) a relocation of Employee's principal place of business more than 25 miles from whichever of either the Charlotte, North Carolina or New York, New York metropolitan areas the Employee is then resident, or (iv) a material breach by the Company of this Agreement, excluding for this purpose any such action that is an isolated and inadvertent action not taken in bad faith and that is remedied by the Company promptly after receipt of notice thereof given by the Employee. Notwithstanding the foregoing, there shall be no Good Reason as it relates to the transitional position of President and Chief Operating Officer of the Company prior to the LT Spin-Off.

(d) TERMINATION BY THE COMPANY OTHER THAN FOR DEATH, DISABILITY OR CAUSE; RESIGNATION BY EMPLOYEE FOR GOOD REASON. Upon termination of Employee's employment with LendingTree prior to expiration of the Term (i) by the Company without Cause (other than for death or Disability) or (ii) upon Employee's resignation for Good Reason (either such termination, a "Qualifying Termination"), subject to Employee's execution and non-revocation of a general release of the Company and its affiliates substantially in the form attached hereto as Exhibit A and Employee's compliance with Sections 2(a) through 2(e), (A) the Company shall pay Employee the Base Salary through the earlier of remainder of the Term or three (3) years from the date of termination; (B) the Company shall pay Employee within 30 days of the date of such termination in a lump sum in cash any Accrued Obligations (as defined in paragraph 1(f) below); (C) the vesting of all IAC restricted stock units held by Employee on the Effective Date shall be accelerated in full; and (D) to the extent previously granted, the Company shall vest in full the LT Restricted Stock and the LT Options on the termination date and such options shall remain exercisable for a period of twelve months from the date of such termination; provided that in no event shall Employee's resignation be for "Good Reason" unless (x) an event or circumstance set forth in any of clauses (i) through (iv) of the definition thereof shall have occurred and Employee provides the Company with written notice thereof within forty-five (45) days after Employee has knowledge of the occurrence or existence of such event or circumstance, which notice specifically identifies the event or circumstance that Employee believes constitutes Good Reason, (y) the Company fails to correct the circumstance or event so identified within thirty (30) days after the receipt of such notice, and (z) Employee resigns within ninety (90) days after the date of delivery of the notice referred to in clause (x) above.

(e) MITIGATION; OFFSET. In the event of a termination of Employee's employment prior to the end of the Term, in no event shall Employee be obligated to seek other employment or take any other action by way of mitigation of severance benefits or other compensation or benefits. If Employee obtains other employment during the Term, the amount of any severance payments to be made to Employee under Sections 1(d) or 1(g) hereof after the date such employment is secured shall be offset by the amount of compensation earned by Executive from such employment through the end of the Term. For purposes of this Section 1(e), Employee shall have an obligation to inform the Company promptly regarding Employee's employment status following termination and during the period encompassing the Term.

(f) ACCRUED OBLIGATIONS. As used in this Agreement, "Accrued Obligations" shall mean the sum of (i) any portion of Employee's accrued but unpaid Base Salary through the date of death or termination of employment for any reason, as the case may be; (ii) any compensation previously earned but deferred by Employee (together with any interest or earnings thereon) that has not yet been paid, (iii) any reasonable and necessary business expenses incurred by Employee prior to the date of termination of employment but not yet reimbursed and (iv) any benefits earned by Employee but unpaid or unused at the date of termination of employment provided that the payout of these benefits is consistent with the plans, policies, programs and practices of the Company at the date of termination of employment.

(g) DELAY OR TERMINATION OF LT SPIN-OFF. In the event that the Company has not filed a registration statement for LendingTree relating to the LT Spin-Off with the Securities and Exchange Commission, or the Company determines not to proceed with the LT Spin-Off, in either case on or before March 31, 2009, the Company shall notify Employee and Employee shall have the right to terminate his employment within sixty (60) days of such notice. The Company and Employee agree that Employee's right to terminate under this Section 1(g) will be triggered if the LT Spin-Off will not include, over Employee's reasonable objection, both of the Real Estate business and the Lending business that comprise LendingTree, whether due to the shut down or sale of either business, or otherwise; provided that if both such businesses as they exist at the time of the LT Spin-Off are spun-off together by the deadline stated above, no termination right is triggered regardless of whether the particular components of the Real Estate business or the Lending business differ from what exists on the Effective Date. If Employee exercises his termination right under this Section 1(g), subject to Employee's execution and non-revocation of a general release of the Company and its affiliates substantially in the form attached hereto as Exhibit A and Employee's compliance with Sections 2(a) through 2(e), upon payment by the Company of the Accrued Obligations, payment to Employee of the Base Salary for a period of six (6) months from the date of termination and the vesting of equity as provided in Sections 3A(c)(ii) and (iii), the Company shall have no further obligations to Employee hereunder.

2. CONFIDENTIAL INFORMATION; NON-COMPETE; NON-SOLICITATION; AND PROPRIETARY RIGHTS.

(a) CONFIDENTIALITY. Employee acknowledges that while employed by the Company Employee will occupy a position of trust and confidence. Employee shall not, except as may be required to perform Employee's duties hereunder or as required by applicable law, disclose to others or use, whether directly or indirectly, any Confidential Information. "Confidential Information" shall mean information about the Company or any of its subsidiaries or affiliates, and their clients and customers that is not disclosed by the Company or any of its subsidiaries or affiliates for financial reporting purposes and that was learned by Employee in the course of employment with the Company or any of its subsidiaries or affiliates, including without limitation any proprietary knowledge, trade secrets, data, formulae, information and client and customer lists and all papers, resumes, and records (including computer records) of the documents containing such Confidential Information. Employee acknowledges that such Confidential Information is specialized, unique in nature and of great value to the Company and its subsidiaries or affiliates, and that such information gives the Company and its subsidiaries or affiliates a competitive advantage. Employee agrees to deliver or return to the Company, at the



Company's request at any time or upon termination or expiration of Employee's employment or as soon thereafter as possible, all documents, computer tapes and disks, records, lists, data, drawings, prints, notes and written information (and all copies thereof) furnished by the Company and its subsidiaries or affiliates or prepared by Employee in the course of Employee's employment by the Company and its subsidiaries or affiliates. As used in this Agreement, "affiliates" shall mean any company controlled by, controlling or under common control with the Company.

(b) NON-COMPETITION. During the Term and for a period of 24 months beyond Employee's date of termination of employment for any reason following the date hereof (the "Restricted Period"), Employee shall not, without the prior written consent of the Company, directly or indirectly, engage in or become associated with a Competitive Activity. For purposes of this Section 2(b): (i) a "Competitive Activity" means any business or other endeavor, in any state of the United States or a comparable jurisdiction in Canada or any other country, involving products or services that are the same or similar to the type of products or services that LendingTree is engaged in providing both (x) as of the date hereof or at any time during the Term and (y) at any time during the twelve (12) month period preceding Employee's termination of employment, and (ii) Employee shall be considered to have become "associated with a Competitive Activity" if Employee becomes directly or indirectly involved as an owner, principal, employee, officer, director, independent contractor, representative, stockholder, financial backer, agent, partner, member, advisor, lender, or in any other individual or representative capacity with any individual, partnership, corporation or other organization that is engaged in a Competitive Activity. Notwithstanding the foregoing, (i) Employee may make and retain investments during the Restricted Period, for investment purposes only, in less than one percent (1%) of the outstanding capital stock of any publicly-traded corporation engaged in a Competitive Activity if the stock of such corporation is either listed on a national stock exchange or on the NASDAQ National Market System if Employee is not otherwise affiliated with such corporation and (ii) Employee may become employed by a partnership, corporation or other organization that is engaged in a Competitive Activity so long as Employee has no direct or indirect responsibilities or involvement in the Competitive Activity.

(c) NON-SOLICITATION OF EMPLOYEES. During the Restricted Period, Employee shall not, without the prior written consent of the Company, directly or indirectly, hire or recruit or solicit the employment or services of (whether as an employee, officer, director, agent, consultant or independent contractor), any employee, officer, director, agent, consultant or independent contractor of the Company or any of its subsidiaries or affiliates (except for such employment or hiring by the Company or any of its subsidiaries or affiliates); provided, however, that this Section 2(c) shall not apply to any hiring which results solely from a general solicitation of employment that was not directed to employees of the Company or any of its subsidiaries or affiliates.

(d) NON-SOLICITATION OF BUSINESS PARTNERS. During the Restricted Period, Employee shall not, without the prior written consent of the Company, directly or indirectly, solicit, attempt to do business with, or do business with any business partners or business affiliates of the Company or any of its subsidiaries or those affiliates of the Company that are engaged in a Competitive Activity, or encourage (regardless of who initiates the contact) any



such business partners or business affiliates to use the services of any competitor of the Company, its subsidiaries or affiliates.

(e) PROPRIETARY RIGHTS; ASSIGNMENT. All Employee Developments shall be made for hire by Employee for the Company or any of its subsidiaries or affiliates. "Employee Developments" means any idea, discovery, invention, design, method, technique, improvement, enhancement, development, computer program, machine, algorithm or other work or authorship that (i) relates to the business or operations of the Company or any of its subsidiaries or affiliates, or (ii) results from or is suggested by any undertaking assigned to the Employee or work performed by the Employee for or on behalf of the Company or any of its subsidiaries or affiliates, whether created alone or with others, during or after working hours. All Confidential Information and all Employee Developments shall remain the sole property of the Company or any of its subsidiaries or affiliates. The Employee shall acquire no proprietary interest in any Confidential Information or Employee Developments developed or acquired during the Term. To the extent the Employee may, by operation of law or otherwise, acquire any right, title or interest in or to any Confidential Information or Employee Development, the Employee hereby assigns to the Company all such proprietary rights. The Employee shall, both during and after the Term, upon the Company's request, promptly execute and deliver to the Company all such assignments, certificates and instruments, and shall promptly perform such other acts, as the Company may from time to time in its discretion deem necessary or desirable to evidence, establish, maintain, perfect, enforce or defend the Company's rights in Confidential Information and Employee Developments.

(f) COMPLIANCE WITH POLICIES AND PROCEDURES. During the Term, Employee shall adhere to the policies and standards of professionalism set forth in the Company's policies and procedures as they may exist from time to time.

(g) REMEDIES FOR BREACH. Employee expressly agrees and understands that Employee will notify the Company in writing of any alleged breach of this Agreement by the Company, and the Company will have 30 days from receipt of Employee's notice to cure any such breach.

Employee expressly agrees and understands that the remedy at law for any breach by Employee of this Section 2 will be inadequate and that damages flowing from such breach are not usually susceptible to being measured in monetary terms. Accordingly, it is acknowledged that upon Employee's violation of any provision of this Section 2, in addition to any remedy that the Company may have at law, the Company shall be entitled to obtain from any court of competent jurisdiction immediate injunctive relief and obtain a temporary order restraining any threatened or further breach as well as an equitable accounting of all profits or benefits arising out of such violation. Nothing in this Section 2 shall be deemed to limit the Company's remedies at law or in equity for any breach by Employee of any of the provisions of this Section 2, which may be pursued by or available to the Company.

(h) SURVIVAL OF PROVISIONS. The obligations contained in this Section 2 shall, to the extent provided in this Section 2, survive the termination or expiration of Employee's employment with the Company and, as applicable, shall be fully enforceable thereafter in accordance with the terms of this Agreement. If it is determined by a court of competent



jurisdiction in any state that any restriction in this Section 2 is excessive in duration or scope or is unreasonable or unenforceable under the laws of that state, it is the intention of the parties that such restriction may be modified or amended by the court to render it enforceable to the maximum extent permitted by the law of that state. If any of the covenants of this Section 2 are determined to be wholly or partially unenforceable in any jurisdiction, such determination shall not be a bar to or in any way diminish the rights of the Company or its affiliates, as applicable, to enforce any such covenant in any other jurisdiction.

3. WAIVER OF PRIOR AGREEMENTS. This Agreement constitutes the entire agreement between the parties, and Employee acknowledges that he has waived, effective as of the Effective Date, any and all rights under prior agreements and understandings (whether written or oral) between Employee and LendingTree or the Company with respect to the subject matter of this Agreement, other than the Shares Agreement, as modified by the Prior Agreement, and the provisions of the Prior Agreement referred to in Section 3A(c)(i). In addition, Employee acknowledges that notwithstanding the foregoing, Employee shall continue to be subject to those terms of the Prior Agreement which survive the termination of such agreement, and those restrictive covenants in the Prior Agreement that begin to run from Employee's date of termination, shall run from the Effective Date concurrently with any similar covenants contained herein. Employee acknowledges and agrees that neither the Company nor anyone acting on its behalf has made, and is not making, and in executing this Agreement, the Employee has not relied upon, any representations, promises or inducements except to the extent the same is expressly set forth in this Agreement.

4. ASSIGNMENT; SUCCESSORS. This Agreement is personal in its nature and none of the parties hereto shall, without the consent of the others, assign or transfer this Agreement or any rights or obligations hereunder; provided, that the Company shall assign the Agreement to LT Parent no later than the date of the LT Spin-Off and provided, further, that in the event of a merger, consolidation, transfer, reorganization, or sale of all, substantially all or a substantial portion of the assets of the Company with or to any other individual or entity, this Agreement shall, subject to the provisions hereof, be binding upon and inure to the benefit of such successor and such successor (including LT Parent upon assignment of this Agreement) shall discharge and perform all the promises, covenants, duties, and obligations of the Company hereunder, and all references herein to the "Company" shall refer to such successor.

5. WITHHOLDING. The Company shall make such deductions and withhold such amounts from each payment and benefit made or provided to Employee hereunder, as may be required from time to time by applicable law, governmental regulation or order.

6. HEADING REFERENCES. Section headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose. References to "this Agreement" or the use of the term "hereof" shall refer to these Standard Terms and Conditions and the Employment Agreement attached hereto, taken as a whole.

7. WAIVER; MODIFICATION. Failure to insist upon strict compliance with any of the terms, covenants, or conditions hereof shall not be deemed a waiver of such term, covenant, or



condition, nor shall any waiver or relinquishment of, or failure to insist upon strict compliance with, any right or power hereunder at any one or more times be deemed a waiver or relinquishment of such right or power at any other time or times. This Agreement shall not be modified in any respect except by a writing executed by each party hereto.

8. SEVERABILITY. In the event that a court of competent jurisdiction determines that any portion of this Agreement is in violation of any law or public policy, only the portions of this Agreement that violate such law or public policy shall be stricken. All portions of this Agreement that do not violate any statute or public policy shall continue in full force and effect. Further, any court order striking any portion of this Agreement shall modify the stricken terms as narrowly as possible to give as much effect as possible to the intentions of the parties under this Agreement.

9. INDEMNIFICATION. The Company shall indemnify and hold Employee harmless for acts and omissions in Employee's capacity as an officer, director or employee of the Company to the maximum extent permitted under applicable law; provided, however, that neither the Company, nor any of its

subsidiaries or affiliates shall indemnify Employee for any losses incurred by Employee as a result of acts that would constitute Cause under Section 1(c) of this Agreement. This Section 9 shall survive the termination or expiration of Employee's employment with the Company and, as applicable, shall be fully enforceable thereafter in accordance with the terms of this Agreement.

10. SECTION 409A OF THE CODE. The benefits provided under this Agreement shall comply with Section 409A of the Code and the regulations thereunder. To the extent so required in order to comply with Section 409A of the Code, (i) amounts and benefits to be paid or provided under this Agreement shall be paid or provided to Employee in a single lump sum on the first business day after the date that is six months following the date of termination of Employee's employment or shall begin six months and one day following the date of termination, and (ii) the Company and Employee agree to amend or modify this Agreement and any agreements relating hereto (including any award agreement with respect to equity compensation described in Section 3A(c)) as may be necessary to comply with Section 409A of the Code.



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ACKNOWLEDGED AND AGREED:

Date:

IAC/INTERACTIVECORP

______________________________
By:
Title:

______________________________
DOUGLAS R. LEBDA

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**EXHIBIT A**

FORM OF RELEASE AGREEMENT

This Release Agreement ("Release") is entered into as of this day of , hereinafter "Execution Date", by and between [Employee Full Name] (hereinafter "Employee"), and [IAC/InterActiveCorp][LendingTree] (hereinafter, the "Company"). The Employee and the Company are sometimes collectively referred to as the "Parties".

1. The Employee's employment with the Company is terminated effective [Month, Day, Year] (hereinafter "Termination Date"). The Parties have agreed to avoid and resolve any alleged existing or potential disagreements between them arising out of or connected with the Employee's employment with the Company including the termination thereof. The Company expressly disclaims any wrongdoing or any liability to the Employee.

2. The Company agrees to provide the Employee the severance benefits provided for in Section [3A(e)][1(d)][1(g)] of his/her Employment Agreement (the "Severance Benefits") with the Company, dated as of [ ], after he/she executes this Release [FOR 40+ and does not revoke it as permitted in Section 8 below, the expiration of such revocation period being the "Effective Date")].

3. Employee represents that he/she has not filed, and will not file, any complaints, lawsuits, administrative complaints or charges relating to her employment with, or resignation from, the Company, excluding any action to enforce the Employment Agreement as it relates to the provision of the Severance Benefits or to Sections 3A(d) or 9[; provided, however, that nothing contained in this Section 3 shall prohibit you from bringing a claim to challenge the validity of the ADEA Release in Section 8 herein]. Employee agrees to release the Company, its subsidiaries, affiliates, and their respective parents, direct or indirect subsidiaries, divisions, affiliates and related companies or entities, regardless of its or their form of business organization, any predecessors, successors, joint ventures, and parents of any such entity, and any and all of their respective past or present shareholders, partners, directors, officers, employees, consultants, independent contractors, trustees, administrators, insurers, agents, attorneys, representatives and fiduciaries, including without limitation all persons acting by, through, under or in concert with any of them (collectively, the "Released Parties"), from any and all claims, charges, complaints, causes of action or demands of whatever kind or nature that Employee now has or has ever had against the Released Parties, whether known or unknown, arising from or relating to Employee's employment with or discharge from the Company, including but not limited to: wrongful or tortious termination; constructive discharge; implied or express employment contracts and/or estoppel; discrimination and/or retaliation under any federal, state or local statute or regulation, specifically including any claims Employee may have under the Fair Labor Standards Act, the Americans with Disabilities Act, Title VII of the Civil Rights Act of 1964 as amended, and the Family and Medical Leave Act; the discrimination or other employment

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laws of the State of [ ]*; any claims brought under any federal or state statute or regulation for non-payment of wages or other compensation, including grants of stock options or any other equity compensation; and libel, slander, or breach of contract other than the breach of this Release. This Release specifically excludes claims, charges, complaints, causes of action or demand that post-date the Termination Date [or the Effective Date, whichever is later].

4. Employee agrees to keep the fact that this Release exists and the terms of this Release in strict confidence except to his/her immediate family and his/her financial and legal advisors on a need-to-know basis.

5. Employee warrants that no promise or inducement has been offered for this Release other than as set forth herein and that this Release is executed without reliance upon any other promises or representations, oral or written. Any modification of this Release must be made in writing and be signed by Employee and the Company.

6. Employee will direct all employment verification inquiries to [HR Rep]. In response to inquiries regarding Employee's employment with the Company, the Company by and through its speaking agent(s) agrees to provide only the following information: Employee's date of hire, the date her employment ended and rates of pay.

7. If any provision of this Release or compliance by Employee or the Company with any provision of the Release constitutes a violation of any law, or is or becomes unenforceable or void, then such provision, to the extent only that it is in violation of law, unenforceable or void, will be deemed modified to the extent necessary so that it is no longer in violation of law, unenforceable or void, and such provision will be enforced to the fullest extent permitted by law. If such modification is not possible, such provision, to the extent that it is in violation of law, unenforceable or void, will be deemed severable from the remaining provisions of this Release, which provisions will remain binding on both Employee and the Company. This Release is governed by, and construed and interpreted in accordance with the laws of the State of [ ], without regard to principles of conflicts of law. Employee consents to venue and personal jurisdiction in the State of [ ] for disputes arising under this Release. This Release represents the entire understanding with the Parties with respect to subject matter herein, no oral representations have been made or relied upon by the Parties.

8. [FOR EMPLOYEES OVER 40 ONLY — In further recognition of the above, Employee hereby releases and discharges the Released Parties from any and all claims, actions and causes of action that he/she may have against the Released Parties, as of the date of the execution of this Release, arising under the Age Discrimination in Employment Act of 1967, as amended ("ADEA"), and the applicable rules and regulations promulgated thereunder. The Employee acknowledges and understands that ADEA is a federal statute that prohibits discrimination on the basis of age in employment, benefits and benefit plans. Employee specifically agrees and acknowledges that: (A) the release in this Section 8 was granted in exchange for the receipt of consideration that exceeds the amount to which he/she would

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* Insert state of employment.



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otherwise be entitled to receive upon termination of his/her employment; (B) his/her waiver of rights under this Release is knowing and voluntary as required under the Older Workers Benefit Protection Act; (B) that he/she has read and understands the terms of this Release; (C) he/she has hereby been advised in writing by the Company to consult with an attorney prior to executing this Release; (D) the Company has given him/her a period of up to twenty-one (21) days within which to consider this Release, which period shall be waived by the Employee's voluntary execution prior to the expiration of the twenty-one day period; and (E) following his/her execution of this Release he/she has seven (7) days in which to revoke his/her release as set forth in this Section 8 only and that, if he/she chooses not to so revoke, the Release in this Section 8 shall then become effective and enforceable and the payment listed above shall then be made to his/her in accordance with the terms of this Release. To cancel this Release, Employee understands that he/she must give a written revocation to the General Counsel of the Company at [ ]†, either by hand delivery or certified mail within the seven-day period. If he/she rescinds the Release, it will not become effective or enforceable and he/she will not be entitled to any benefits from the Company.]

9. **EMPLOYEE ACKNOWLEDGES AND AGREES THAT HE/SHE HAS CAREFULLY READ AND VOLUNTARILY SIGNED THIS RELEASE, THAT HE/SHE HAS HAD AN OPPORTUNITY TO CONSULT WITH AN ATTORNEY OF HIS/HER CHOICE, AND THAT HE/SHE SIGNS THIS RELEASE WITH THE INTENT OF RELEASING THE COMPANY, ITS AFFILIATES, SUBSIDIARIES AND THEIR RESPECTIVE SHAREHOLDERS, DIRECTORS, OFFICERS, EMPLOYEES AND AGENTS FROM ANY AND ALL CLAIMS.**

ACCEPTED AND AGREED TO:

| | |
|---|---|
| ______________________ | ______________________ |
| [Company Name] | [Employee Full Name] |
| Dated: ______________ | Dated: ______________ |

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† Insert address.

**Exhibit 10.8**

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is entered into by and between Bret A. Violette ("Executive") and IAC/InterActiveCorp, a Delaware corporation (the "Company"), and is effective April 11, 2007 (the "Effective Date"). LendingTree, LLC is party hereto for purposes of Sections 1A and 4A(e)(2) only.

WHEREAS, the Company desires to establish its right to the services of Executive, in the capacity described below, on the terms and conditions hereinafter set forth, and Executive is willing to accept such employment on such terms and conditions.

NOW, THEREFORE, in consideration of the mutual agreements hereinafter set forth, Executive and the Company have agreed and do hereby agree as follows:

1A. PRIOR AGREEMENT. Executive and LendingTree, LLC, a subsidiary of the Company, are currently party to that certain Amended and Restated Employment Agreement, dated as of April 28, 2006, as supplemented by that certain Addendum dated as of January 8, 2007 (as supplemented, the "Prior Agreement"). This Agreement shall replace and supersede the Prior Agreement, and as of the date hereof, the Prior Agreement shall no longer be of any force or effect.

2A. EMPLOYMENT. During the Term (as defined below), the Company shall employ Executive, and Executive shall be employed, as President of RealEstate.com. During Executive's employment with the Company, Executive shall do and perform all services and acts necessary or advisable to fulfill the duties and responsibilities as are commensurate and consistent with Executive's position and shall render such services on the terms set forth herein. During Executive's employment with the Company, Executive shall report directly to the President and Chief Operating Officer of the Company or such person(s) as from time to time may be designated by the Company (hereinafter referred to as the "Reporting Officer"). Executive shall have such powers and duties with respect to RealEstate.com (and its subsidiaries, divisions, and businesses) (collectively, the "RealEstate.com Businesses") as may reasonably be assigned to Executive by the Reporting Officer, to the extent consistent with Executive's position. Executive agrees to devote all of Executive's working time, attention and efforts to the RealEstate.com Businesses and to perform the duties of Executive's position in accordance with the Company's policies as in effect from time to time. Executive's principal place of employment shall be the offices of the Company's subsidiary, LendingTree, LLC, located in Charlotte, North Carolina.

3A. TERM. The term of this Agreement shall begin on the date hereof and shall expire on the third anniversary hereof (the "Term"), provided that certain terms and conditions herein may specify a greater period of effectiveness.

4A. COMPENSATION.

(a) BASE SALARY. During the period that Executive is employed with the Company hereunder, the Company shall pay Executive an annual base salary of $400,000 (the "Base Salary"), payable in equal biweekly installments (or, if different, in accordance with the Company's payroll practice as in effect from time to time). For all purposes under this Agreement, the term "Base Salary" shall refer to the Base Salary as in effect from time to time.

(b) BONUS. During the period that Executive is employed with the Company hereunder, Executive shall be eligible to receive a guaranteed annual bonus in the amount of $500,000 in each of 2007, 2008 and 2009 each year (each, a "Guaranteed Annual Bonus Payment"), payable not later than July 15 of each such year provided that Executive remains employed with the Company on such payment dates. In addition, during the period that Executive is employed with the Company hereunder, Executive shall be eligible to receive discretionary annual bonuses following the end of the Company's fiscal year paid at times consistent with other similarly situated executives of the Company.

(c) GROWTH SHARES. Subject to approval of the Compensation and Human Resources Committee of the Board of Directors of the Company, Executive shall be granted 10,000 Growth Shares at "target" performance, pursuant to an award letter and standard terms and conditions substantially in the form attached hereto as Exhibit A. In addition, the Company acknowledges that Executive has previously been granted IAC Restricted Stock Units, which Units remain outstanding and continue to be subject to their terms and conditions, except as specifically provided herein.

(d) LONG-TERM PERFORMANCE BONUS. (i) Subject to the limitations set forth herein, the Company shall pay Executive (A) a one-time bonus amount equal to $1,000,000 in the event that the Real Estate Revenues (as defined below) equal or exceed $130,000,000 in the 2009 fiscal year and Real Estate OIBA (as defined below) in the 2009 fiscal year equals or exceeds $10 million; and (B) an additional one-time bonus amount equal to $1,000,000 in the event that the Real Estate Revenues equal or exceed $130,000,000 in the 2009 fiscal year and Real Estate OIBA in the 2009 fiscal year equals or exceeds $20 million (together, the "LTP Bonuses"); provided that in each case Executive remains employed with the Company through the date of payment of such bonus as described below. In no event will the Company be required to pay the LTP Bonuses unless the Company, acting in its good faith discretion, determines that the RealEstate.com Businesses are in good condition and that operating decisions made to achieve the Real Estate Revenues and Real Estate OIBA targets set forth in this section (the "LTP Targets") were accomplished in the ordinary course of business and did not jeopardize the long-term health of the business. "Real Estate Revenues" means the revenues of the RealEstate.com Businesses as calculated by the Company in accordance with its ordinary business practices. "Real Estate OIBA" means Operating Income Before Amortization (as defined in the Company's public earnings releases from time to time and as calculated by the Company in accordance with its ordinary business practices) of the RealEstate.com Businesses. Within 60 days following the end of the 2009 fiscal year, the Company shall prepare and deliver to Executive a statement of Real Estate Revenues and Real Estate OIBA for such year. Executive shall have ten days after delivery of such schedule to review and comment on such schedule, after which the Company shall have ten days to finalize such schedule, which final schedule shall be prepared in the reasonable discretion of the Company acting in good faith. The Company shall pay the amount of the bonus reflected in such schedule within 75 days after the end of the 2009 fiscal year. The Company shall afford the Executive reasonable access to the books and records of the Real Estate Business to the extent that such books and records reasonably relate to the computation of the Real Estate Revenue and Real Estate OIBA for fiscal year 2009; provided, however, that the Executive acknowledges and agrees that all such books and records are confidential information of the Company and are delivered to the Executive subject to his obligation to maintain the confidentiality of such materials provided in Section 2 of the Standard Terms and Conditions attached to this Agreement.

(ii) In the event of any specific action within the control of the Company which is reasonably likely to materially increase or decrease the likelihood that an LTP Bonus will be paid which, in the Company's good faith judgment, would unduly benefit or prejudice Executive, the Company may, after good faith discussions with Executive, adjust the LTP Targets with the good faith intent of maintaining equivalent likelihoods of Executive receiving the relevant LTP Bonuses as had existed prior to the Company taking such action, it being understood that such equivalence will be approximate and a good faith estimate only. For example, and without limitation, in the event of (A) any material addition to the RealEstate.com Businesses, whether by acquisition or otherwise, the Company could increase the LTP Targets, (B) any material deletion from the RealEstate.com Businesses, the Company could decrease the LTP Targets (though such a decrease would be likely in a sale or other disposition for value, but not likely in the event such deletion resulted from a shutdown for poor performance), or (C) an adjustment to the manner in which the Real Estate OIBA were calculated such that the net result was likely to be a material increase in the Real Estate OIBA, the LTP Targets could be appropriately adjusted by the Company.

(e) BENEFITS. From the Effective Date through the date of termination of Executive's employment with the Company for any reason, Executive shall be entitled to participate in any welfare, health and life insurance and pension benefit programs as may be adopted from time to time by the Company on the same basis as that provided to similarly situated employees of the Company. Without limiting the generality of the foregoing, Executive shall be entitled to the following benefits:

(i) Reimbursement for Business Expenses. During the period that Executive is employed with the Company hereunder, the Company shall reimburse Executive for all reasonable, necessary and documented expenses incurred by Executive in performing Executive's duties for the Company, on the same basis as similarly situated employees and in accordance with the Company's policies as in effect from time to time.

(ii) Vacation. During the period that Executive is employed with the Company hereunder, Executive shall be entitled to four weeks of paid vacation and such other paid time off each year, in accordance with the plans, policies, programs and practices of LendingTree, LLC applicable to similarly situated employees of LendingTree, LLC generally.

5A. NOTICES. All notices and other communications under this Agreement shall be in writing and shall be given by first-class mail, certified or registered with return receipt requested, or by hand delivery, or by overnight delivery by a nationally recognized carrier, in each case to the



applicable address set forth below, and any such notice is deemed effectively given when received by the recipient (of if receipt is refused by the recipient, when so refused):

If to the Company:

IAC/InterActiveCorp
555 West 18th Street, 6th Floor
New York, NY 10011
Attention: President and Chief Operating Officer

With a copy to:

IAC/InterActiveCorp
555 West 18th Street, 6th Floor
New York, NY 10011
Attention: General Counsel

If to Executive:

Bret A. Violette

11103 McClure Manor Drive

Charlotte, NC 28277

Either party may change such party's address for notices by notice duly given pursuant hereto.

6A. GOVERNING LAW; JURISDICTION. This Agreement and the legal relations thus created between the parties hereto (including, without limitation, any dispute arising out of or related to this Agreement) shall be governed by and construed under and in accordance with the internal laws of the State of New York without reference to its principles of conflicts of laws. Any such dispute will be heard exclusively and determined before an appropriate federal court located in the State of New York in New York County, or, if not maintainable therein, then in an appropriate New York state court located in New York County, and each party hereto submits itself and its property to the exclusive jurisdiction of the foregoing courts with respect to such disputes. The parties hereto acknowledge and agree that this Agreement was executed and delivered in the State of New York, that IAC is headquartered in New York City and that, in the course of performing duties hereunder for the Company, Executive shall have multiple contacts with the business and operations of IAC and the Reporting Officer, as well as other businesses and operations in the State of New York, and that for those and other reasons this Agreement and the undertakings of the parties hereunder bear a reasonable relation to the State of New York. If an appropriate court determines, in connection with a dispute between the parties hereto arising out of or related to this Agreement, that the internal laws of the State of New York do not govern this Agreement and the legal relations thus created between the parties hereto, then this Agreement and such legal relations shall be governed by and construed under and in accordance with the internal laws of the State of Delaware without reference to its principles of conflicts of laws. In such a case, if the dispute is not, for any reason, maintainable in an appropriate federal court located in the State of New York in New York County or an appropriate New York state court located in New York County, such dispute will be heard exclusively and determined before an appropriate Delaware state court located in New Castle County, or, if not maintainable therein, then in an appropriate federal court located in the State of Delaware in New Castle County, and, in such case, each party hereto submits itself and its property to the exclusive



jurisdiction of the foregoing courts with respect to such disputes. Each party hereto (i) agrees that service of process may be made by mailing a copy of any relevant document to the address of the party set forth above, (ii) waives to the fullest extent permitted by law any objection which it may now or hereafter have to the courts referred to above on the grounds of inconvenient forum or otherwise as regards any dispute between the parties hereto arising out of or related to this Agreement, (iii) waives to the fullest extent permitted by law any objection which it may now or hereafter have to the laying of venue in the courts referred to above as regards any dispute between the parties hereto arising out of or related to this Agreement and (iv) agrees that a judgment or order of any court referred to above in connection with any dispute between the parties hereto arising out of or related to this Agreement is conclusive and binding on it and may be enforced against it in the courts of any other jurisdiction.

7A. COUNTERPARTS. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

8A. STANDARD TERMS AND CONDITIONS. Executive expressly understands and acknowledges that the Standard Terms and Conditions attached hereto are incorporated herein by reference, deemed a part of this Agreement and are binding and enforceable provisions of this Agreement. References to “this Agreement” or the use of the term “hereof” shall refer to this Agreement and the Standard Terms and Conditions attached hereto, taken as a whole.

9A. SECTION 409A OF THE INTERNAL REVENUE CODE. This Agreement is not intended to constitute a “nonqualified deferred compensation plan” within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended, and the rules and regulations issued thereunder (“Section 409A”). Notwithstanding the foregoing, if this Agreement or any benefit paid to Executive hereunder is subject to Section 409A and if the Executive is a “Specified Employee” (as defined under Section 409A) as of the date of Executive’s termination of employment hereunder, then the payment of benefits, if any, scheduled to be paid by the Company to Executive hereunder during the first six (6) month period beginning on the date of a termination of employment hereunder shall be delayed during such six (6) month period and shall commence immediately following the end of such six (6) month period (and, if applicable, the period in which such payments were scheduled to be made if not for such delay shall be extended accordingly). In no event shall the Company be required to pay Executive any “gross-up” or other payment with respect to any taxes or penalties imposed under Section 409A with respect to any benefit paid to Executive hereunder.

[The Signature Page Follows]



IN WITNESS WHEREOF, the Company has caused this Agreement to be executed and delivered by its duly authorized officer and Executive has executed and delivered this Agreement on May , 2007.

IAC/InterActiveCorp

By: Greg Blatt
Title: Executive Vice President and General Counsel

Bret A. Violette

For purposes of Sections 1A and 4A(e)(2) hereof only:

LendingTree, LLC

By:
Title:



STANDARD TERMS AND CONDITIONS

1. TERMINATION OF EXECUTIVE’S EMPLOYMENT.

(a) DEATH. In the event Executive’s employment hereunder is terminated by reason of Executive’s death, the Company shall pay Executive’s designated beneficiary or beneficiaries, within thirty (30) days of Executive’s death in a lump sum in cash, (i) Executive’s Base Salary through the end of the month in which death occurs and (ii) any Accrued Obligations (as defined in paragraph 1(f) below).

(b) DISABILITY. If, as a result of Executive’s incapacity due to physical or mental illness (“Disability”), Executive shall have been absent from the full-time performance of Executive’s duties with the Company for a period of four (4) consecutive months and, within thirty (30) days after written notice is provided to Executive by the Company (in accordance with Section 5A hereof), Executive shall not have returned to the full-time performance of Executive's duties, Executive's employment under this Agreement may be terminated by the Company for Disability. During any period prior to such termination during which Executive is absent from the full-time performance of Executive's duties with the Company due to Disability, the Company shall continue to pay Executive's Base Salary at the rate in effect at the commencement of such period of Disability, offset by any amounts payable to Executive under any disability insurance plan or policy provided by the Company. Upon termination of Executive's employment due to Disability, the Company shall pay Executive within thirty (30) days of such termination (i) Executive's Base Salary through the end of the month in which termination occurs in a lump sum in cash, offset by any amounts payable to Executive under any disability insurance plan or policy provided by the Company; and (ii) any other Accrued Obligations (as defined in paragraph 1(f) below).

(c) TERMINATION FOR CAUSE. Upon the termination of Executive's employment by the Company for Cause (as defined below), the Company shall have no further obligation hereunder, except for the payment of any Accrued Obligations (as defined in paragraph 1(f) below). As used herein, "Cause" shall mean: (i) the plea of guilty or nolo contendere to, or conviction for, the commission of a felony offense by Executive; provided, however, that after indictment, the Company may suspend Executive from the rendition of services, but without limiting or modifying in any other way the Company's obligations under this Agreement; (ii) a material breach by Executive of a fiduciary duty owed to the Company as an officer of the Company or any of its subsidiaries or affiliates; (iii) a material breach by Executive of any of the covenants made by Executive in Sections 2(a), (b), (c), (d), (e), or (h) hereof; (iv) the willful or gross neglect by Executive of the material duties required by this Agreement; or (v) a violation by Executive of any written Company policy pertaining to ethics, wrongdoing or conflicts of interest. In the event of any termination for Cause, the Company shall provide written notice (the "Cause Notice") to Executive of the grounds for termination giving rise to such for Cause termination. Such termination shall be approved by the Chief Executive Officer or the President and Chief Operating Officer of the Company, or the equivalents thereof. The Company shall send the Cause Notice to Executive within thirty days of termination or, if

later, within thirty days after the Company's Chief Executive Officer becomes aware of the grounds for a for Cause termination.

(d) TERMINATION BY THE COMPANY OTHER THAN FOR DEATH, DISABILITY OR CAUSE OR RESIGNATION BY EXECUTIVE FOR GOOD REASON. If Executive's employment hereunder is terminated prior to the expiration of the Term by the Company for any reason other than Cause or Executive's death or Disability, or if Executive terminates his employment hereunder prior to the expiration of the Term for Good Reason (as defined below), then the Company shall pay to Executive:

(i) within thirty (30) days of the date of such termination in a lump sum in cash any Accrued Obligations (as defined in paragraph 1(f) below);

(ii) the Guaranteed Annual Bonus Payments that have not yet been paid by the Company, payable at the times set forth in Section 4A(b) hereof;

(iii) an amount equal to the Base Salary that Executive would have been paid from the date of such termination through the end of the Term had the Executive's employment not terminated, payable in equal biweekly installments (or, if different, in accordance with the Company's payroll practice as in effect from time to time) over the course of the then remaining Term, but in no event for a period longer than two years;

(iv) if such termination occurs after the first anniversary of the Effective Date, an amount equal to the amount which would have been payable to Executive for the LTP Bonuses had he served out the Term, multiplied by a fraction, the numerator of which is the number of complete months elapsed after the Effective Date and prior to Executive's termination or resignation, and the denominator of which is 36. Any payment pursuant to this clause (iv) shall be calculated and paid in accordance with the processes and within the timeframes set forth in Section 4A(d)(i) above. For example, if Executive is terminated without Cause after 18 complete months have elapsed after the Effective Date, and the Real Estate Revenues for 2009 exceeded $130,000,000 and Real Estate OIBA for 2009 were $15,000,000, then Executive would be entitled to receive a payment under this Section equal to $500,000 in 2010 after Real Estate Revenues and Real Estate OIBA were definitely determined; and

(v) any unvested Restricted Stock Units of the Company granted to Executive in connection with his entering into the Prior Agreement shall vest and no longer be subject to further restriction.

The payment to Executive of the severance benefits described in this Section 1(d) shall be subject to Executive's execution and non-revocation of a general release of the Company and its affiliates, in a form substantially similar to that used for similarly situated executives of the Company and its affiliates, and Executive's compliance with the restrictive covenants set forth in Sections 2(a), (b), (c), (d), (e), or (h) hereof. Executive acknowledges and agrees that the severance benefits described in this Section 1(d) constitutes good and valuable consideration for such release. For purposes of this



Agreement, "Good Reason" shall mean the material reduction in Executive's title, duties, reporting levels or responsibilities as of the date of this Agreement, excluding for this purpose any such reduction that is an isolated and inadvertent action not taken in bad faith or that is authorized pursuant to this Agreement, or any such reduction as a result of a merger or acquisition of the RealEstate.com Businesses with another significant business so long as following such transaction Executive's roles and responsibilities are not less than they were immediately prior to assuming his current position, provided that in no event shall Executive's resignation be for "Good Reason" unless (x) any such material reduction shall have occurred and Executive provides the Company with written notice thereof within thirty (30) days after Executive has knowledge of the occurrence or existence of such material reduction, which notice specifically identifies the material reduction that Executive believes constitutes Good Reason, (y) the Company fails to correct the material reduction so identified within sixty (60) days after the receipt of such notice, and (z) Executive resigns within thirty (30) days after the expiration of such 60 day period referred to in clause (y) above.

(e) OFFSET. If Executive obtains other employment during the period of time in which the Company is required to make payments to Executive pursuant to Section 1(d) above, the amount of any such remaining payments or benefits to be provided to Executive shall be reduced by the amount of compensation and benefits earned by Executive from such other employment through the end of such period. For purposes of this Section 1(e), Executive shall have an obligation to inform the Company regarding Executive's employment status following termination and during the period of time in which the Company is making payments to Executive under Section 1(d)(ii) above.

(f) ACCRUED OBLIGATIONS. As used in this Agreement, "Accrued Obligations" shall mean the sum of (i) any portion of Executive's accrued but unpaid Base Salary through the date of death or termination of employment for any reason, as the case may be; and (ii) any compensation previously earned but deferred by Executive (together with any interest or earnings thereon) that has not yet been paid and that is not otherwise to be paid at a later date pursuant to the executive deferred compensation plan of the Company, if any. For the avoidance of doubt, "Accrued Obligations" shall not include any bonus amount.

2. CONFIDENTIAL INFORMATION; NON-COMPETITION; NON-SOLICITATION; AND PROPRIETARY RIGHTS.

(a) CONFIDENTIALITY. Executive acknowledges that, while employed by the Company, Executive will occupy a position of trust and confidence. The Company, its subsidiaries and/or affiliates shall provide Executive with "Confidential Information" as referred to below. Executive shall not, except as may be required to perform Executive's duties hereunder or as required by applicable law, without limitation in time, communicate, divulge, disseminate, disclose to others or otherwise use, whether directly or indirectly, any Confidential Information regarding the Company and/or any of its subsidiaries and/or affiliates.



"Confidential Information" shall mean information about the Company or any of its subsidiaries or affiliates, and their respective businesses, employees, consultants, contractors, clients and customers that is not disclosed by the Company or any of its subsidiaries or affiliates for financial reporting purposes or otherwise generally made available to the public (other than by Executive's breach of the terms hereof) and that was learned or developed by Executive in the course of employment by the Company or any of its subsidiaries or affiliates, including (without limitation) any proprietary knowledge, trade secrets, data, formulae, information and client and customer lists and all papers, resumes, and records (including computer records) of the documents containing such Confidential Information. Executive acknowledges that such Confidential Information is specialized, unique in nature and of great value to the Company and its subsidiaries or affiliates, and that such information gives the Company and its subsidiaries or affiliates a competitive advantage. Executive agrees to deliver or return to the Company, at the Company's request at any time or upon termination or expiration of Executive's employment or as soon thereafter as possible, all documents, computer tapes and disks, records, lists, data, drawings, prints, notes and written information (and all copies thereof) furnished by the Company and its subsidiaries or affiliates or prepared by Executive in the course of Executive's employment by the Company and its subsidiaries or affiliates. As used in this Agreement, "subsidiaries" and "affiliates" shall mean any company controlled by, controlling or under common control with the Company.

(b) NON-COMPETITION. In consideration of this Agreement, and other good and valuable consideration provided hereunder, the receipt and sufficiency of which are hereby acknowledged by Executive, Executive hereby agrees and covenants that, during Executive's employment hereunder and for a period of twenty-four (24) months thereafter (the "Restricted Period"), Executive shall not, without the prior written consent of the Company, directly or indirectly, engage in or become associated with a Competitive Activity.

For purposes of this Section 2(b), (i) a "Competitive Activity" means any business or other endeavor involving Similar Products if such business or endeavor is in a country (including the United States) in which the Company provides, or is planning to provide, such Similar Products at such time; (ii) "Similar Products" means any products or services that are the same or similar to any of the types of products or services that the RealEstate.com Businesses or any other business for which Executive has direct or indirect responsibility during the Term, has provided, or is planning to provide, at any time during the Term; and (iii) Executive shall be considered to have become "associated with a Competitive Activity" if Executive becomes directly or indirectly involved as an owner, principal, employee, officer, director, independent contractor, representative, stockholder, financial backer, agent, partner, member, advisor, lender, consultant or in any other individual or representative capacity with any individual, partnership, corporation or other organization that is engaged in a Competitive Activity.

Notwithstanding the foregoing, Executive may make and retain investments during the Restricted Period, for investment purposes only, in less than one percent (1%) of the outstanding capital stock of any publicly-traded corporation engaged in a Competitive Activity if the stock of such corporation is either listed on a national stock exchange or on the NASDAQ National Market System if Executive is not otherwise affiliated with such corporation. Executive



acknowledges that Executive's covenants under this Section 2(b) are a material inducement to the Company's entering into this Agreement. In addition, it shall not be a violation of this Section 2(b) for Employee to work as an owner, employee or licensed real estate agent for a real estate broker that does not have material internet or call center marketing operations; provided, that employee's employment does not directly or indirectly involve creating an internet or call center marketing capability or managing or participating in such operations.

(c) NON-SOLICITATION OF EMPLOYEES. Executive recognizes that he or she will possess Confidential Information about other employees, consultants and contractors of the Company and its subsidiaries or affiliates relating to their education, experience, skills, abilities, compensation and benefits, and inter-personal relationships with suppliers to and customers of the Company and its subsidiaries or affiliates. Executive recognizes that the information he or she will possess about these other employees, consultants and contractors is not generally known, is of substantial value to the Company and its subsidiaries or affiliates in developing their respective businesses and in securing and retaining customers, and will be acquired by Executive because of Executive's business position with the Company. Executive agrees that, during Executive's employment hereunder and for a period of twenty-four (24) months thereafter, Executive will not, directly or indirectly, hire or solicit or recruit any employee of the Company or any of its subsidiaries or affiliates if Executive learned of, or came into contact with, such employee while employed by the Company, or any employee of the RealEstate.com Businesses (or any such individual who was an employee of the Company or any of its subsidiaries or affiliates or the RealEstate.com Businesses at any time during the six (6) months prior to such act of hiring, solicitation or recruitment) for the purpose of being employed by Executive or by any business, individual, partnership, firm, corporation or other entity on whose behalf Executive is acting as an agent, representative or employee and that Executive will not convey any such Confidential Information or trade secrets about other employees of the Company or any of its subsidiaries or affiliates to any other person except within the scope of Executive's duties hereunder.

(d) NON-SOLICITATION OF CUSTOMERS. During Executive's employment hereunder and for a period of twenty-four (24) months thereafter, Executive shall not solicit any customers of the RealEstate.com Businesses or encourage (regardless of who initiates the contact) any such customers to use the facilities or services of any competitor of the RealEstate.com Businesses.

(e) PROPRIETARY RIGHTS; ASSIGNMENT. All Employee Developments (defined below) shall be considered works made for hire by Executive for the Company or, as applicable, its subsidiaries or affiliates, and Executive agrees that all rights of any kind in any Employee Developments belong exclusively to the Company. In order to permit the Company to exploit such Employee Developments, Executive shall promptly and fully report all such Employee Developments to the Company. Except in furtherance of his obligations as an employee of the Company, Executive shall not use or reproduce any portion of any record associated with any Employee Development without prior written consent of the Company or, as applicable, its subsidiaries or affiliates. Executive agrees that in the event actions of Executive are required to ensure that such rights belong to the Company under applicable laws, Executive



will cooperate and take whatever such actions are reasonably requested by the Company, whether during or after the Term, and without the need for separate or additional compensation. "Employee Developments" means any idea, know-how, discovery, invention, design, method, technique, improvement, enhancement, development, computer program, machine, algorithm or other work of authorship, whether developed, conceived or reduced to practice during or following the period of employment, that (i) concerns or relates to the actual or anticipated business, research or development activities, or operations of the Company or any of its subsidiaries or affiliates, or (ii) results from or is suggested by any undertaking assigned to Executive or work performed by Executive for or on behalf of the Company or any of its subsidiaries or affiliates, whether created alone or with others, during or after working hours, or (iii) uses, incorporates or is based on Company (or its affiliates' or subsidiaries') equipment, supplies, facilities, trade secrets or inventions of any form or type. All Confidential Information and all Employee Developments are and shall remain the sole property of the Company or any of its subsidiaries or affiliates. Executive shall acquire no proprietary interest in any Confidential Information or Employee Developments developed or acquired during the Term. To the extent Executive may, by operation of law or otherwise, acquire any right, title or interest in or to any Confidential Information or Employee Development, Executive hereby assigns and covenants to assign to the Company all such proprietary rights without the need for a separate writing or additional compensation. Executive shall, both during and after the Term, upon the Company's request, promptly execute, acknowledge, and deliver to the Company all such assignments, confirmations of assignment, certificates, and instruments, and shall promptly perform such other acts, as the Company may from time to time in its discretion deem necessary or desirable to evidence, establish, maintain, perfect, enforce or defend the Company's rights in Confidential Information and Employee Developments.

(f) COMPLIANCE WITH POLICIES AND PROCEDURES. During the period that Executive is employed with the Company hereunder, Executive shall adhere to the policies and standards of professionalism set forth in the Company's Policies and Procedures as they may exist from time to time.

(g) SURVIVAL OF PROVISIONS. The obligations contained in this Section 2 shall, to the extent provided in this Section 2, survive the termination or expiration of Executive's employment with the Company and, as applicable, shall be fully enforceable thereafter in accordance with the terms of this Agreement. If it is determined by a court of competent jurisdiction that any restriction in this Section 2 is excessive in duration or scope or is unreasonable or unenforceable under applicable law, it is the intention of the parties that such restriction may be modified or amended by the court to render it enforceable to the maximum extent permitted by applicable law.

(h) REPRESENTATIONS AND WARRANTIES OF EMPLOYEE. Employee shall not use any confidential information, intellectual property or other proprietary rights of others in the performance of his duties hereunder. Employee shall indemnify and hold harmless the Company and its subsidiaries and affiliates for any breach of the representation and warranty set forth herein; provided, that such indemnification obligation shall be limited to amounts paid or payable to the Employee pursuant to this Agreement.



3. TERMINATION OF PRIOR AGREEMENTS. This Agreement constitutes the entire agreement between the parties and, as of the Effective Date, terminates and supersedes any and all prior agreements and understandings (whether written or oral) between the parties with respect to the subject matter of this Agreement. Executive acknowledges and agrees that neither the Company nor anyone acting on its behalf has made, and is not making, and in executing this Agreement, Executive has not relied upon, any representations, promises or inducements except to the extent the same is expressly set forth in this Agreement. Executive hereby represents and warrants that by entering into this Agreement, Executive will not rescind or otherwise breach an employment agreement or other agreement with Executive's current employer prior to the natural expiration date of such agreement.

4. ASSIGNMENT; SUCCESSORS. This Agreement is personal in its nature and none of the parties hereto shall, without the consent of the others, assign or transfer this Agreement or any rights or obligations hereunder, provided that the Company may assign this Agreement to, or allow any of its obligations to be fulfilled by, or take actions through, any affiliate of the Company and, in the event of the merger, consolidation, transfer, or sale of all or substantially all of the assets of the Company (a "Transaction") with or to any other individual or entity, this Agreement shall, subject to the provisions hereof, be binding upon and inure to the benefit of such successor and such successor shall discharge and perform all the promises, covenants, duties, and obligations of the Company hereunder, and in the event of any such assignment or Transaction, all references herein to the "Company" shall refer to the Company's assignee or successor hereunder.

5. WITHHOLDING. The Company shall make such deductions and withhold such amounts from each payment and benefit made or provided to Executive hereunder, as may be required from time to time by applicable law, governmental regulation or order.

6. HEADING REFERENCES. Section headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose. References to "this Agreement" or the use of the term "hereof" shall refer to these Standard Terms and Conditions and the Employment Agreement attached hereto, taken as a whole.

7. REMEDIES FOR BREACH. Executive expressly agrees and understands that Executive will notify the Company in writing of any alleged breach of this Agreement by the Company, and the Company will have thirty (30) days from receipt of Executive's notice to cure any such breach. Executive

expressly agrees and understands that in the event of any termination of Executive's employment by the Company during the Term, the Company's contractual obligations to Executive shall be fulfilled through compliance with its obligations under Section 1 of the Standard Terms and Conditions.

Executive expressly agrees and understands that the remedy at law for any breach by Executive of Section 2 of the Standard Terms and Conditions will be inadequate and that damages flowing from such breach are not usually susceptible to being measured in monetary terms. Accordingly, it is acknowledged that, upon Executive's violation of any provision of such Section 2, the Company shall be entitled to obtain from any court of competent jurisdiction



immediate injunctive relief and obtain a temporary order restraining any threatened or further breach as well as an equitable accounting of all profits or benefits arising out of such violation. Nothing shall be deemed to limit the Company's remedies at law or in equity for any breach by Executive of any of the provisions of this Agreement, including Section 2, which may be pursued by or available to the Company.

8. WAIVER; MODIFICATION. Failure to insist upon strict compliance with any of the terms, covenants, or conditions hereof shall not be deemed a waiver of such term, covenant, or condition, nor shall any waiver or relinquishment of, or failure to insist upon strict compliance with, any right or power hereunder at any one or more times be deemed a waiver or relinquishment of such right or power at any other time or times. This Agreement shall not be modified in any respect except by a writing executed by each party hereto. Notwithstanding anything to the contrary herein, none of (i) subject to Section 1(d) of the Standard Terms and Conditions, a change in Executive's title, duties and/or level of responsibilities, including by way of the assignment of Executive (in consultation with Executive) to another position with the Company or any its affiliates, (ii) the assignment of Executive to a different Reporting Officer due to a reorganization or an internal restructuring of the Company or its affiliated companies or (B) changes in the names of the reporting sectors and/or segments of IAC and/or the composition of the businesses within such sectors and/or segments nor (iii) a change in the title of the Reporting Officer shall constitute a modification or a breach of this Agreement.

9. SEVERABILITY. In the event that a court of competent jurisdiction determines that any portion of this Agreement is in violation of any law or public policy, only the portions of this Agreement that violate such law or public policy shall be stricken. All portions of this Agreement that do not violate any statute or public policy shall continue in full force and effect. Further, any court order striking any portion of this Agreement shall modify the stricken terms as narrowly as possible to give as much effect as possible to the intentions of the parties under this Agreement.

10. INDEMNIFICATION. The Company shall indemnify and hold Executive harmless for acts and omissions in Executive's capacity as an officer, director or employee of the Company to the maximum extent permitted under applicable law; provided, however, that neither the Company, nor any of its subsidiaries or affiliates shall indemnify Executive for any losses incurred by Executive as a result of acts described in Section 1(c) of this Agreement.

[The Signature Page Follows]



ACKNOWLEDGED AND AGREED:

Date: May , 2007

IAC/InterActiveCorp

By: Greg Blatt
Title: Executive Vice President and General Counsel

Bret A. Violette

CORRESPONDENT
AGREEMENT
FORM 200

This Correspondent Loan Purchase Agreement ("Agreement"), dated the 26th day of April, 2004, by and between CitiMortgage, Inc. ("CMI"), for itself and on behalf of Citibank, FSB, Citibank (West), FSB, and Citibank, N.A., and;

HOME LOAN CENTER, INC ("Correspondent").

In consideration of the terms contained in this Agreement, CMI and Correspondent agree as follows:

1. PURCHASE AND SALE OF MORTGAGE LOANS

From time to time, Correspondent may sell to CMI and CMI may purchase from Correspondent one or more residential mortgage, home equity or other loans ("Loan(s)") in accordance with the terms, conditions, requirements, procedures, representations and warranties set forth in the "CitiMortgage, Inc. Correspondent Manual" and all amendments, bulletins, program requirements and supplements to such Manual (collectively hereinafter referred to as the "CMI Manual"), and this Agreement. CMI and Correspondent agree that the CMI Manual is incorporated by reference herein and is part of this Agreement. Further, CMI and Correspondent agree that Citibank, FSB; Citibank (West), FSB; and Citibank, N.A. are intended third party beneficiaries of this Agreement.

For each Loan offered for sale by Correspondent to CMI, Correspondent will deliver Loan documentation to CMI in accordance with the applicable terms, conditions, requirements, procedures, representations and warranties set forth in the CMI Manual. CMI may purchase Loans with or without conducting a complete review of the Loan documentation. CMI's review of, or failure to review, all or any portion of the Loan documentation shall not affect CMI's rights to demand repurchase of a Loan or any other CMI right or remedy provided by this Agreement.

For each Loan CMI agrees to purchase, CMI shall pay the amount agreed upon by CMI and Correspondent ("Purchase Price") in accordance with the applicable provisions of the CMI Manual. CMI may offset against the Purchase Price any outstanding fees or other amounts owing from Correspondent to CMI in connection with the particular purchase or other transactions.

As of the date CMI purchases each Loan, Correspondent will (i) transfer to CMI all of its right, title and interest in and to each Loan, including without limitation all documents held or subsequently acquired by Correspondent relating to each Loan and (ii) execute all documents necessary to transfer such right, title and interest to CMI.

2. REPRESENTATIONS AND WARRANTIES

Correspondent represents, warrants and covenants throughout the term of this Agreement as follows:

(a) That it is duly organized, validly existing, in good standing, qualified and authorized to do business in each jurisdiction where it originate Loans or where a property securing any of its Loans is located; that all corporate or other actions and approvals necessary for the execution and performance of this Agreement have been taken and/or received; and that no consent from any third party is required for the execution and performance of this Agreement.

(b) That it (i) holds and shall maintain in good standing throughout the term of this Agreement all applicable license(s) and/or registration(s) in each jurisdiction that is/are necessary for Correspondent's Loan origination, purchase and sale activities under this Agreement and (ii) is in full compliance with all laws in each jurisdiction which govern Correspondent's activities under this Agreement. Correspondent agrees to promptly provide CMI with copies of all such license(s) and/or registration(s) upon request by CMI.

(c) That it will allow CMI to periodically investigate the financial (including but not limited to obtaining corporate and/or individual credit reports) and other status of Correspondent and, if necessary, the financial and other status of Correspondent's directors, officers and/or employees. If necessary, Correspondent shall cooperate with CMI to obtain the written consent of one or more of Correspondent's directors, officers and/or employees to such periodic investigation. Correspondent agrees that the failure to obtain such consent may result in the termination of this Agreement in accordance with the provisions of Sec. 7.



(d) That it is thoroughly familiar with and will comply with all applicable federal (including but not limited to the Real Estate Settlement Procedures Act, Truth-In-Lending Act, Equal Credit Opportunity Act and federal fair lending laws), state and, if necessary, local laws and regulations directly or indirectly relating to its activities under this Agreement (including but not limited to involvement in such activities of individuals convicted of crimes involving dishonesty or breach of trust).

(e) That Correspondent is an approved seller/servicer of conventional residential adjustable and fixed-rate mortgage Loans for Fannie Mae, Freddie Mac, and/or is a FHA-, VA- and/or HUD- approved mortgagee; that Correspondent is duly qualified, licensed, registered and otherwise authorized under all applicable laws and regulations and is in good standing to (i) originate, sell, endorse and assign Loans and, if applicable, the related Loan collateral to CMI, (ii) service Loans in the jurisdiction(s) where, if applicable, the properties securing such Loans are located for Fannie Mae, Freddie Mac, FHA or VA, and (iii) no event has occurred that would make Correspondent unable to comply with Fannie Mae, Freddie Mac, FHA, VA or HUD eligibility requirements or that would require notification to Fannie Mae, Freddie Mac, FHA or VA or HUD.

(f) That it does not believe, nor does it have any reason or cause to believe, it cannot perform every covenant contained in this Agreement or continue to carry on its business substantially as now conducted; that it is solvent and the sale of Loans will not cause it to become insolvent; that no action, suit, proceeding or investigation pending or threatened against Correspondent, either alone or in the aggregate, may result in its inability to carry on its business substantially as now conducted; and that the sale of Loans under this Agreement is not undertaken with the intent to hinder, delay or defraud any of its creditors.

(g) That it has obtained and reviewed or will, upon execution of this Agreement, promptly obtain and review the CMI Manual and will fully comply with its terms, conditions, requirements and procedures.

(h) That it does not currently and will not in the future employ any entity or individual on the Freddie Mac exclusionary list.

(i) That neither this Agreement nor any statement, report or other information provided or to be provided pursuant to this Agreement (including but not limited to the statements and information contained in the documentation for each Loan purchased by CMI) contains or will contain any misrepresentation or untrue statement of fact or omits or will omit to state a fact necessary to make the information not misleading. The provisions of this sub-section shall not apply to information obtained from (i) appraisers, escrow agents, title companies, closers, credit reporting agencies or any other entity approved by CMI ("Approved Entity") unless Correspondent knows or has reason to believe that any information provided by such Approved Entity is not true, correct or valid in any material respect and (ii) the Loan applicant(s) unless Correspondent knows, has reason to believe or, after performing its normal due diligence and quality control review, should have known that any information provided by the Loan applicant(s) is not true, correct or valid in any material respect.

(j) That the documentation for each Loan sold to CMI (i) shall be duly executed by the borrower(s), (ii) shall create a valid and legally binding obligation of the borrowers(s) and (iii), if applicable, shall create a fully enforceable first or subordinate lien on the property securing repayment of the Loan.

(k) That each mortgage, home equity or other Loan (i) shall be fully enforceable and originated in accordance with the terms, conditions, representations, warranties and covenants contained in the CMI Manual and this Agreement which were in effect as of the Loan closing date, (ii), if applicable, was serviced in accordance with applicable Fannie Mae, Freddie Mac, FHA, VA and/or HUD requirements and industry standards, and (iii) is subject to no defects or defenses, including but not limited to damage to the property securing the Loan, lien imperfections or environmental risk.

(I) That any third-party originators referring, or in any way involved with, any Loan shall be, at a minimum, approved by Correspondent according to Fannie Mae, Freddie Mac, FHA, VA and/or HUD guidelines for approving third-party originators as described in the CMI Manual.

(m) That it will immediately notify CMI if it (i) fails to maintain any license or registration in violation of Sec. 2(b) above and/or (ii) becomes subject to any enforcement and/or investigative



proceeding by any licensing or regulatory authority or agency and/or (iii) is named as a party or becomes involved in any material litigation.

(n) That it will immediately notify CMI if (i) Correspondent and/or any of its principal director(s) or owner(s) becomes the debtor in any voluntary or involuntary bankruptcy proceeding, (ii) Correspondent and/or any of its principal director(s) or owner(s) requests the appointment of a receiver and/or (iii) Correspondent and/or any of its principal director(s) or owner(s) has incurred or is likely to incur a material, adverse change in its/their financial condition.

(o) That it will immediately notify CMI of any material change in ownership and/or management.

(p) That it will promptly respond to or otherwise comply with CMI's reasonable request(s) for periodic financial statements of Correspondent and/or any of its principal director(s) or owners and any other documentation required by CMI in connection with the recertification of Correspondent.

(q) That it will fully comply with all additional representations, warranties and covenants contained in the CMI Manual.

(r) That all representations, warranties and covenants contained in this Agreement and the CMI Manual shall survive the expiration and termination of this Agreement.

3. COSTS

Correspondent shall pay all costs and expenses incurred in connection with the transfer and delivery of Loans to CMI purchased pursuant to this Agreement, including but not limited to mortgage Loan assignment preparation and recording fees, fees for title policy endorsements and continuations, and Correspondent's attorneys' fees.

4. CORRESPONDENT ADVERTISING; NON-SOLICITATION AND CUSTOMER PRIVACY

Correspondent may advertise to the public the availability of various Loan programs, but Correspondent may not, in any way, directly or indirectly identify CMI in all such advertising unless (i) required by applicable law or (ii) CMI has, in advance, approved use of CMI's name in such advertising.

Correspondent agrees that the borrower(s) on all Loans shall, at the time of purchase by CMI, become the exclusive customers of CMI for all Loan-related purposes. During the first twelve (12) months after the date any Loan is purchased by CMI, Correspondent represents and warrants that Correspondent, Correspondent's directors, officers, employees, agents or affiliates will not, without the prior consent of CMI, (i) use targeted advertising, solicit or otherwise directly encourage or incent the Loan borrower(s) to refinance or prepay the Loan that was purchased by CMI, (ii) prepare, sell or distribute any customer list incorporating the names, addresses or any non-public personal information of such borrower(s) or (iii) use any such customer list to solicit, promote, or allow any other entity to solicit or promote, the sale of financial services or products to any such borrower(s). CMI and Correspondent agree that nothing contained herein shall prohibit advertising or solicitation by Correspondent that is directed to the general public in the area where the Loan borrower(s) reside(s).

Correspondent acknowledges that it has received a copy of the Citigroup Privacy Promise and/or Citigroup Privacy Policy and, to the extent necessary, shall comply with all applicable provisions of such Promise and/or Policy. Correspondent also agrees that it shall comply with all applicable federal or state laws related to the use and/or retention of the non-public personal and/or financial information associated with all Loans and the related Loan borrower(s).

5. TERM

This Agreement is for an initial one-year term and shall automatically renew for successive one-year terms, unless terminated pursuant to Section 7 of this Agreement.



6. RELATIONSHIP BETWEEN CMI AND CORRESPONDENT

This Agreement will not create any agency between Correspondent and CMI. Correspondent shall conduct its business under this Agreement as an independent contractor and shall have the rights and responsibilities of an independent contractor.

CMI shall not be responsible for any actions or omissions by Correspondent. Correspondent agrees it will not represent, orally, in writing, by implication or otherwise, that it can act in any capacity on behalf of CMI.

CMI is prescribing no marketing plan for Correspondent and exercises no control over the methods, operations and practices of Correspondent except as provided in this Agreement and the CMI Manual.

Correspondent acknowledges it is not selling or distributing CMI's services, and CMI has made no promise, representation or warranty regarding the profitability of any arrangement with Correspondent.

Correspondent and CMI acknowledge that each will be providing the other party with valuable proprietary information ("Confidential Information"), including but not limited to information regarding CMI's or Correspondent's products, programs, underwriting policies, procedures and customers. Except as necessary to perform its obligations under this Agreement or as required by law, each party will not disclose any Confidential Information to any person outside that party's organization and will limit access to this information within its organization on a strict "need to know" basis. Each party agrees to notify all of its directors, officers, employees and other agents of its obligations regarding Confidential Information and will cause such directors, officers, employees and other agents to comply with such obligations.

7. TERMINATION

CMI may immediately terminate this Agreement without notice and CMI then will have no further obligations under this Agreement upon: (1) the failure of Correspondent to perform or abide by any term, condition, covenant or obligation contained in this Agreement or the CMI Manual; (2) the finding by CMI that any representation or warranty made by Correspondent is false or incorrect in any material respect; (3) commencement by or against Correspondent of any bankruptcy, insolvency or similar proceedings; (4) CMI's determination that Correspondent's actions contravene the terms and conditions of this Agreement or could adversely impact CMI's activities or reputation; or (5) the failure of loans sold by Correspondent to CMI pursuant to this Agreement to satisfy CMI's expectations regarding loan quality and/or performance.

Either party may terminate this Agreement for any other reason upon thirty (30) calendar days prior notice to the other. In the event of termination, Correspondent shall fully cooperate with and assist CMI in obtaining the documentation necessary to complete the processing and full resolution of all matters (including but not limited to the delivery of all application and/or closed loan documents and, if applicable, all Loan insuring documentation) relating to all Loans purchased by CMI.

8. ASSIGNMENT

Correspondent may not assign this Agreement or any of its responsibilities under this Agreement. This Agreement and all rights, obligations and responsibilities hereunder may be assigned by CitiMortgage, Inc., without consent of the Correspondent, to any corporation or bank more than 50% of the voting stock of which is, directly or indirectly, owned by Citigroup, Inc.

9. NON-EXCLUSIVE AGREEMENT

Correspondent's rights under this Agreement are on a non-exclusive basis. CMI shall be free to market its products and services to, and to contract with, other parties and customers as it deems appropriate.



10. INDEMNIFICATION

Correspondent agrees to indemnify and hold CMI harmless from any and all claims, actions and costs, including reasonable attorneys' fees and costs, arising from (i) Correspondent's performance or failure to perform under the terms, conditions or obligations of this Agreement or the CMI Manual (including but not limited to Correspondent's failure to timely deliver all documents and records associated with or related to all Loans purchased by CMI pursuant to this Agreement), (ii) any fraud, misrepresentation or breach of any representation, warranty or covenant contained this Agreement or the CMI Manual and/or (iii) Correspondent's advertisements, promotions or other activities. This indemnification shall extend to any action or inaction by the directors, officers, employees, agents, independent contractors or other representatives of Correspondent and shall survive the expiration and termination of this Agreement.

11. CURE OR REPURCHASE

If CMI, in its sole and exclusive discretion, determines any Loan purchased pursuant to this Agreement:

(i) was underwritten and/or originated in violation of any term, condition, requirement or procedure contained in this Agreement or the CMI Manual in effect as of the date CMI purchased such Loan;

(ii) was underwritten and/or originated based on any materially inaccurate information or material misrepresentation made by the Loan borrower(s), Correspondent, Correspondent's directors, officers, employees, agents, independent contractors and/or affiliates, or any other party providing information relating to said Loan;

(iii) was or is capable of being rescinded by the applicable borrower(s) pursuant to the provisions of any applicable federal (including but not limited to the Truth-In-Lending Act) or state law or regulation;

(iv) must be repurchased from any secondary market investor (including but not limited to the Fannie Mae, Freddie Mac, FHA, VA, HUD or Government National Mortgage Association) due to a breach by Correspondent of any representation, warranty or covenant contained in this Agreement or the CMI Manual or a failure by Correspondent to comply in all material respects with the applicable CMI Manual terms, conditions, requirements and procedures; and/or

(v) was subject to an Early Payment Default (as defined in the CMI Manual), an Early Payoff (as defined in the CMI Manual) or any other payment related defect (as defined in the CMI Manual)

Correspondent will, upon notification by CMI, correct or cure such defect within the time prescribed by CMI to the full and complete satisfaction of CMI. If, after receiving such notice from CMI, Correspondent is unable to correct or cure such defect within the prescribed time, Correspondent shall, at CMI's sole discretion, either (i) repurchase such defective Loan from CMI at the price required by CMI ("Repurchase Price") or (ii) agree to such other remedies (including but not limited to additional indemnification and/or refund of a portion of the Loan purchase price) as CMI may deem appropriate. If CMI requests a repurchase of a defective Loan, Correspondent shall, within ten (10) business days of Correspondent's receipt of such repurchase request, pay to CMI the Repurchase Price by cashier's check or wire transfer of immediately available federal funds. If such defective Loan is owned by CMI at the time of repurchase by Correspondent, CMI shall, upon receipt of the Repurchase Price, release to Correspondent the related mortgage file and shall execute and deliver such instruments of transfer or assignment, in each case without recourse or warranty, as shall be necessary to vest in Correspondent or its designee title to the repurchased Loan.

Correspondent agrees and acknowledges that the provisions of this Sec. 11 do not, in any way, eliminate, diminish or impair Correspondent's indemnification obligations contained in Sec. 10.



12. GOVERNING LAW; VENUE

This Agreement shall be governed by the laws of the State of Missouri and applicable federal law.

CMI and Correspondent agree that any action, suit or proceeding to enforce or defend any right or obligation under this Agreement or otherwise arising out of either party's performance under this Agreement shall be brought in St. Louis County Circuit Court or the United States District Court for the Eastern District of Missouri and each party irrevocably submits to the jurisdiction of either forum and waives the defense of an inconvenient forum to the maintenance of any such action, suit or proceeding in such state or federal court and any other substantive or procedural rights or remedies it may have with respect to the maintenance of any such action or proceeding in either forum.

13. NOTICE

All notices to CMI shall be sent in accordance with the applicable provisions of the CMI Manual and shall be addressed according to such provisions.

Prior to or at the time Correspondent executes this Agreement, it shall provide CMI with one or more procedures and addresses for delivering notices pursuant to this Agreement. In addition to these procedures and addresses, Correspondent agrees and acknowledges that CMI may deliver all notices required by this Agreement in writing to Correspondent at the address listed on the last page of this Agreement.

14. MODIFICATION; MERGER; ENTIRE AGREEMENT; NO WAIVER OF RIGHTS

This Agreement may not be modified except by a document or record signed by both CMI and Correspondent. This Agreement (including the CMI Manual) contains the entire agreement of the parties and supersedes all previous agreements (including all amendments thereto) between the parties hereto. Any representations, promises or agreements not contained in this Agreement or the CMI Manual shall have no force or effect. The failure of either party to exercise any right given to it under this Agreement or to insist on strict compliance of any obligation under this Agreement shall not constitute a waiver of any right, including the right to insist on strict compliance in the future.

15. ON-SITE REVIEW AND DOCUMENT COLLECTION

Correspondent shall permit any officer, employee or designated representative of CMI, at any reasonable time during regular business hours and upon reasonable advance notice by CMI, to conduct an examination and audit on Correspondent's premises of any of the processes implemented and documents kept by Correspondent regarding any Loan purchased by CMI pursuant to this Agreement. If Correspondent fails to timely deliver, in accordance with the applicable terms and conditions specified in the CMI Manual, all documents and records associated with or related to any Loan purchased by CMI pursuant to this Agreement, Correspondent shall also give CMI and its officers, employees, or designated representatives reasonable access to Correspondent's premises in order to allow CMI to retrieve, prepare or otherwise obtain all such documents and records. Correspondent shall also make its officers, employees and/or designated representatives available to CMI and shall cooperate with CMI in all such examinations, audits and document and record collection activities.

16. AUTHORITY TO EXECUTE AGREEMENT

Correspondent represents and warrants that it has all requisite power, authority and capacity to enter into this Agreement and to perform all obligations required of it hereunder. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have each been duly and validly authorized by all necessary action(s). Correspondent shall, upon request by CMI, execute such supplemental resolutions, acknowledgments and/or certifications as may be reasonably necessary to evidence such power, authority and capacity.



17. CORRESPONDENT GRANT OF LIMITED POWER OF ATTORNEY

Correspondent hereby appoints CMI and the directors, officers, employees, agents, successors and assigns of CMI as its true and lawful attorney-in-fact without right of revocation and with full power of substitution for and in its place and stead to (i) demand and control all sums due on Loans purchased pursuant to this Agreement and to enforce all rights with respect thereto, (ii) endorse, mark, place or otherwise evidence Correspondent's name as payee on all checks, drafts, acceptances or other form of partial or full Loan payment delivered or tendered to CMI, (iii) endorse, mark, place or otherwise evidence Correspondent's name on all notes, mortgages, deeds of trust, and other forms of security instruments or collateral and all assignments, full or partial releases or satisfactions of said mortgages, deeds of trust, and other forms of security instruments or collateral for all Loans purchased pursuant to this Agreement. Correspondent agrees to execute such other documents as CMI may reasonably request to evidence the appointment of CMI as Correspondent's attorney-in-fact.

18. MISCELLANEOUS

All capitalized terms not otherwise defined herein shall have the meanings attributed to them in the CMI Manual. All Section headings are for convenience only and shall not be construed as part of this Agreement. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining portions hereof or affecting the validity or enforceability of such provision in any other jurisdiction and, to accomplish this purpose, the provisions hereof are severable. **This Agreement shall not be effective until signed by both parties.**

IN WITNESS WHEREOF, the duly authorized officers of CMI and Correspondent have executed this Agreement as of the date first above written.

| CITIMORTGAGE, INC. (CMI) | | Home Loan Center CORRESPONDENT | |
|---|---|---|---|
| By | /s/ [ILLEGIBLE] | By | /s/ [ILLEGIBLE] |
| Title | Vice President | Title | SVP Finance |
| Date | 3-29-05 | Date | May 7th, 2004 |

RICHARD P. McCOPPIN
Manager Eligibility & Wholesale MIS
CitiMortgage, Inc.
1000 Technology Drive/MS 111
O'Fallon, MO 63304
(636) 261-0151/GEID #0002093401

Correspondent Notice Address:
18191 Von Karman Ave, Suite 300
Irvine, CA 92612

***NOTE: THE TEXT OF THIS AGREEMENT MAY NOT BE CHANGED IN ANY MANNER WITHOUT THE EXPRESS PERMISSION OF CITIMORTGAGE, INC. (Except for the Addendum attached hereto)***



# ADDENDUM TO LOAN PURCHASE AGREEMENT

The parties set forth below have entered into this Addendum to amend the terms and conditions of the Correspondent Loan Purchase Agreement between Home Loan Center, Inc. ("HLC") and CitiMortgage, Inc. ("Purchaser") dated April 26, 2004 (the "Agreement"). All capitalized terms in this Addendum that are not otherwise defined shall have the meanings set forth for such terms in the Agreement. In the event of any inconsistency between the Agreement and this Addendum, the terms and conditions of this Addendum shall control.

From time to time, HLC or its affiliates may send email or other communications to its customers who opt in to receive certain types of communications from HLC or its affiliates or are solicited by third parties on behalf of HLC without knowledge of Purchaser's relationship to such customers ("Permitted Communications"). Permitted Communications (which may include information regarding service providers that compete with Purchaser) shall not be considered a violation of the Agreement. Notwithstanding the foregoing, Permitted Communications may not be designed to specifically target HLC's customers whose loans have been sold to Purchaser.

Notwithstanding anything to the contrary contained in the Agreement, if the Agreement is terminated, Purchaser shall remain responsible to pay the Purchase Price with respect to any Loan.

/s/ Robert Hill

May 7, 2004

Robert Hill

SVP Finance

Home Loan Center

*Loan Purchase Agreement*

*This Agreement, dated as of 4/16, is made by and between Countrywide Home Loans, Inc., a New York corporation ("Countrywide"), and Home Loan Center, a CA corporation ("Seller"), for mutual considerations set forth herein.*

**Countrywide agrees to purchase certain loans secured by real property, together with the servicing thereof (the "Loans"), from Seller under Countrywide's mortgage loan programs, and Seller agrees to sell to Countrywide certain such Loans pursuant to the terms and conditions set forth herein and in Countrywide's Correspondent Lending Division Loan Purchase Program Seller's Manual, as amended from time to time (the "Manual"). In connection therewith, the parties agree as follows:**

**1. ELIGIBLE LOANS**

A. Only those Loans fully complying with the standards for Conforming Conventional, Jumbo Conventional, Government and Second Mortgage Loan Programs set forth in the Mortgage Programs section of the Manual are eligible for purchase under this Agreement. Seller must be approved, qualified and/or licensed to originate such Loans.

B. Seller shall fully underwrite each Loan prior to submission to Countrywide in accordance with Underwriting Guidelines and Lending Requirements sections of the Manual, or, if available, use a Countrywide-approved automated underwriting system for underwriting the Loan.

C. Seller shall be responsible for assuring that Loans submitted to Countrywide comply with all terms and conditions of this Agreement and the Manual.

**2. COMMITMENT TO PURCHASE LOANS**

The procedure pursuant to which Seller may commit to sell a Loan to Countrywide is detailed in the Loan Registration section of the Manual. For purposes of this Agreement, Countrywide and Seller define a best effort commitment to be a mandatory commitment if the Loan closes. Countrywide will confirm the conditions of the sale of the Loan to Countrywide by delivering a confirmation ("Commitment") to Seller which sets forth the terms of the transaction, including the price Countrywide will pay for each Loan, as determined pursuant to the Pricing standards set forth in the Manual (the "Purchase Price"). The terms of the Commitment, including the Purchase Price, shall be in effect for the period of time requested by Seller and approved by Countrywide (the "Commitment Period"). If Seller is approved by Countrywide to sell Loans to Countrywide on a bulk sale basis, Countrywide and Seller shall execute the Addendum to Loan Purchase Agreement (Bulk Sales) which shall be attached to and incorporated into this Agreement by reference.

**3. UNDERWRITING AND PROPERTY APPRAISAL**

A. Countrywide shall have the right, but not the obligation, to underwrite any Loan submitted for purchase pursuant to this Agreement, or otherwise insure that any Loan submitted for purchase complies with all terms and conditions of this Agreement and the Manual; provided that neither the existence nor the exercise of this right shall affect in any way Seller's obligations hereunder, including without limitation, Seller's repurchase obligations under Section 7 hereof and Seller's hold harmless obligations under Section 9 hereof. The applicable procedures are set forth in the Prior Approval section of the Manual.

B. Seller shall deliver to Countrywide an appraisal of the real estate security for each such Loan, signed by a qualified appraiser, as defined in the Manual, prior to Countrywide's approval to purchase such Loan.

**4. DELIVERY OF LOAN DOCUMENTATION**

A Loan shall be deemed delivered to Countrywide if: (A) it is received by Countrywide within the Commitment Period; (B) it is in compliance with the requirements set forth in the Delivery of Closed Loans and Funding Documentation sections of the Manual; and (C) there are no outstanding conditions which would prevent Countrywide from funding the purchase of the Loan. Failure by Seller to deliver to Countrywide within 120 days from the date a Loan was purchased one or more of the original documents specified in the Delivery of Closed Loans section of the Manual shall result in assessment by Countrywide of a fee of $50 per month for each month, after the initial 120 day period, during which one or more of such documents is outstanding, i.e., has not been delivered to Countrywide for any period of time during the month. Such fee shall be $50 regardless of the number of such documents. Failure by Seller to deliver to Countrywide one or more of the original documents specified in the Delivery of Closed Loans section of the Manual within 270 days from the date the Loan was purchased by Countrywide shall obligate Seller to repurchase the Loan pursuant to the provisions of Section 7 of this Agreement.

**5. PAYMENT OF PURCHASE PRICE AND SELLER'S WIRE INSTRUCTIONS**

Countrywide shall, after receipt of a Loan documentation package which fully complies with the requirements of the Manual, deliver the Purchase Price (less any fees or discounts due to Countrywide) set forth in the applicable Commitment to Seller in accordance with Seller's wire instructions or in accordance with any ballee letter or trust receipt submitted with the Loan, as determined in the sole and absolute discretion of Countrywide.

Countrywide
CORRESPONDENT LENDING

[ILLEGIBLE]



**6. SELLER'S OBLIGATIONS, REPRESENTATIONS AND WARRANTIES**

A. Seller represents and warrants to Countrywide as to each Loan offered for sale under this Agreement that as of the date of Countrywide's purchase of such Loan:

(1) The Loan documents have been duly executed by the trustor/mortgagor, acknowledged and recorded; each Loan is valid and complies with all criteria contained in the Manual; the note and deed of trust/mortgage constitute the entire Agreement between the trustor/mortgagor and the beneficiary/mortgagee, and there is no verbal understanding or written modification which would affect the terms of the note or the deed of trust/mortgage except by written instrument delivered and expressly made known to the beneficiary/mortgagee and recorded if recording is necessary to protect the interests of the beneficiary/mortgagee.

(2) Seller is the sole owner of the Loan and has authority to sell, transfer and assign the same on the terms set forth herein and in the Manual. There has been no assignment, sale or hypothecation thereof by Seller, except the usual hypothecation of the documents in connection with Seller's normal banking transactions in the conduct of its business.

(3) The full principal amount of the Loan has been advanced to the trustor/mortgagor, either by payment directly to such person or by payment made on such person's request or approval. The unpaid principal balance of the Loan is as represented by Seller. All costs, fees and expenses incurred in making, closing and recording the Loan have been paid. No part of the mortgaged property has been released from the lien of the Loan, the terms of the Loan have in no way been changed or modified, and the Loan is current and not in default.

(4) Each Loan is a valid first lien or, if specifically approved by Countrywide, a valid second lien on the mortgaged property, and the mortgaged property is free and clear of all encumbrances and liens having priority over the lien of such Loan, except for the first lien, if applicable, and liens for real estate taxes and special assessments not yet due and payable and those exceptions allowed in connection with Government Loans and other exceptions set forth in the Manual.

(5) The mortgaged property is free and clear of all mechanics' and materialmen's liens or liens in the nature thereof, and no rights are outstanding that under law could give rise to any such lien, nor is Seller aware of any facts which could give rise to any such lien.

(6) Each Loan which Seller represents to be insured or guaranteed is, or will within 120 days from the date of delivery of such Loan to Countrywide be, so insured or guaranteed. No action has been taken or failed to have been taken which has resulted or will result in an exclusion from, denial of, or defense to, coverage under such insurance or guarantee; and all conditions within the control of Seller as to the validity of the insurance or guaranty as required by the National Housing Act of 1934 and the rules and regulations thereunder, or as required by the Servicemen's Readjustment Act of 1944 and the rules and regulations thereunder, or imposed by the mortgage insurance companies or other insurers have been properly satisfied, and said insurance or guaranty is valid and enforceable.

(7) All federal and state laws, rules and regulations applicable to the mortgage Loans have been complied with, including but not limited to: the Real Estate Settlement Procedures Act, the Flood Disaster Protection Act, the Federal Consumer Credit Protection Act including the Truth-in-Lending and Equal Credit Opportunity Acts, and all applicable statutes or regulations governing fraud, lack of consideration, unconscionability, consumer credit transactions or interest charges.

(8) No Loan is the subject of, and Seller is not aware of any facts which could give rise to, litigation which could affect Countrywide's ability to enforce the terms of the obligation or its rights under the mortgage documents.

(9) There is in force for each Loan either (a) a paid-up title insurance policy on the Loan issued by a Countrywide approved title company in an amount at least equal to the outstanding principal balance of the Loan or (b) an attorney's mortgage lien opinion. (Negatively amortizing loans require additional coverage.)

(10) There is in force for each Loan valid hazard insurance policy coverage and, where applicable, valid flood insurance policy coverage, and such coverages meet the requirements of Countrywide specified in the Manual.

(11) Seller will record the corporate assignment in the name of Countrywide Home Loans, Inc. at the time the deed of trust/mortgage is recorded, and the assignment of the Loan from Seller to Countrywide shall be valid and enforceable.

(12) The borrower has no rights of rescission, set-offs, counter-claims or defenses to the note or deed of trust/mortgage securing the note arising from the acts and/or omissions of Seller.

(13) Seller has no knowledge that any improvement located on or being part of the mortgaged property is in violation of any applicable zoning law or regulation.

(14) All improvements included for the purpose of determining the appraised value of the mortgaged property lie wholly within the boundaries and building restriction lines of such property, and no improvements on adjoining properties encroach upon the mortgaged property.

(15) There is no proceeding pending for total or partial condemnation of any mortgaged property and said property is free of substantial damage (including, but not limited to, any damage by fire, earthquake, windstorm, vandalism or other casualty) and in good repair.



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(16) Seller has no knowledge of any circumstances or conditions with respect to any Loan, mortgaged property, trustor/mortgagor or trustor's/mortgagor's credit standing that reasonably could be expected to cause private institutional investors to regard any Loan as an unacceptable investment, cause any Loan to become delinquent or adversely affect the value or marketability of the Loan.

(17) All documents submitted are genuine. All other representations as to each such Loan are true and correct and meet the requirements and specifications of all parts of this Agreement and the Manual.

B. Seller represents and warrants to Countrywide that as of the date first set forth above and as of the date of Countrywide's purchase of each Loan hereunder:

(1) Seller is duly organized, validly existing and in good standing under the laws of its state of incorporation and is qualified and/or licensed as necessary to transact business, including the originating and selling of mortgage loans, and is in good standing in each state where the property securing a Loan is located.

(2) Seller has the full power and authority to hold and sell each Loan; and neither the execution and delivery of this Agreement, nor the acquisition or origination of the Loans, nor the sale of the Loans, nor the consummation of the transactions contemplated herein, nor the fulfillment of or compliance with the terms and conditions of this Agreement will conflict with, or result in a breach of any term, condition or provision of, Seller's certificate of incorporation or by-laws, any license held by Seller or governing Seller's activities or any agreement to which Seller is a party or by which Seller is bound, or constitute a material default or result in an acceleration under any of the foregoing.

(3) No consent, approval, authorization or order of any court, governmental body or any other person or entity is required for the execution, delivery and performance by Seller of this Agreement, including but not limited to, the sale of the Loans to Countrywide.

(4) Neither Seller nor its agents know of any suit, action, arbitration or legal or administrative or other proceeding pending or threatened against Seller which would affect its ability to perform its obligations under this Agreement.

(5) Seller is not a party to, bound by or in breach or violation of any agreement or instrument, or subject to or in violation of any statute, order or regulation of any court, regulatory body, administrative agency or governmental body having jurisdiction over it, which materially and adversely affects, or may in the future materially and adversely affect, the ability of Seller to perform its obligations under this Agreement or the Manual, including, without limitation, Seller's repurchase and indemnification obligations pursuant to Sections 7, 8 and 9 of this Agreement.

**7. SELLER'S REPURCHASE OBLIGATIONS**

A. Seller shall repurchase any Loan sold to Countrywide pursuant to this Agreement within twenty business days of receipt of written notice from Countrywide of any of the following circumstances (the "Repurchase Obligation"):

(1) Seller fails to deliver to Countrywide within 270 days from the date each Loan was purchased the original documents specified in the Delivery of Closed Loans section of the Manual.

(2) Countrywide determines that there is any evidence of fraud in the origination of the Loan or in the sale of the Loan to Countrywide or that any matter in the mortgage loan file is not true and correct.

(3) If Countrywide determines the Loan is not eligible for GNMA, FNMA or FHLMC pool participation or whole loan purchase or purchase by a private investor, or, if Countrywide has sold such Loan in whole or in part to GNMA, FNMA, FHLMC or a private investor, and GNMA, FNMA, FHLMC or the private investor requires Countrywide to repurchase said interest or reimburse it for losses, or the mortgage insurer denies coverage on the Loan; provided the reason for such ineligibility; repurchase, reimbursement or denial shall be due to a failure of the Loan to meet requirements specified in the Manual at the time of Countrywide's purchase of the Loan from Seller.

(4) If the first payment due Countrywide is not received by Countrywide, whether from the borrower directly or forwarded by Seller if the Borrower has submitted the payment to Seller, by the last day of the month in which it is due, and, in addition, at any time within the first twelve months after the Loan has been purchased by Countrywide, the Borrower is 90 days delinquent with respect to a monthly payment. For this purpose a Borrower shall be considered to be 90 days delinquent on a monthly payment if it is not received by Countrywide by the last day of the third month, regardless of the number of days in the month. For example, if the Borrower has not made his/her January payment by the last day of March, the Borrower shall be considered 90 days delinquent with respect to the January payment. Seller shall not have the right to advance funds for or on behalf of a Borrower for any delinquent payment or to otherwise make funds available to any Borrower to avoid or cure a default by the Borrower. A payment for which Countrywide deducted funds at the time it purchased the Loan from Seller shall not be considered the first payment due Countrywide.

(5) Seller falls to observe or perform or breaches in any material respect any of the representations, warranties or agreements contained in this Agreement or the Manual with respect to a particular Loan.

(6) With respect solely to VA Loans purchased by Countrywide pursuant to an Assignment of Trade Addendum to this Agreement or on a Direct Trade basis pursuant to a Direct Trade Addendum to this Agreement, if the Loan goes into foreclosure within 24 months from the date of sale of the Loan to Countrywide as to those Loans with full guarantees from the VA and 48 months from the date of sale of the Loan to Countrywide as to those Loans with partial guarantees from the VA and as to which the VA gives Countrywide a no-bid instruction in conjunction with the foreclosure sale on such Loan.



B. The option to request or accept repurchase of any Loan is at the sole discretion of Countrywide. Notwithstanding that a Seller may be obligated pursuant to the terms of this Section 7 to repurchase a Loan, if such Loan is in compliance with all requirements of this Agreement and the Manual at the time of its purchase by Countrywide and if there is no evidence of fraud or misrepresentation in connection with the Loan, Countrywide, in its sole discretion and on terms determined solely by Countrywide, may consider permitting Seller to indemnify Countrywide against all suits, costs, damages, losses, fees or claims, including without limitation reasonable attorneys' fees, which may be incurred by Countrywide in connection with such Loan. Such indemnification shall be substantially in the form of the applicable Indemnification Agreement, the provisions of which shall include, without limitation, the requirement that the Seller shall pay to Countrywide, at the time that the indemnification Agreement is executed, the amount specified by Countrywide as the amount necessary to cover its projected and potential costs and losses, and including the service release premium paid by Countrywide to the Seller with respect to the Loan.

C. It is agreed by the parties that Seller's Repurchase Obligation with respect to a Loan shall not be obviated by the fact that the property securing the Loan has been foreclosed upon and said property has been acquired by Countrywide or a third party, it being understood that the term Repurchase Obligation encompasses within its meaning the repurchase of the property from Countrywide if Countrywide has acquired the property, or, if a third party has acquired the property, reimbursing Countrywide in the amount specified in Section 8.C. of this Agreement.

D. It is further agreed by the parties that if Countrywide has made demand on Seller to repurchase a Loan pursuant to Section 7 of this Agreement, Countrywide shall have the right to withhold any monies due Seller in connection with the Loan(s) subject to the Repurchase Obligation or any other Loans until the parties have agreed that the Repurchase Obligation is satisfied.

**8. REPURCHASE PRICE**

A. The repurchase price for Loans subject to a Repurchase Obligation pursuant to Section 7 hereof shall be as follows:

(1) The current unpaid principal balance of such Loan if it has been pooled or resold. If such loan has not been pooled or resold by Countrywide, the repurchase price shall be at the original price, less principal reduction since the original purchase of the Loan by Countrywide; plus

(2) All interest accrued but unpaid on the principal balance of the Loan from the paid-to-date of the loan through and including the last day of the month in which the repurchase is made; plus

(3) All expenses, including but not limited to reasonable fees and expenses of counsel, incurred by Countrywide in enforcing Seller's obligation to repurchase such Loan; plus

(4) The original servicing release premium paid by Countrywide with respect to such Loan; plus

(5) Any unreimbursed advances of taxes or insurance made by Countrywide with regard to such Loan as of the date of repurchase; less

(6) Any proceeds of mortgage insurance with respect to the Loan collected by Countrywide.

Upon any such repurchase of Loans by Seller, Countrywide shall endorse the promissory note (without recourse) and shall assign any security interest (without recourse and in recordable form) to Seller.

B. If the real property security for the Loan has been foreclosed upon and purchased by Countrywide at the foreclosure sale, then the repurchase price pursuant to Section 7 hereof, notwithstanding the amount of Countrywide's credit bid, shall be:

(1) The current unpaid principal balance of such Loan if it has been pooled or resold. If such loan has nor been pooled or resold by Countrywide, the repurchase price shall be at the original price, less principal reduction since the original purchase of the Loan by Countrywide; plus

(2) All interest accrued but unpaid on the principal balance of the Loan from the paid-to-date of the loan through and including the last day of the Month in which the foreclosure sale occurs; plus

(3) All costs and expenses, including but not limited to reasonable fees and expenses of counsel, incurred by Countrywide in connection with the foreclosure and in enforcing Seller's Repurchase Obligations hereunder; plus

(4) The original servicing release premium paid by Countrywide with regard to such Loan; plus

(5) Any unreimbursed advances of taxes or insurance made by Countrywide with regard to such Loan as of the date of repurchase; plus

(6) Interest on the amounts set forth in paragraphs (l) through (5) above at the Loan rate from the end of the month in which the foreclosure sale occurred until and including the date of repurchase by Seller; less

(7) Any proceeds of mortgage insurance collected by Countrywide with respect to the Loan.

Upon payment of the repurchase price, Countrywide shall transfer title to the property securing such Loan to Seller.

C. If the real property security for the Loan has been sold at foreclosure and purchased by a third party, the amount Seller shall pay Countrywide to fulfill its Repurchase Obligation pursuant to Section 7 of this Agreement shall be as follows:

(1) The current unpaid principal balance of such Loan if it has been pooled or resold. If such loan has not been pooled or resold by Countrywide, the repurchase price shall be at the original price, less principal reduction since the original purchase of the Loan by Countrywide; plus



(2) All interest accrued but unpaid on the principal balance of the Loan from the paid-to-date of the loan through and including the last day of the month in which the foreclosure sale occurs; plus

(3) All costs and expenses, including but not limited to reasonable fees and expenses of counsel, incurred by Countrywide in enforcing Seller's Repurchase Obligations hereunder; plus

(4) The original servicing release premium paid by Countrywide with regard to such Loan; plus

(5) Any unreimbursed advances of taxes or insurance made by Countrywide with regard to such Loan as of the date of repurchase; plus

(6) Interest on the amounts set forth in paragraphs (1) through (5) above at the Loan rate from the end of the month in which the foreclosure sale occurred until and including the date of repurchase by Seller; less

(7) The net proceeds of the foreclosure sale (sale price minus costs and expenses, including but not limited to reasonable fees and expenses of counsel, incurred by Countrywide in connection with the foreclosure sale); less

(8) Any proceeds of mortgage insurance collected by Countrywide in connection with the Loan.

**9. HOLD HARMLESS**

A. Seller shall hold Countrywide harmless and shall indemnify Countrywide from and against any and all suits, costs, damages, losses, fees or claims, including without limitation reasonable attorney's fees ("Loss"), arising out of or in connection with any negligence, fraud or a material omission on the part of Seller in receiving, processing or funding any Loan committed to Countrywide for sale under Section 2 above, during the origination period and

Commitment Period up to and including the date the Loan is purchased by Countrywide. Seller's obligation to Countrywide in this regard shall remain effective after Countrywide's purchase of the Loan if the Loss arose prior to purchase but was undetected at time of purchase. This paragraph shall not modify Seller's obligations contained elsewhere in this Agreement.

B. Seller shall also hold Countrywide harmless and shall indemnify Countrywide from and against any and all suits, costs, damages, fees or claims, including without limitation reasonable attorneys' fees, arising out of or in connection with any one or more of the items set forth in paragraphs (1) through (6) of Section 7A. of this Agreement.

**10. NO SOLICITATION**

Loans sold to Countrywide cannot be solicited by Seller for refinance for a period of 12 months from the date the Loan is purchased by Countrywide. Borrowers requesting a refinance from Seller within the 12 month period must be referred to Countrywide or, provided the refinanced loan meets all Countrywide requirements as specified in the Manual, may be processed by the Seller and sold to Countrywide for a service release premium, if any, to be negotiated by the parties.

**11. PROHIBITION AGAINST USE OF NAME OR AFFILIATION**

Seller shall not hold itself out as a joint venturer, partner, representative, employee or agent of Countrywide. Nor shall it use Countrywide's name in any advertising or written or broadcast material without Countrywide's express prior written consent. This prohibition shall not prevent Seller from using any advertising media provided to it by Countrywide for use by Seller and containing any copyrighted Countrywide name or logo. Such copyrighted name or logo shall remain in place.

**12. TERMINATION – SUSPENSION**

A. This Agreement may be terminated as to future commitments for sale of Loans by either party at any time, but such termination shall not in any respect change or modify the obligation of Seller with respect to Loans already subject to a Commitment. The effective time of termination shall be the earlier of the time written notice is actually received by the other party or five days after written notice is posted in the United States Postal Service by the canceling party. Termination of this Agreement shall not in any way affect either Seller's or Countrywide's obligations, representations, warranties or indemnifications with respect to Loans already purchased by Countrywide; provided, however, that Countrywide may immediately terminate its obligations hereunder without notice and immediately return to Seller any Loans subject to a Commitment, and Seller shall accept such loans if Coutrywide reasonably determines that there has been any deception, fraud, concealment or material misrepresentation by Seller in performing any of its duties, obligations, responsibilities or actions undertaken in connection with this Agreement or in connection with any Loan sold to Countrywide pursuant to this Agreement.

B. In addition to the termination rights set forth in Paragraph A. above, in the event that Countrywide believes in good faith that Seller has breached an obligation (including a Repurchase Obligation under Section 7), representation, warranty or covenant under the Agreement, or will be unable to fulfill any of its obligations under the Agreement or the Manual (including a Repurchase Obligation under Section 7), Countrywide may, in its sole and absolute discretion, suspend this Agreement as to future Commitments for the sale of Loans by Seller. Such suspension shall be effective immediately upon Seller's receiving written notice of same from Countrywide and shall last until Countrywide, in its sole discretion, determines to reactivate or terminate this Agreement.

**13. EXHIBITS**

All exhibits attached hereto or material referred to in this Agreement, including the Manual, are incorporated by reference into this Agreement. To the extent there are differences between requirements as stated in the Manual and as stated in this Agreement, the provisions of this Agreement shall govern.



**14. ENTIRE AGREEMENT**

The entire agreement between the parties is contained in this Agreement and in the Manual and cannot be modified in any respect except by an amendment in writing signed by both parties. The invalidity of any portion of this Agreement shall in no way affect the balance thereof.

**15. ASSIGNMENT**

Seller may not assign its rights or delegate its duties or obligations under this Agreement without the prior written consent of Countrywide. This Agreement shall be binding on and inure to the benefit of the permitted successors and assigns of the parties hereto.

**16. ATTORNEYS' FEES AND EXPENSES-CHOICE OF LAW AND FORUM**

If any party hereto shall bring suit or other proceeding against the other as a result of any alleged breach or failure by the other party to fulfill or perform any covenants or obligations under this Agreement, then the prevailing party obtaining final judgment in such action shall be entitled to receive from the non-prevailing party reasonable attorneys' fees incurred by reason of such action and all costs of suit and preparation thereof at both trial and appellate levels. This Agreement shall be governed by and construed and enforced in accordance with applicable federal law and the laws of the State of California. In addition, any such suit or proceeding shall be brought in the federal or state courts located in Los Angeles County, California, which courts shall have sole and exclusive in personam, subject matter and other jurisdiction in connection with such suit or proceedings, and venue shall be appropriate for all purposes in such courts.

**17. NO REMEDY EXCLUSIVE-WAIVER**

No remedy under this Agreement is exclusive of any other available remedy, but each remedy shall be cumulative and shall be in addition to other remedies given under this Agreement or existing at law or in equity.

Any forbearance by a party to this Agreement in exercising any right or remedy under this Agreement or otherwise afforded by applicable law shall not be a waiver or preclude the exercise of that or any other right or remedy.

**18. NOTICE**

Unless otherwise provided in this Agreement, all notices under this Agreement shall be in writing, deemed effective upon receipt and addressed as indicated below.

TO: Countrywide Home Loans, Inc.
Correspondent Lending Division
450 American Street
Mail Stop No. SV3-51
Simi Valley, California 93065
Attention: Vice President of Production

TO: Lender/Seller
HOME LOAN CENTER
2010 Main St.
IRVINE, CA 92614

ACCEPTED BY:

COUNTRYWIDE HOME LOANS, INC.

By: /s/ Catherine A. Kaiser
SIGNATURE
Name: Catherine A. Kaiser
Title: Senior Vice President
Dated: May 15, 2002

SELLER: Home Loan Center

By: /s/ Anthony Hsieh
SIGNATURE
Name: Anthony Hsieh
Title: CEO
Dated: 4/16/02



***Addendum to Loan Purchase Agreement***

**MANDATORY COMMITMENTS (BULK SALES)**

***This Agreement (the "Addendum") constitutes an Addendum to that Loan Purchase Agreement dated 4-16, 2002 by and between Countrywide Home Loans, Inc., a New York Corporation ("Countrywide"), and Home Loan Center a ("Seller") (the "Agreement").***

This Addendum is for the purpose of setting forth the obligations of the Seller to Countrywide in accordance with Countrywide's mandatory commitment program, which is further described in the Seller's Manual. The terms and conditions of the Loan Purchase Agreement are incorporated herein by reference. This Addendum shall modify, amend, and form a part of the terms of the Agreement. All terms contained herein shall have the same meaning as in the Agreement, unless otherwise defined herein. In the event of any conflict between the terms and conditions of the Agreement and this Addendum as it pertains to the mandatory commitment program, the terms and conditions of this Addendum shall prevail.

**GENERAL**

Sellers may elect to deliver loans to Countrywide under the mandatory commitment program by entering into a mandatory delivery commitment (a "Commitment") to deliver a specified amount and type of loan on or before a specified date. Under the mandatory commitment program, the Seller shall be obligated to pay a mark-to-market pair-off fee if the Seller fails to deliver qualifying loans by the date specified in the Commitment (the "Commitment Expiration Date"), in the amount specified in the Commitment (the "Commitment Amount"), or otherwise under the terms provided in the applicable Commitment.

**I. PAIR-OFF ASSESSMENT**

Pair-off fees shall be assessed as of the dates and times (the "Pair-Off Assessment Date") provided for:

(a) as of the date and time that the Seller notifies Countrywide of its election for a reduction of any portion of the Commitment Amount; or

(b) as of the date and time that the Seller notifies Countrywide of its election for a program substitution as described in the Seller's Manual for any portion of the mandatory commitment (such substitution to be treated as a reduction of the Commitment Amount); or

(c) as of the close of the Commitment Expiration Date if qualifying loan files are not delivered by seller in an amount equal to the Commitment Amount, less the allowable delivery variance provided for in the Commitment; or

(d) as of the close of business on such date subsequent to the Commitment Expiration Date that Countrywide determines that a loan delivered by the Commitment Expiration Date was not eligible for purchase.

**II. PAIR-OFF CALCULATION AND PAYMENT OF PAIR-OFF FEES**

The pair-off fee shall be assessed and calculated as provided:

(a) A pair-off fee shall be assessed should the Seller notify Countrywide of its election to pair-off all or a portion of the Commitment Amount prior to the Commitment Expiration Date pursuant to the provisions of paragraphs I(a) and I(b) above. In such event, the Commitment shall be amended to require Seller to deliver, and for Countrywide to purchase, the original Commitment Amount reduced by the amount paired-off by Seller (the "Amended Commitment Amount") with all other terms of the Commitment remaining unchanged. Any such amount which Seller elects to pair-off shall hereinafter be referred to as the "Amount Paired-Off By Seller."

(b) A pair-off fee shall be assessed should Seller fail to deliver qualifying loans by the Commitment Expiration Date with an aggregate principal balance equal to the Commitment Amount or the Amended Commitment Amount applicable, less the allowable delivery variance provided for in the Commitment. Any such shortfall in the delivery of qualifying loans by the Commitment Expiration Date shall be hereinafter referred to as the "Delivery Shortfall Amount."

(c) The pair-off fee to be assessed on Amounts Paired-Off by Seller and Delivery Shortfall Amounts shall be calculated by multiplying the Amount Paired-Off by Seller or Delivery Shortfall Amount, as applicable, by a percentage equal to the sum of .125% (the "Administrative Fee"), plus the positive price difference, if any, between the percentage price posted by Countrywide as of the Pair-Off Assessment Date (on the loans which were the subject of the Commitment), and the percentage price to have been paid by Countrywide pursuant to the Commitment. Countrywide's posted percentage price on the Pair-Off Assessment Date shall be determined as follows:

i. if the Pair-Off Assessment Data is the Commitment Expiration Date, or a subsequent date, pursuant to paragraph I(c) and (d) above, the posted percentage price to be used shall be that percentage price posted by Countrywide

Countrywide
CORRESPONDENT LENDING

[ILLEGIBLE]



applicable to the earliest delivery option available on such Pair-Off Assessment Date (e.g., the price for a mandatory 2 day delivery).

ii. If the Pair-Off Assessment Date is earlier than the Commitment Expiration Date pursuant to paragraphs I (a) or I (b), then the posted price to be used shall be the posted mandatory delivery price applicable to the delivery period option which expires closest to, but not after the Commitment Expiration Date. For example, if the Pair-Off Assessment Date is 40 days prior to the Commitment Expiration Date, the posted price to be used for the pair-off fee calculation shall be Countrywide's 29 day mandatory delivery price on the Pair-Off Assessment Date. (for purposes of this example, available mandatory delivery periods are: 2, 7, 15, 29, 45, 60 and 75 days.)

(d) Notwithstanding the provisions of paragraph II (c) above, the administrative fee shall be a minimum of $100.

(e) The pair-off fees assessed hereunder shall be due and payable within five (5) business days after the Pair-Off Assessment Date. In addition to Countrywide's other remedies, if pair-off fees are not paid within this time period, Seller agrees that Countrywide shall be entitled to net and offset such fees against other amounts owed by Countrywide to Seller.

AUTHORIZED AGENTS

The following person(s) have been authorized by appropriate resolution of Seller to execute this Addendum and all documents necessary and appropriate to bind Seller pursuant to the terms of this Addendum. Countrywide may rely on any instructions received from such person(s) and the same shall be fully binding on Seller until such time as Countrywide shall receive written instructions revoking the authority of such person to bind Seller to any future transactions.

1. [ILLEGIBLE]
2. [ILLEGIBLE]
3. [ILLEGIBLE]
4. 

**COUNTRYWIDE HOME LOANS, INC. ("BUYER")**

BY: 

TITLE: Senior Vice President

DATE: May 15, 2002

**("SELLER")**

BY: [ILLEGIBLE]

TITLE: [ILLEGIBLE]

DATE: [ILLEGIBLE]



***Addendum to Loan Purchase Agreement for Junior Loans***

***This Addendum, is made this 16 day of APRIL, 2002 between Countrywide Home Loans, Inc., ("Countrywide"), and HOME LOAN CENTER ("Seller"), to the Loan Purchase Agreement ("LPA") dated as of 4/16.***

1. For the purposes of the sale of loans secured by liens that are other than senior liens ("Seconds"), including home equity lines of credit ("HELOCs") and fixed rate loans secured by junior liens, all provisions of the LPA shall be applicable and remain valid, binding and in full force and effect, except as specifically modified herein. For the purposes of the sale of all Loans other than Seconds, the provisions of the LPA as they currently exist without the modifications provided herein shall remain valid, binding and in full force and effect. The provisions in this Addendum shall have no effect upon the applicability of the LPA to Loans other than Seconds.

2. Wherever in the LPA the term "note" is used, the term shall include home equity credit line agreements, and agreements of similar import. Wherever in the LPA the term "manual" is used, the term "Guide" shall be used in its stead.

3. For the purposes of HELOCs, the first sentence of Section 6.A.(3) of the LPA is amended and restated in its entirety as follows: "The full amount of the draw indicated on the Authorization to Pay (as indicated in the Guide) delivered to Lender, and no other amount, has been fully funded to the borrower."

4. Section 6.A.(9) of the LPA is amended and restated in its entirety as follows: "(9) There is in force for the Loan either (a) a paid-up valid and enforceable lenders title insurance policy on the Loan insuring Seller, its successors and assigns, issued by a Countrywide approved title company, as to the first or second priority lien position, as applicable, in full compliance with all requirements in the Guide, (b) an attorney's mortgage lien opinion, or (c) if permitted under the requirements specified in the Guide, a title guarantee or title search."

5. Section 6.A.(18) of the LPA is added to the LPA as follows: "(18) If the Loan is in a second lien position, none of the documents evidencing, securing or otherwise relating to the mortgage loan in first lien position in any way restricts or prohibits the borrower(s) from obtaining the Loan or from creating any of the liens granted as security for the Loan and the Loan does not violate any term or condition imposed by any such document."

6. Section 6.B.(1) of the LPA is hereby amended and restated in its entirety as follows: "(1) Seller is duly organized, validly existing and in good standing under the laws of its state of incorporation and is qualified and/or licensed as necessary to transact business, including the originating and selling of each Loan, including without limitation, with rates of interest, loan type and other terms provided in the Loan documents, and is in good standing in each state where property securing a Loan is located."

7. All references in Section 8 of the LPA to "servicing release premium" are replaced with "premium paid to Seller by Countrywide at the time of its purchase of the Loan".

8. The following is added as Sections 8.A.4a, and 8.B.4a and 8.C.4a: "any un-reimbursed advances made by Countrywide with respect to such Loan, including but not limited to payments authorized by the loan documents or law to protect the security interest; plus", and Sections 8.A(1), 8.B(1) and 8.C(1) are amended and restated in their entirety as follows: "The repurchase price shall be the original purchase price, less principal reduction made since the Closing Date."

**The parties hereto do hereby agree to the foregoing as of the date above first written.**

SELLER: Home Loan Center

a: California Corporation

BY: /s/ [ILLEGIBLE]
SIGNATURE

NAME: Anthony Hsieh

TITLE: CEO

COUNTRYWIDE HOME LOANS, INC.

A NEW YORK CORPORATION

BY: /s/ Catherine A. Kaiser
SIGNATURE

NAME: Catherine A. Kaiser

TITLE: Senior Vice President

[ILLEGIBLE]



***Addendum to Loan Purchase Agreement - Subprime***

***This Addendum, is made this 16 day of APRIL, 02 between Countrywide Home Loans, Inc., ("Countrywide") and Home Loan Center ("Seller") to the Loan Purchase Agreement ("LPA") dated as of 4/16.***

**1. Definitions.** The terms "Subprime Loan", "Mortgage Loan Schedule", "Commitment", "Commitment Letter", "Pool Commitment", "Spot Commitment" and "Closing Date" shall have the meanings set forth therefor in the "Guide" (as defined below).

**2. Commitment to Purchase Loans.** The following is hereby added at the end of the first sentence of Section 2: "except that for the purposes of Subprime Loans, the procedure pursuant to which Seller may commit to sell a Subprime Loan to Countrywide is detailed in the Subprime section of the Guide."

**3. Representations and Warranties.**

A. Section 6.A (7) is amended and restated in its entirety as follows: "All federal and state Laws, rules and regulations applicable to the Loan for its applicable Loan Type have been complied with, including but not limited to: the Real Estate Settlement Procedures Act, the Flood Disaster Protection Act, the Federal Consumer Credit Protection Act including the Truth-in-Lending and Equal Credit Opportunity Acts, the Federal Fair Housing Act, the Home Ownership and Equity Protection Act of 1994 and all applicable federal and state statutes or regulations governing fraud, lack of consideration, unconscionability, consumer credit transactions, consumer protection, interest or other charges, licensing and mortgage insurance."

B. Section 6.B (1) is amended and restated in its entirety as follows: "Seller is duly organized, validly existing and in good standing under the laws of its state of incorporation and is qualified and/or licensed as necessary to transact business, including the originating and selling of each Loan, including without limitation, with rates of interest, loan type and other terms provided in the Loan documents, and is in good standing in each state where property securing a Loan is located."

C. Section 6.A (18) is added as follows: "For each Subprime Loan, all information regarding such Subprime Loan in the Confirmation therefor and the Mortgage Loan Schedule attached to such Confirmation is true and correct,"

**4. Purchase Limitation.** The obligation to purchase any Subprime Loans identified in a Confirmation does not extend to any Loans that would violate any representation and warranty by Seller contained in the LPA.

**5. Purchase Price.** The purchase price of each Subprime Loan shall be calculated by multiplying the unpaid principal balance of each Subprime Loan (as adjusted for the borrower's next payment) on the Closing Date by its applicable purchase price percentage calculated in accordance with the rate sheet at the time of purchase for "Spot" Commitments, or as stated in the Commitment letter for "Pool" Commitments (the **"Purchase Price"**). If a borrower's payment is due 15 days or earlier after the Closing Date (an "Early Payment"), the portion of such payment attributable to principal shall be deducted from the unpaid principal balance for calculating the Purchase Price. Seller shall then retain borrower's Early Payment when made. The purchase proceeds paid by Countrywide to Seller shall consist of the Purchase Price plus accrued interest as of the Closing Date and less (i) any positive escrow balances, and (ii) any amounts actually owed and paid by Seller for Mortgage Loan tax service contracts and flood certification determinations which are transferable and transferred to Countrywide on the Closing Date. Without limitation on Countrywide's other rights herein, the Purchase Price is subject to change if it is determined that the loan characteristics of the Subprime Loan to be purchased differ from the characteristics represented on the Mortgage Loan Schedule

**6. Premium Recapture.** Should any Borrower prepay a Subprime Loan during the twelve month period following Countrywide's purchase of the loan, Seller shall reimburse Countywide, upon demand, some or all of the purchase price premium above par paid by Countrywide. The reimbursement shall be calculated using the following formula for "Spot" commitments and "Pool" commitments unless stated otherwise in the "Pool" commitment letter:

| | | | | | | |
|---|---|---|---|---|---|---|
| **Purchase Price Premium paid by Countrywide** | **x** | **12 minus the number of months expired since the date of purchase 12** | **–** | **Prepay Penalty** | **=** | **Premium Refund** |

**7. Seller's Repurchase Obligations.** Section 7.A (4) is amended and restated in its entirety as follows; "If the first payment due Countrywide is not received by Countrywide, whether from the borrower directly or forwarded by Seller if the Borrower has submitted the payment to Seller, within 90 days of the first payment due Countrywide. For this purpose a Borrower shall be considered to be 90 days delinquent with respect to the first monthly payment due Countrywide if the payment is not received by Countrywide

[ILLEGIBLE]



within three months of the payment due date, regardless of the number of days in the month. For example, if the due date of the first payment due to Countrywide is January 15th and the Borrower has not made his/her January 15th payment by April 14th, the Borrower shall be considered 90 days delinquent with respect to the January 15th payment. Seller shall not have the right to advance funds for or on behalf of a Borrower for any delinquent payment or to otherwise make funds available to any Borrower to avoid or cure a default by the Borrower. A payment for which Countrywide deducted funds at the time it purchased the Loan from Seller shall not be considered the first payment due Countrywide,"

**8. Repurchase Price.** For the purposes of determining the repurchase price of a Subprime Loan, Sections 8.A(4), 8.B(4) and 8.C(4) are deleted, and Sections 8.A(1), 8.B(1) and 8.C(1) are amended and restated in their entirety as follows: "The repurchase price shall be the original Purchase Price (as defined in this Addendum), less principal reduction made since the Closing Date."

**9. Sellers Guide.** All references to "Countrywide's Correspondent Lender Division Loan Purchase Program Seller's Manual" or "Manual" throughout the LPA are replaced with "Countrywide's Correspondent Lending Seller's Guide" or "Guide", respectfully. Seller acknowledges receipt of the Guide, which may be amended, modified or supplemented from time to time by Countrywide, in its sole and absolute discretion, which amendments, modifications or supplements shall be effective upon Countrywide's sending the same to Seller.

**10. Brokers.** Neither party has employed or otherwise engaged, nor shall employ, or otherwise engage, any broker or finder in connection with the negotiation or execution of the LPA, this Addendum or any Commitment, nor with respect to the transactions contemplated by this Addendum, in such a manner as to give rise to any claim, against any party, for any brokerage commission, finder's fee or similar payment. Each party shall indemnify and defend the other party for any claims for brokerage commission, finder's fee or similar payment based upon statements or agreements alleged to have been made by the indemnifying party.

**11. LPA Terms.** All provisions of the LPA shall be applicable and remain valid, binding and in full force and effect, except as specifically modified herein.

**The parties hereto do hereby agree to the foregoing as of the date above first written.**

| **SELLER:** | **COUNTRYWIDE:** |
|---|---|
| Home Loan Center | COUNTRYWIDE HOME LOANS, INC. |
| a: California Corporation | A NEW YORK CORPORATION |
| By: /s/ Anthony Hsieh | By: /s/ Catherine A. Kaiser |

| SIGNATURE | | SIGNATURE | |
|---|---|---|---|
| Name: | Anthony Hsieh | Name: | Catherine A. Kaiser |
| Title: | CEO | Title: | Senior Vice President |

**Exhibit 10.13**

**WAREHOUSING CREDIT AGREEMENT**

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LIST OF EXHIBITS

| | |
|---|---|
| **Exhibit A** | - Warehouse Borrowing Base Formula |
| **Exhibit B** | - Covenant Compliance Certificate |
| **Exhibit C-1** | - Warehouse Note (National City) |
| **Exhibit D** | - Pledge, Security and Collateral Agency Agreement |
| **Exhibit E** | - Form of Swing Note |
| **Exhibit G** | - Form of Additional Lender Agreement |
| **Exhibit H** | - Form of Commitment Schedule and Allocation Notice |
| **Exhibit I** | - Form of Request for Warehouse Advance |
| **Exhibit J** | - Authorized Signer Letter |

SCHEDULES

| | |
|---|---|
| **Schedule 1.1** | - Approved Investor List |
| **Schedule 2.1** | - Warehouse Pro Rata Shares and Warehouse Line Commitments |
| **Schedule 6.1** | - Information Relating to Company Representations and Warranties |

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**WAREHOUSING CREDIT AGREEMENT**

**THIS WAREHOUSING CREDIT AGREEMENT** (this "Credit Agreement") is made and entered into as of this 26th day of November, 2007, by and among (i) **HOME LOAN CENTER, INC. D/B/A LENDINGTREE LOANS,** a California corporation with its principal place of business located at 163 Technology Drive, Irvine, California 92618 (the "Company"), (ii) **NATIONAL CITY BANK,** a national banking association, with a place of business located at 101 South Fifth Street, Louisville, Kentucky 40202 ("National City" or the "Bank"), and (iii) **NATIONAL CITY BANK,** a national banking association, with a place of business located at 101 South Fifth Street, Louisville, Kentucky 40202, its capacity as Agent for the hereinafter defined Banks (in such capacity, the "Agent").

P R E L I M I N A R Y  S T A T E M E N T

WHEREAS, the Company desires to obtain from the Bank a warehouse line of credit in the original maximum principal amount as of the date hereof of Fifty Million Dollars ($50,000,000.00) (the "Warehouse Line"), subject to the terms and conditions set forth in this Credit Agreement.

WHEREAS, the Bank desires to establish the Warehouse Line in favor of the Company upon the terms and conditions set forth in this Credit Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein contained, the parties hereto agree as follows:

NOW, THEREFORE, in consideration of the foregoing premises and the mutual agreements herein contained, the parties hereto agree as follows:

**ARTICLE 1**

DEFINITIONS AND ACCOUNTING TERMS

1.1 Definitions. In addition to the definitions set forth in the introduction and the preliminary statement of this Credit Agreement, the following terms shall have the meanings set forth below (such meanings to be equally applicable to both the singular and plural form of the terms defined):

"Additional Lender Agreement" shall have the meaning assigned to such term in **Section 11.1** hereof.

"Adjustment Date" shall have the meaning assigned to such term in **Section 11.1** hereof.

"Advance" shall mean, as applicable, a Warehouse Advance, a Swing Advance or an Excess Advance.

"Affiliate" shall mean (i) any Person that, directly or indirectly, is in control of, is controlled by, or is under common control with, the Company, including without limitation LendingTree or (ii) any Person who is a director or officer of the Company or of any Person described in clause

(i) above. For purposes of this definition, control of a Person shall mean the power, direct or indirect, to vote ten percent (10%) or more of the securities having ordinary voting power for the election of directors of such Person or to direct the management or policies of such Person, whether through the ownership of voting securities, or otherwise.

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"Aged Loan" shall mean, as of any date:

(a) Any Loan, which is not a Wet Loan, which has been pledged as Collateral for more than ninety (90) calendar days (calculated from the date upon which the Advance relating to such Loan is made hereunder); and

(b) Any Wet Loan which has been pledged as Collateral for more than ten (10) calendar days (calculated from the date upon which the Advance relating to such Loan is made hereunder).

"Agent" shall have the meaning assigned to such term in the introduction of this Credit Agreement, and includes any successor Agent under **Section 10.12** hereof.

"Aggregate Amount Due" shall have the meaning assigned to such term in **Section 9.18** hereof.

"Aggregate Outstanding Balance" shall mean, as of any particular date, the sum of the Aggregate Outstanding Warehouse Balance plus the Aggregate Outstanding Excess Balance.

"Aggregate Outstanding Excess Balance" shall mean, as of any particular date, the aggregate unpaid principal balance of all Excess Advances, if any.

"Aggregate Outstanding Warehouse Balance" shall mean, as of any particular date, the aggregate unpaid principal balance of all Warehouse Advances and Swing Advances, if any.

"Alt A Advance" shall mean an Advance requested to fund a Alt A Loan.

"Alt A Advance Sublimit" shall mean an amount equal to ten percent (10%) of the Total Warehouse Line Commitment; provided, however, not more than five percent (5%) of the Total Warehouse Line Commitment may be used for Advances supported by Alt A Loans satisfying parts (i), (ii) and (iii) (B) of the definition of Alt A Loan set forth herein.

"Alt A Loan" shall mean a Loan: (i) the entire interest of which is owned by the Company and which is secured by a First Trust Deed, (ii) which is not a Conforming Loan, and (iii) either (A)(1) such Loan shall have a FICO Score equal to or in excess of six hundred sixty (660), (2) such Loan shall be a "Limited Documentation Mortgage Loan", and (3) such Loan shall have a loan-to-value ratio at origination of not more than ninety-five percent (95%), or (B)(1) such Loan shall have a FICO Score equal to or in excess of six hundred twenty (620) but less than or equal to six hundred fifty-nine (659), and (2) such Loan shall have a loan-to-value ratio at origination of not more than ninety percent (90%).

"Applicant Financial Institution" shall have the meaning assigned to such term in **Section 11.1** hereof.

"Appraised Value" shall mean, with respect to an interest in real estate, the then current fair market value thereof as of a recent date satisfactory to the Agent, as determined by the FHA or the VA, if applicable, or, if there is no such determination, then as determined in accordance with accepted methods of appraising by a qualified appraiser who is a member of the American Institute of Real Estate Appraisers or other group of professional appraisers and who is reasonably acceptable to the Agent.

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"Approved Investors" shall mean the financial institutions approved for the shipment of Eligible Collateral by the Agent and listed on **Schedule** 1.1 attached hereto and made a part hereof by this reference, which listing shall include the address of each such Approved Investor, the name of the contact person for such Approved Investor and the telephone number of such contact person. The Agent may from time to time, at its sole and absolute discretion, upon the written request of the Company, agree to add financial institutions to the list of Approved Investors provided that a financial institution shall not be deemed to be an Approved Investor until such time as the Agent has notified the Company that such financial institution has been approved by the Agent. The Agent may from time to time, at its sole and absolute discretion, remove any financial institution from the list set forth in **Schedule** 1.1 by giving the Company prior notice of such removal. From and after the Company's receipt of notice removing an investor from the Approved Investor list, the Company shall not enter into any additional commitments for delivery of Loans for purchase by that investor, which will be the subject of an Advance or a Firm Commitment hereunder; provided, however, that the Company may deliver to an investor so removed from the Approved Investor list those Loans, which are the subject of an Advance hereunder, and only those Loans, which are scheduled to be, or in the process of being, delivered to that investor as of the date Company's receipt of such notice from the Agent.

"Average Monthly Available Deposits" shall mean the monthly average of free collected balances maintained in non-interest bearing accounts in the name the Company (or held by the Company in trust for third parties) with a Bank, after deducting any unpaid service charges or float required by such Bank under its normal practices to compensate such Bank for the maintenance of such accounts and taking into consideration reserve requirements and the other costs of complying with applicable law (including but not limited to any FDIC premium applicable to such accounts).

"Balance Funded Bank" shall mean National City Bank.

"Bank" and "Banks" shall have the meaning assigned to such terms in the introduction to this Credit Agreement and shall include each of National City and any other Applicant Financial which is added as a Bank hereunder by the Company and the Agent.

"Bankruptcy Code" shall mean Title 11 of the United States Code entitled "Bankruptcy" as now and hereafter in effect, or any successor statute.

"Billing Statement" shall have the meaning assigned to such term in **Section 2.9** hereof.

"Borrowing Base Report" shall mean the report prepared by the Agent to calculate the Warehouse Borrowing Base in accordance with the formula set forth in **Exhibit A** to this Credit Agreement.

"Business Day" shall mean for all purposes, any day excluding Saturday, Sunday and any day which is (a) a legal holiday under the laws of the state in which the Agent maintains its office for purposes of performing its obligations under this Credit Agreement as set forth on the signature pages of this Credit Agreement, or (b) a day on which (i) banking institutions located in such state are authorized or required by law or other governmental action to close and/or (ii) the United States Federal Reserve Bank is closed.

"Closing Date" shall mean the date on which the initial Advance is made to the Company and the conditions set forth in **Article** 4 hereof are satisfied.

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"Collateral" shall mean the assets of the Company, as more particularly described in **Section** 2.1 of the Security Agreement in which the Agent, for the benefit of the Banks in proportion to their Pro Rata Shares, has a Security Interest.

"Collateral Documents" shall mean the Security Agreement, any Intercreditor Agreement executed pursuant to **Section 7.2(a)** of this Credit Agreement and all other agreements, instruments, documents, and other papers creating, evidencing, or representing the Collateral or the Security Interests therein, each as may be amended, modified, supplemented and restated from time to time.

"Collateral Handling Fees" shall have the meaning assigned to such term in **Section 2.14(b)** hereof.

"Collateral Mortgage Documents" shall have the meaning assigned to such term in the Security Agreement.

"Collateral Proceeds Account" shall mean the "no access" deposit account maintained by the Agent at the main office of the Agent in the name of the Agent for the benefit of the Company and to which the Company shall have no access, for the purposes of receiving the proceeds of the Collateral and other funds as provided in this Credit Agreement and the Security Agreement.

"Collateral Value" shall mean as of any date:

(a) With respect to a Loan which constitutes Eligible Collateral on such date, and which is not an Alt A Loan, a Jumbo Loan, a HELOC Loan or a Second Trust Deed Loan, ninety-nine percent (99%) of the lesser of (i) the face amount of the promissory note evidencing such Loan, or (ii) the purchase price under the Commitment to which the applicable Loan has been assigned;

(b) With respect to a Loan which constitutes Eligible Collateral on such date, and which is a Jumbo Loan, ninety-seven percent (97%) of the lesser of (i) the purchase price under the Commitment to which such Loan has been assigned, or (ii) the face amount of the promissory note evidencing such Loan;

(c) With respect to a Loan which constitutes Eligible Collateral on such date, and which is a HELOC Loan or Second Trust Deed Loan, ninety-five percent (95%) of the lesser of (i) the unpaid principal balance of the applicable Loan, or (ii) the purchase price under the Commitment to which the applicable Loan has been assigned; and

(d) With respect to a Loan which constitutes Eligible Collateral on such date, and which is an Alt A Loan, ninety-six percent (96%) of the lesser of (i) the purchase price under the Commitment to which such Loan has been assigned, or (ii) the face amount of the promissory note evidencing such Loan.

Notwithstanding anything contained in (a), (b), (c) or (d) to the contrary:

A. The Collateral Value of all Wet Loans shall not exceed, in the aggregate, the Wet Advance Sublimit;

B. The Collateral Value of all Jumbo Loans shall not exceed, in the aggregate, the Jumbo Advance Sublimit;

C. The Collateral Value of all HELOC Loans and Second Trust Deed Loans



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shall not exceed, in the aggregate, the HELOC/Second Trust Deed Advance Sublimit;

D. The Collateral Value of all Alt A Loans shall not exceed, in the aggregate, the Alt A Advance Sublimit;

E. Each Wet Loan in respect to which the Company shall not have delivered all of the Collateral Documents to the Agent within the number of days required by the Security Agreement, shall have a Collateral Value of zero;

F. Each Wet Loan which the Agent determines has not been funded by the Company on the date the Advance in respect of such Wet Loan is made by the Banks to the Company, shall have a Collateral Value of zero;

G. If the Agent shall reasonably determine that the Collateral Value otherwise assigned to an item of Eligible Collateral does not accurately reflect the value thereof, then, upon notice to the Company, the Agent may mark an item of collateral to market at any time to determine the fair market value thereof; provided, however, in no event shall any mark to market with respect to any item of Eligible Collateral under this subsection result in such item of Eligible Collateral having a Collateral Value higher than such item would otherwise have;

H. In the event that a Loan shall have been delivered by the Agent to a purchaser under a Commitment as provided in the Security Agreement, or in the event that such Loan was delivered by the Agent to an Approved Investor and more than the maximum number of days allowed by the Security Agreement shall have elapsed since the date of such delivery and no purchase has taken place or the proceeds thereof have not been received by the Agent, such Loan shall have a Collateral Value of zero;

I. All Aged Loans which do not constitute Eligible Collateral shall have a Collateral Value of zero;

J. All Loans which are under Trust Receipt in accordance with the terms of the Security Agreement which are not returned to the Agent within the required number of days specified in the Security Agreement, shall have a Collateral Value of zero;

K. The Collateral Value of each HELOC Loan and Second Trust Deed Loan shall not exceed Three Hundred Fifty Thousand Dollars ($350,000.00); and

L. The Collateral Value of all Loans which are under Trust Receipt in accordance with the terms of the Security Agreement shall not exceed, in the aggregate, Two Million Five Hundred Thousand Dollars ($2,500,000.00).

"Commitment" shall mean a Firm Commitment or a Standby Commitment.

"Commitment Fee" shall have the meaning assigned to such term in **Section 2.14(b)** hereof.

"Commitment Pro Rata Share" shall mean a Bank's Warehouse Commitment Pro Rata Share.



"Commitment Schedule and Allocation Notice" shall mean a notice in the form of the Commitment Schedule and Allocation Notice attached hereto as Exhibit H and made a part hereof by this reference.

"Company" shall have the meaning assigned to that term in the introduction of this Credit Agreement.

"Confirmation of Electronic Request for Advance" shall have the meaning ascribed to such term in Section **2.4(a)** hereof.

"Conforming Loan" shall mean a Loan secured by a Conforming Mortgage or Government Mortgage, and which may be a "Stated Asset Loan", "Stated Income Loan" or "Option ARM Loan".

"Conforming Mortgage" shall mean a First Trust Deed securing a Loan which is not an Alt A Loan and which meets all Fannie Mae or FHLMC underwriting standards and received a favorable eligibility response from any of Fannie Mae Desktop Underwriter, FHLMC Loan Prospector or other proprietary underwriting system, as may be approved by the Agent in its sole discretion.

"Covenant Compliance Certificate" shall mean the certificate to be furnished to the Agent on behalf of the Banks in accordance with Sections **4.2(a)** and **7.3(b)** hereof and in the form of Exhibit B attached to this Credit Agreement and made a part hereof by this reference, together with a spreadsheet or other working papers showing the calculations used to prepare such certificate.

"Credit Agreement" shall mean this Warehousing Credit Agreement, as amended, modified, supplemented and restated from time to time.

"Default Rate" means, upon the occurrence and during the continuation of any Event of Default with respect to the then or thereafter outstanding principal balance of any Note, a rate per annum equal to the sum of three percent (3%) per annum plus the per annum rate of interest then applicable to such Note pursuant to Section 2.8 hereof.

"Document Custodian" shall mean National City acting as the custodian of the Loans (or such other custodian acceptable to the Company and the Banks).

"Dry Loan" shall mean a Loan the Collateral Mortgage Documents for which have been delivered to the Agent and the entire interest of which Loan is owned by the Company.

"Electronic Request for Advance" shall mean an electronic data transmission made in such manner and in accordance with such procedures as may be established by the Agent from time to time.

"Electronic Tracking Agreement" shall mean an Electronic Tracking Agreement by and among the Company, the Agent, MERS MERSCORP, in form acceptable to Agent in its sole discretion.

"Electronic Transmittals" shall mean the electronic delivery to the Agent of collateral data and collateral transaction data in the format prescribed by the Agent.

"Eligible Collateral" shall mean, collectively and as of any date, [A] each Loan (i) which is a Conforming Loan, Government Loan, a Wet Loan, a Jumbo Loan, a HELOC Loan, a Second Trust Deed Loan or an Alt A Loan, (ii) which is not an Aged Loan, (iii) which constitutes Collateral, (iv) which no



default has occurred and is continuing on such Loan, (v) which is pledged as Collateral within thirty (30) calendar days of origination, purchase or conversation, (vi) which has no more than one (1) principal/interest payment past due, (vii) which has not been under Trust Receipt in accordance with the terms of the Security Agreement for more than the maximum number of days allowed under the Security Agreement, (viii) which has not been shipped to an

Approved Investor for more than the maximum number of days allowed by the Security Agreement and no purchase proceeds have been received by the Agent, (ix) in respect of which the loan-level representations, warranties and agreements contained in the Credit Agreement and the Security Agreement are true and correct, (x) which is subject to a Firm Commitment or Standby Commitment, and (xi) in the case of a HELOC Loan or Second Trust Deed Loan, such Loan has not been determined by the Agent in its sole and absolute judgment and discretion to be ineligible for warehousing under the Warehouse Line and/or any particular Sublimit thereof as a result of the Agent's evaluation of market conditions or other market factors without regard to whether the other specific definitional parameters for Eligible Collateral set forth in this Agreement have been met, any such determination by the Agent of ineligibility to be effective immediately upon the Agent's determination thereof, with written notice to be provided to the Company as soon as practicable thereafter; and [B] each Loan (i) that is a Discretionary Loan (as defined in **Section** 9.20 hereof) without duplication, (ii) that constitutes Collateral, and (iii) that is not subject to any lien or security interest other than that granted under the Credit Agreement and the Security Agreement. Unless specifically provided for herein, "Stated Asset Loans", "Stated Income Loans", and "Option ARM Loans" are not permitted to be funded under the Warehouse Line and shall not constitute Eligible Collateral under this Credit Agreement.

"ERISA" shall have the meaning assigned to such term in **Section** 6.12 hereof.

"Event of Default" shall mean any of the events set forth in **Section 8.1** hereof.

"Excess Advances" shall mean the cash amount advanced under the terms of **Section 2.2(b)** hereof.

"Excess Pro Rata Share" shall mean the entire outstanding principal amount of the Excess Advances, all as held by the Agent.

"Fannie Mae" shall mean the Federal National Mortgage Association, or any successor thereto.

"FHA" shall mean the Federal Housing Administration, or any successor thereto.

"FHLMC" shall mean the Federal Home Loan Mortgage Corporation, or any successor thereto.

"FICO Score" shall mean the credit score obtained by using the credit score methodology provided by Fair Isaac Corporation.

"Firm Commitment" shall mean a commitment or pre-approval for a commitment from an Approved Investor or other security dealer reasonably satisfactory to the Agent, to purchase from the Company a Loan or Loans under which commitment the Company is obligated to sell such Loan or Loans. Notwithstanding anything contained herein to the contrary, any Loan which has been underwritten in accordance with the underwriting guidelines of a substantial and reputable lending institution, investor, or security dealer, reasonably satisfactory to Agent, shall be deemed to be subject to a "Firm Commitment" for all purposes hereunder.



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"First Trust Deed" shall mean a mortgage, deed of trust, or other security deed in land and other interests in real property (including, without limitation, leasehold interests) and the structures, improvements, fixtures, and buildings located thereon, or in other rights and interests in real property, which secures a Loan and, which mortgage, deed of trust, or other security deed is subject to no prior or superior mortgage, deed of trust or other security deed in the land and other interests in real property encumbered by such mortgage, deed of trust, or other security deed.

"Funding Date" shall have the meaning assigned to such term in Section **2.4(c)** hereof.

"GAAP" shall mean those generally accepted accounting principles set forth in the opinions and pronouncements of the Financial Accounting Standards Board and its predecessors and the American Institute of Certified Public Accountants or those generally accepted principles of accounting which have other substantial authoritative support and are applicable in the circumstances as of the date of application, as such principles are from time to time supplemented and amended, each as consistently applied.

"GAAP Net Worth" shall mean, as of any date of determination, the Company's net worth as determined in accordance with GAAP.

"GNMA" shall mean the Government National Mortgage Association, or any successor thereto.

"Government Loan" shall mean a Loan secured by a Government Mortgage.

"Government Mortgage" shall mean a First Mortgage securing a Loan which is eligible to be (i) insured by FHA, or (ii) guaranteed by VA or GNMA.

"Hedging Program" shall mean any program maintained by the Company to hedge certain interest rate risks associated with its mortgage banking business.

"HELOC Loan" shall mean a Loan secured by a Home Equity Mortgage, the entire interest of which is owned by the Company; provided, however, that (a) such Loan shall be subject to a Firm Commitment, (b) such Loan shall have a FICO Score equal to or in excess of six hundred sixty (660), and (c) such Loan shall have a combined loan-to-value ratio at origination of not more than ninety percent (90%).

"HELOC/Second Trust Deed Advance" shall mean an Advance requested to fund a HELOC Loan or Second Trust Deed Loan.

"HELOC/Second Trust Deed Advance Sublimit" shall mean an amount equal to ten percent (10%) of the Total Warehouse Line Commitment.

"Home Equity Mortgage" shall mean a mortgage, deed of trust or other security deed in land and other interests in real property (including, without limitation, leasehold interests) and the structures, improvements, fixtures and buildings located thereon, and in other rights and interests in real property, which secures a Loan, and which mortgage, deed of trust or other security deed which may be subject to a prior or superior mortgage, deed of trust or other security deed in the land and other interest in real property encumbered by such mortgage, deed of trust or other security deed.

“Jumbo Advance” shall mean an Advance requested to fund a Jumbo Loan.



“Jumbo Advance Sublimit” shall mean an amount equal to twenty-five percent (25%) of the Total Warehouse Line Commitment.

“Jumbo Loan” shall mean a Loan, which is not an Alt A Loan, HELOC Loan or Second Trust Deed Loan, the amount of which exceeds Fannie Mae or FHLMC guidelines for maximum eligible amount, but which Loan shall not have a face amount in excess of One Million Dollars ($1,000,000 00), except as may be otherwise pre-approved by the Agent in writing in its sole discretion after the Company has provided the Agent with written notice thereof together with a copy of the related Commitment from an Approved Investor and the applicable appraisal at least two (2) Business Days prior to the funding thereof, and the entire interest of which is owned by the Company and which is secured by a First Trust Deed covering a completed one-to-four family residential property which is subject to a Firm Commitment, provided, that: (i) such Loan shall have a FICO Score equal to or in excess of six hundred sixty (660), and (ii) such Loan shall have a combined loan-to-value ratio at origination of not more than ninety percent (90%).

“LendingTree” shall mean LendingTree, LLC, a North Carolina limited liability company with principal office mailing address of 11115 Rushmore Drive, Charlotte, North Carolina 28277, and the sole stockholder of the Company.

“LIBOR” shall mean the per annum rate equal to the thirty (30) day average of the London Interbank Offered Rate, as published by Bloomberg Financial Services or a similar service selected by the Agent during each monthly billing cycle, or as otherwise determined in good faith by the Agent.

“Liquid Assets” shall mean the sum of (i) cash and cash equivalents, plus (ii) pledged cash or security deposits with National City-Bank or other lenders, plus (iii) loans held for sale minus the sum of (y) the outstanding balance of all mortgage warehouse lines of credit plus (z) drafts payable.

“Loan” shall mean a residential real estate mortgage loan purchased, refinanced or made by the Company, evidenced by a promissory note, and secured by a mortgage or deed of trust or similar instrument creating an enforceable first or second lien upon a one-to-four family residential property which was financed with the proceeds of such loan.

“Loan Documents” shall mean, collectively, this Credit Agreement, the Warehouse Notes, the Swing Note, the Security Agreement, the other Collateral Documents and any and all other documents executed in connection therewith, including, without limitation, any inter-creditor agreements as may be required by the Agent, each as the same may be amended, modified, supplemented and restated from time to time.

“Maturity Date” shall mean October 31, 2008; provided that the Agent and the Banks shall have the option, in their absolute discretion, either one time or from time to time, to extend the Maturity Date for an additional period not to exceed three hundred and sixty four (364) days. If the Maturity Date is extended, the term Maturity Date shall mean the date of expiration of such extension.

“MERS” shall mean the Mortgage Electronic Registration System, Inc., or any successor thereto.

“NIERSCORP” shall mean MERSCORP, Inc., or any successor thereto.

“MERS Loan” shall mean any Loan made by the Company that is secured by a MERS



Mortgage.

“MERS Member” shall mean any entity which is a member of MERS, in good standing and in compliance with all rules, regulations, procedures and requirements set forth by MERS, including, but not limited to the payment of membership dues.

“MERS Mortgage” shall mean any First Trust Deed or Second Trust Deed registered by the Company on the MERS System.

“MERS System” shall mean the Mortgage Electronic Registration System established by MERS.

“Notes” shall mean, collectively, the Warehouse Notes and the Swing Note.

“Obligor” shall mean a person or other entity who now or hereafter is or becomes liable to the Company with respect to any of the Collateral.

“origination” shall mean with respect to any Loan, the date of original funding of such Loan.

“Person” shall mean any individual, sole proprietorship, partnership, joint venture, trust, unincorporated organization, association, corporation, limited liability company, institution, entity, party, or government (whether national, federal, state, county, city, municipal, or otherwise, and including, without limitation, any instrumentality, division, agency, body, or department thereof), whether acting in an individual, fiduciary, or other capacity, including, without limitation, any Affiliate.

“Plan” shall have the meaning assigned to such term in **Section 6.12** hereof.

“Pledged Loan” shall mean any Loan made by the Company with respect to which the Banks have made an Advance, or with respect to which the Company has requested an Advance unless such Request for Advance is rejected by the Agent, or which is now or hereafter at any time pledged, assigned, transferred, or conveyed, or a security interest therein granted, to the Agent for the benefit of the Banks. If the context so requires, “Pledged Loan” shall also mean any and all instruments and documents which evidence, secure or relate to any such Loan.

"Prevailing Time" shall mean the prevailing time in Louisville, Kentucky.

"Pro Rata Share" shall mean, as appropriate, a Bank's Warehouse Pro Rata Share or Excess Pro Rata Share.

"Procedures Manual" shall mean those certain operating procedures published by the Agent from time to time, a copy of which was provided to the Company in connection with this Credit Agreement.

"Regulation D" shall mean Regulation D of the Board of Governors of the Federal Reserve System as in effect from time to time.

"Repayment Date" shall have the meaning assigned to such term in **Section 2.4(c)** hereof.

"Request for Advance" shall mean a Request for Warehouse Advance or a Request for Swing Advance, as appropriate.



"Request for Swing Advance" shall mean a written request for a Swing Advance by the Company in a form acceptable to the Agent.

"Request for Warehouse Advance" shall mean a written request for an Advance by the Company in a form acceptable to the Agent.

"Requisite Banks" shall mean either (i) when an Event of Default does not exist, Banks holding more than sixty-six and sixty-seven hundredths of one percent (66.67%) of the Total Warehouse Line Commitment, or (ii) when an Event of Default does exist, Banks holding more than sixty-six and sixty-seven hundredths of one percent (66.67%) of the Aggregate Outstanding Warehouse Balance, as of the date of determination of the Requisite Banks.

"Second Trust Deed" shall mean a mortgage, deed of trust or other security deed in land and other interests in real property (including, without limitation, leasehold interests) and the structures, improvements, fixtures and buildings located thereon, or in other rights and interests in real property which mortgage, deed of trust or other security deed is subject to only one prior or superior mortgage, deed of trust or other security deed in the land and other interests in real property encumbered by such mortgage, deed of trust, or other security deed.

"Second Trust Deed Loan" shall mean a Loan, the entire interest of which is owned by the Company and which is secured by a Second Trust Deed; provided, however, that (a) such Loan shall be subject to a Firm Commitment, (b) such Loan shall have a FICO Score equal to or in excess of six hundred sixty (660), and (c) such Loan shall have a combined loan-to-value ratio at origination of not more than ninety percent (90%).

"Secured Obligations" shall mean all obligations, liabilities, and indebtedness of the Company to the Agent and the Banks, due or to become due, direct or indirect, absolute or contingent, joint or several, now existing or at any time hereafter arising, incurred under the Credit Agreement, this Security Agreement, the Notes, any of the other Loan Documents, any other credit agreement or note hereafter executed and delivered by the Company in favor of the Agent and/or the Banks, and any amendment to any of the foregoing, or otherwise, and any amendment, renewal, or extension of any such obligations, liabilities, and indebtedness, including without limitation all interest, fees, charges, expenses, and reasonable attorneys' fees, to the extent permitted by law, incurred to enforce the Agent's or the Banks' rights against the Company under this Security Agreement or otherwise, or arising out of the defense or prosecution of any matter growing out of this Security Agreement or any of the other foregoing documents, agreements and instruments referred to above or any security interest granted herein.

"Security Agreement" shall mean that certain Pledge, Security and Collateral Agency Agreement of even date herewith by and among the Company, the Banks and the Agent and substantially in the form of **Exhibit** D attached to this Credit Agreement and made a part hereof by this reference, as amended, modified, supplemented and restated from time to time.

"Security Interest" shall mean every security interest, pledge, lien, hypothecation, and other encumbrance on or in any of those assets of the Company now or hereafter granted by the Company to the Agent (for the ratable benefit of the Banks) or any Bank, whether pursuant to this Credit Agreement, the Security Agreement, or otherwise.



"Standby Commitment" shall mean a commitment from an Approved Investor or other security dealer reasonably satisfactory to the Agent, to purchase from the Company within a specified time period a Loan or Loans, in an aggregate principal amount which conforms to the criteria set forth therein, under which commitment the Company has the right, but is not obligated, to sell such Loan or Loans.

"Swing Advance" shall mean the cash amount, if any, advanced under the Warehouse Line by the Agent to or for the account of the Company under the terms of Section **2.2(a)** of this Credit Agreement.

"Swing Advance Limitations" shall have the meaning assigned to such term in Section **2.2(a)** hereof.

"Swing Line" shall mean the swing line of credit established by the Agent pursuant to Article 2 hereof.

"Swing Note" shall mean that certain Swing Promissory Note to be made by the Company, payable to the order of the Agent, upon the addition of an Applicant Financial Institution as a "Bank" hereunder, and in a maximum principle amount to be determined by the Agent and the Company, a form of which is annexed hereto as Exhibit E, as the same may hereafter be amended, modified, renewed, replaced and/or restated from time to time, and which shall evidence all Swing Advances, if any.

"Tangible Net Worth" shall mean, as of any date of determination, GAAP Net Worth minus the aggregate net book value of (i) all intangible assets (as determined in accordance with GAAP) of the Company including, without limitation, capitalized purchased insurance renewals, goodwill, trademarks, trade names, service marks, copyrights, patents, licenses, franchises and unamortized debt discount and expenses, (ii) all notes and accounts receivable due from officers, stockholders, employees or other Affiliates of the Company, (iii) subscribed stock, and (iv) any other assets Company deemed unacceptable by the Agent.

"Termination Date" shall mean the earlier of (i) the Maturity Date, or **(ii)** the date this Credit Agreement is terminated pursuant to Section **8.3** hereof.

"Total Indebtedness" shall mean, as of the date of any determination, all indebtedness of the Company, as determined in accordance with GAAP, including, without limitation, all unpaid Secured Obligations, all amounts due under all capital leases, all accounts and trade payables, and all other liabilities and obligations Company, including without limitation, any guarantees made by the Company to or for the benefit of any Affiliate or any other Person.

"Total Warehouse Line Commitment" shall mean the total aggregate principal amount of all Warehouse Line Commitments as determined from time to time in accordance with the provisions of Article **2** and Article **11** of this Credit Agreement, and shall mean the principal amount of Fifty Million Dollars ($50,000,000.00) subject to adjustment as provided in Section **11.1** hereof.

"Trust Receipt" shall have the meaning ascribed to such term in the Security Agreement.

"Unmatured Event of Default" shall mean any event which, with the lapse of time, or with notice to the Company, or both, would constitute an Event of Default.

"VA" shall mean the Veterans Administration, or any successor thereto.



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"Warehouse Advance" shall mean the cash amount advanced under the Warehouse Line by the Banks to or for the account of the Company under the terms of **Section 2.1** of this Credit Agreement.

"Warehouse Borrowing Base" shall mean that amount which is determined according to the formula set forth in **Exhibit A** to this Credit Agreement and made a part hereof by this reference.

"Warehouse Commitment" or "Warehouse Commitments" shall mean the Commitment of each Bank to maintain or make Warehouse Advances as set forth in **Section 2.1** hereof.

"Warehouse Commitment Pro Rata Share" shall mean with respect to each Bank's pro rata share of the Total Warehouse Line Commitment, the percentage set forth opposite that Bank's name on **Schedule 2.1** to this Credit Agreement, as the same shall be amended from time to time as provided herein.

"Warehouse Line" shall mean the line of credit in the maximum principal amount of Fifty Million Dollars ($50,000,000.00) established by the Agent and the Banks in favor of the Company under **Article 2** of this Credit Agreement, subject to adjustment as provided in **Section 11.1** hereof.

"Warehouse Line Commitment" or "Warehouse Line Commitments" shall mean the commitment of each Bank to maintain or make Warehouse Advances as set forth in **Section 2.1** hereof.

"Warehouse Notes" shall mean, collectively, (i) that certain Warehouse Promissory Note dated as of November 26, 2007, made by the Company, payable to the order of National City, in the face principal amount of Fifty Million Dollars ($50,000,000.00) a form of which is attached hereto as **Exhibit C-1,** as the same may hereafter be amended, modified, renewed, replaced and/or restated from time to time, and (ii) when executed and delivered, any such additional Warehouse Promissory Note substantially in the form of **Exhibit C-1** attached hereto, made by the Company, payable to the order of any respective Applicant Financial Institution as shall be added as a "Bank" hereunder and in the face principal amount of such Applicant Financial Institution's Warehouse Line Commitment, as the same may thereafter be amended, modified, renewed, replaced and/or restated from time to time.

"Warehouse Pro Rata Share" shall mean, with respect to each Bank, the percentage calculated by dividing the average monthly sum of the Aggregate Outstanding Warehouse Balance plus the Aggregate Outstanding Excess Balance attributable to such Bank by the average monthly total of the Aggregate Outstanding Warehouse Balance plus the Aggregate Outstanding Excess Balance.

"Wet Advance" shall mean an Advance requested to fund a Wet Loan.

"Wet Advance Sublimit" shall mean an amount equal to forty percent (40%) of the Total Warehouse Line Commitment.

"Wet Loan" shall mean a Loan the entire interest of which is owned by the Company and which is a Loan secured by a First or Second Trust Deed covering a one-to-four family residential property which is subject to a Firm Commitment or Standby Commitment for which the Collateral Mortgage Documents relating to such Loan have not been delivered to the Agent within the maximum number of days allowed by the Security Agreement.

**1.2** Accounting Terms. All accounting terms, except as their meanings may be modified by this Credit Agreement, shall have the meanings given them in accordance with GAAP.



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## ARTICLE 2

## THE WAREHOUSE LINE

2.1 Warehouse Advances. Each Bank severally agrees to lend to the Company, and the Company agrees to borrow from each Bank, on the terms and conditions of this Credit Agreement, an aggregate amount not exceeding such Bank's respective Warehouse Line Commitment, and the aggregate amount of all such Warehouse Line Commitments shall equal the Total Warehouse Line Commitment; provided, however the Total Warehouse Line Commitment includes a Wet Advance Sublimit, a Jumbo Advance Sublimit, a HELOC/Second Trust Deed Advance Sublimit and an Alt A Advance Sublimit.

Subject to the terms and conditions contained herein, Warehouse Advances may be repaid and reborrowed until the Termination Date. Each Bank's commitment to make Warehouse Advances under this **Section 2.1** is herein called its "Warehouse Line Commitment" and is set forth opposite its name in **Schedule 2.1** attached to this Credit Agreement and the aggregate maximum amount of the Warehouse Line Commitments is herein called the "Total Warehouse Line Commitment". The Total Warehouse Line Commitment is equal to Fifty Million Dollars ($50,000,000.00), as may be increased by the Company and the Agent in their sole, joint discretion by adding one or more Applicant Financial Institutions as a **"Bank"** or "Banks" hereunder and as may be decreased in accordance with the requirements of **Section 11.1** hereof. The principal amount set forth above (as the same may be increased pursuant to the terms hereof) shall be available to the Company as Warehouse Advances, Excess Advances and Swing Advances, subject to the terms and conditions hereof, at such times prior to the Termination Date and in such sums, as the Company may request.

Notwithstanding the foregoing, the Banks shall not be obligated to make a Warehouse Advance which, (a) when added to the sum of the Aggregate Outstanding Warehouse Balance plus the Aggregate Outstanding Excess Balance, would cause the Aggregate Outstanding Warehouse Balance plus the Aggregate Outstanding Excess Balance to exceed the Warehouse Borrowing Base at such time; (b) when added to the sum of the Aggregate Outstanding Warehouse Balance plus the Aggregate Outstanding Excess Balance, would cause or result in a violation of the financial covenants set forth in **Article 5** hereof; (c) if such Warehouse Advance is a Wet Advance, when added to the aggregate outstanding balance of all Wet Advances would cause or result in a violation of the Wet Advance Sublimit; (d) if such Warehouse Advance is a Jumbo Advance, when added to the aggregate outstanding of all Jumbo Advances would cause or result in a violation of the Jumbo Advance Sublimit; (e) if such Warehouse Advance is an HELOC/Second Trust Deed Advance, when added to the aggregate outstanding balance of all HELOC Advances and Second Trust Deed Advances would cause or result in a violation of the HELOC/Second Trust Deed Advance Sublimit; (f) if such Warehouse Advance is an Alt A Advance, when added to the aggregate outstanding balance of all Alt A Advances would cause or result in a violation of the Alt A Advance Sublimit; or (g) if such Warehouse Advance would cause or result in the Aggregate Outstanding Warehouse Balance plus the Aggregate Outstanding Excess Balance to exceed the Total Warehouse Line Commitment. The Agent and the Banks shall not be obligated to honor any Request for Advance if the disbursement of funds thereunder would occur on or after the Termination Date, or if an Event of Default has occurred and is continuing or if such disbursement would cause or result in an Event of Default or an Unmatured Event of Default.

2.2 Swing Advances and Excess Advances by Agent.

(a) Swing Advances. Subsequent to the addition of an Applicant Financial Institution as a "Bank" hereunder and upon the terms and subject to the conditions contained in this Credit Agreement, the Agent may for its own account and at its own discretion, make one or more Swing Advances to the Company, the aggregate unpaid principal amount of which at any time, including those then to be made, shall not exceed the least of (i) the sum of the Total Warehouse Line Commitment at such time less the sum of the Aggregate



Outstanding Warehouse Balance plus the Aggregate Outstanding Excess Balance at such time, (ii) the sum of the Agent's Warehouse Line Commitment at such time less the amount of the Aggregate Outstanding Warehouse Balance plus the Aggregate Outstanding Excess Balance then allocated to the Agent, and (iii) the then current maximum principal amount of such Swing Line as determined by the Company and the Agent; provided, that, the sum of the Aggregate Outstanding Warehouse Balance plus the Aggregate Outstanding Excess Balance plus the Swing Advance to be made by the Agent, shall not exceed the Warehouse Borrowing Base as set forth in the most recent Borrowing Base Report prepared by the Agent on the day of the making of such Swing Advance plus the Collateral Value of the Eligible Collateral delivered to the Agent on that day and which is not included in the most recent Borrowing Base Report (the "Swing Advance Limitations"). Subsequent to a Swing Advance being made by the Agent, the Agent may at any time (and in any event shall no less frequently than one (1) time each week) in its sole and absolute discretion, demand the Banks to advance under their respective Warehouse Notes and pay to the Agent an amount equal to pay their Warehouse Commitment Pro Rata Share of the Warehouse Advance necessary to repay the then current aggregate outstanding balance of all Swing Advances. On each Business Day on which the Agent makes a demand for payment before 2:00 p.m. Prevailing Time, on any particular Business Day, whether before or after the occurrence of an Event of Default, each Bank shall irrevocably and unconditionally purchase from the Agent, without recourse or warranty, an undivided interest and participation in the Swing Advances then outstanding, by paying to the Agent, in same day funds available to the Agent at the main office of the Agent located at 101 South Fifth Street, Louisville, Kentucky, an amount equal to such Bank's Warehouse Commitment Pro Rata Share of all Swing Advances then outstanding, and thereafter, the Bank's respective interest in such Swing Advances, and the remaining interest of the Agent in such Swing Advances, shall in all respects be treated as a Warehouse Advance, but such Swing Advances shall continue to be evidenced by the Swing Note. In the event the Agent makes such demand of the Banks after 2:00 p.m. Prevailing Time on any particular Business Day, the Banks shall be required to make their respective payments to the Agent before 12:00 noon Prevailing Time on the immediately succeeding Business Day.

(b) Excess Advances by Agent. Subsequent to the addition of an Applicant Financial Institution as a "Bank" hereunder and upon the terms and subject to the conditions contained in this Credit Agreement, in the event the Agent is prevented from making a Swing Advance hereunder as a result of the application of the Swing Advance Limitations outlined above, the Agent may for its own account as a Bank hereunder and at its sole discretion, make one or more Excess Advances to the Company, the aggregate unpaid principal amount of which at any time, including those to be made, shall not exceed the lesser of (i) the sum of the Total Warehouse Line Commitment at such time less the sum of the Aggregate Outstanding Warehouse Balance plus the Aggregate Outstanding Excess Balance at such time, and (ii) the amount of the Agent's Warehouse Line Commitment at such time less the sum of the Agent's Warehouse Commitment Pro Rata Share of the Aggregate Outstanding Warehouse Balance plus the Aggregate Outstanding Excess Balance at such time; provided, that, the sum of the Aggregate Outstanding Warehouse Balance plus the Aggregate Outstanding Excess Balance (excluding the Excess Advance to be made) plus the Excess Advance to be made by the Agent, shall not exceed the Warehouse Borrowing Base as set forth in the most recent Borrowing Base Report prepared by the Agent on the day of the making of the Excess Advance plus the Collateral Value of the Eligible Collateral delivered to the Agent on that day and which is not included in the most recent Borrowing Base Report. Subsequent to an Excess Advance being made by the Agent, the Agent may at any time (and in any event no less frequently than one (1) time each week) in its sole and absolute discretion request the other Banks to pay their respective Warehouse Commitment Pro Rata Shares of the Warehouse Advance necessary to repay all or any portion of the Excess Advances then outstanding. On each day on which the Agent makes a demand for payment before 2:00 p.m. Prevailing Time, whether before or after the occurrence of an Event of Default, each Bank shall pay to the Agent its Warehouse Commitment Pro Rata Share of the Warehouse Advance necessary to pay the Excess Advances designated by the Agent to be reallocated and paid by the Banks, such payments shall be wired to the Agent, in same day funds available to



the Agent at the main office of the Agent located at 101 South Fifth Street, Louisville, Kentucky, in an amount equal to such Bank's Warehouse Commitment Pro Rata Share of all Excess Advances then designated by the Agent to be reallocated and paid by the Banks. In the event the Agent makes such demand of the Banks after 2:00 p.m. Prevailing Time on any particular day, the Banks shall be required to make their respective payments to the Agent before 12:00 noon Prevailing Time on the immediately succeeding Business Day.

2.3 Notes.

(a) Warehouse Advances. The lending described above, to be made through Warehouse Advances made by the Banks in accordance with the terms set forth herein, shall be evidenced by the Warehouse Notes of the Company, substantially in the form of **Exhibit C-1** to this Credit Agreement. The aggregate amount of the Warehouse Advances made under the Warehouse Notes, less repayments of principal, shall be the principal amount owing and unpaid on such Warehouse Notes. The Warehouse Notes shall be payable in the manner, and shall bear interest at the rates, specified therein and in this Credit Agreement.

(b) Swing Advances. The lending described above, to be made through Swing Advances made by the Agent for its own account in accordance with the terms set forth herein, shall be evidenced by the Swing Note made by the Company payable to the order of the Agent substantially in the form of **Exhibit E** to this Credit Agreement. The aggregate amount of Swing Advances made under the Swing Note, less repayments of principal, shall be the principal amount owing and unpaid on the Swing Note. The Swing Note shall be payable in the manner, and shall bear interest at the rates, specified therein and in this Credit Agreement.

(c) Excess Advances. The lending described above, to be made through Excess Advances by the Agent for its own account through the National City Warehouse Promissory Note in accordance with the terms set forth herein, shall be evidenced by the Warehouse Note of the Company made payable to National City. The aggregate amount of the Warehouse Advances plus Excess Advances made under the Warehouse Note referenced above, less repayments of principal, shall be the principal amount owing and unpaid on such Warehouse Note.

2.4 Manner of Borrowing.

(a) Request for Advance. The Company shall deliver to the Agent, not later than the Agent's published deadlines on the Business Day on which the Company desires to obtain an Advance, an original (or facsimile copy) executed Request for Advance (which shall be irrevocable) specifying the amount of the Advance which it desires to borrow. Notwithstanding the foregoing, if approved by the Agent, any such Request for Advance under the immediately preceding sentence may be made to Agent, via an Electronic Request for Advance, prior to the date and time published by the Agent from time to time on the Business Day on which the Company desires to obtain an Advance and, if required by Agent, followed by delivery to Agent, via facsimile transmission or electronic mail, prior to the date and time published by the Agent from time to time on the date of such proposed Advance, of a written confirmation of such Electronic Request for Advance (a "Confirmation of Electronic Request for Advance") in a form acceptable to Agent in its sole discretion (if Agent requires a Confirmation of Electronic Request for Advance and there is any discrepancy between the schedule of Loans electronically transmitted to Agent and the list of Pledged Loans attached to such Confirmation of Electronic Request for Advance, Agent shall be entitled to rely solely on the list attached to said Confirmation of Electronic Request for Advance without further investigation or inquiry; otherwise, if Agent does not receive a Confirmation of Electronic Request for Advance, Agent shall be



entitled to rely solely on the scheduled of Pledged Loans electronically transmitted to Agent). Agent in its sole discretion can treat any Request for Advance as either (i) a Request for Warehouse Advance, (ii) a Request for Swing Advance, or (iii) a Request for an Excess Advance, as applicable. On the date of the Agent's receipt of a Request for Advance if: (a) no Event of Default or Unmatured Event of Default has occurred and is then existing; (b) all material terms and conditions of this Credit Agreement required to be satisfied prior to the making of the particular type of Advance, including without limitation, all conditions precedent specified in Article 4 hereof, are in fact satisfied; (c) all material terms and conditions of the Security Agreement required to be satisfied prior to the making of an Advance are in fact satisfied; and (d) the making of such Advance shall not cause or result in either a violation of any of the terms of this Credit Agreement or of the Security Agreement, or cause or result in an Event of Default, or an Unmatured Event of Default, the Agent shall (xx) in the case of a Warehouse Advance, credit each Bank's Pro Rata Share of such Warehouse Advance received by the Agent to the Company in accordance with the terms set forth below, (yy) in the case of a Swing Advance, credit the amount of such Swing Advance to the Company, and (zz) in the case of an Excess Advance, credit the amount of such Excess Advance to the Company; provided, however, with respect to each Wet Advance, the proceeds thereof shall, at the option of the Agent, be (i) wire transferred by the Agent through the Federal Reserve Wire Transfer System directly to the Company's agent responsible for closing such Wet Loan, (ii) funded by a draft on the Agent, which draft shall be made payable either [a] jointly to the Company's agent responsible for closing such Wet Loan and the Mortgagor(s) under such Wet Loan, [b] only to the Company's closing agent if such transaction is a refinance transaction where the three (3) day right of rescission may preclude the Company from obtaining both endorsements without incurring significant additional costs, or [c] in the case of a Second Trust Deed Loan, to the mortgagor's consumer debt creditor, or (iii) disbursed in such other manner as is acceptable to the Company and the Agent. Requests for Advance received by the Agent after 12:00 p.m. Prevailing Time will not be processed as a Request for Warehouse Advance, but may be treated, at the Agent's sole discretion, as a Request for Swing Advance. Requests for Advance received by the Agent after the Agent's published deadlines will not be processed by the Agent as a Request for Warehouse Advance until the next Business Day.

(b) Disbursement of Bank's Warehouse Pro Rata Share. All Warehouse Advances requested by the Agent under this Credit Agreement shall be made by the Banks simultaneously and proportionately to their respective Warehouse Commitment Pro Rata Shares of each such Warehouse Advance, it being understood that, except as provided in Section **2.4(c)** below, no Bank shall be responsible for any default by any other Bank of that other Bank's obligation to fund its Warehouse Commitment Pro Rata Share of a Warehouse Advance requested hereunder nor shall the Warehouse Line Commitment of any Bank be increased or decreased as a result of the default by any other Bank of that other Bank's obligation to fund its Warehouse Commitment Pro Rata Share of a Warehouse Advance requested hereunder. Promptly after receipt by the Agent of a Request for Advance pursuant to this Section 2.4, the Agent shall notify each Bank of the Warehouse Advance requested by the Company pursuant thereto and each Bank's Warehouse Commitment Pro Rata Share of such Warehouse Advance. Each Bank shall make its Warehouse Commitment Pro Rata Share of each Warehouse Advance (other than a Swing Advance or an Excess Advance) to be made to the Company available to the Agent, in same day funds, at the office of the Agent located at 101 South Fifth Street, Louisville, Kentucky not later than 3:00 p.m. Prevailing Time on the date the Request for Advance from the Company is received by the Agent. The time of the Agent's receipt of same day funds from the Banks which are wire transferred through the Federal Reserve System shall be based upon the Federal Reference Number and the "time out" for any such wire transfer. Upon satisfaction or waiver of the conditions precedent specified in Section 4.1 hereof in the case of the initial Advance and Section 4.2 hereof in the case of any subsequent Advance, the Agent shall make the proceeds of each Advance requested by the Company available to the Company on the date specified above by causing an amount of same day funds equal to the proceeds of the Banks' respective Warehouse Commitment Pro Rata Shares of such Warehouse Advance received by the Agent at its office located at the address set forth in the preceding sentence to be credited to the Company; provided, however, with respect to each Wet Advance (whether in the form of a Warehouse Advance, Swing Advance or Excess Advance), the proceeds thereof shall be deposited into the Funding Account, and at the option of the Agent, be (i) wire transferred by the Agent through the Federal Reserve Wire Transfer System directly to the Company's agent responsible for closing the related Wet Loan, or if the Company closes its own Wet Loan, then directly to the Company or the Company's agent, (ii) funded by a draft or check on the Agent or one of its affiliates, which draft or check shall be made payable to the Company's agent responsible for closing the related Wet Loan, or if the Company closes its own Wet Loan, then directly to the Company or the Company's agent, (iii) funded by a cashier's check issued by the Agent on behalf of the Company and made payable to the Company's agent responsible for closing the related Wet Loan, or (iv) disbursed in such other manner as is acceptable to the Company and the Agent.

(c) Assumptions by Agent for Advances; Failure to Fund a Bank. Unless the Agent shall have been notified by any Bank prior to the date that such Bank's Warehouse Commitment Pro Rata Share of a Warehouse Advance is to be made (the "Funding Date") that such Bank does not intend to make available to the Agent such Bank's Warehouse Commitment Pro Rata Share of such Warehouse Advance requested on such Funding Date, the Agent may assume that such Bank has made such amount available to the Agent on such Funding Date and the Agent may, in its sole discretion, but shall not be obligated to, make available to the Company a corresponding amount on such Funding Date. If such corresponding amount is not in fact made available to the Agent by such Bank, the Agent shall be entitled to recover a Two Hundred Dollar ($200.00) processing fee plus such corresponding amount owed on demand from such Bank together with interest thereon, for each day from such Funding Date until the date such amount is paid to the Agent, at the customary rate set by the Agent for the correction of errors among the Banks for three *(3)* Business Days and thereafter at the Default Rate. If such Bank does not pay such corresponding amount forthwith upon the Agent's demand therefor, the Agent shall notify the other Banks and each of the other Banks (including National City) shall immediately pay to the Agent a pro rata share (excluding in such calculation the Bank which failed to fund) of such amount not funded by a Bank; provided, however, no Bank (including National City) shall be obligated to fund any amount under this Credit Agreement in excess of that Bank's Warehouse Line Commitment, as applicable. If any portion of the amount not funded by a Bank is not paid to the Agent by the other Banks in accordance with the immediately preceding sentence, the Agent shall promptly notify the Company and the Company shall immediately pay such corresponding amount to the Agent and shall pay interest on such amount for each day from such Funding Date until the date such amount is paid to the Agent, at the applicable interest rate borne by the particular Advance, which amount shall be paid to the Agent at the next monthly billing. Nothing in this **Section 2.4** shall be deemed to relieve any Bank from its obligation to fulfill its Warehouse Line Commitment hereunder or to prejudice any rights that the Company may have against any Bank as a result of any default by such Bank hereunder. In the event any Bank gives notice to the Agent that such Bank does not intend to fund its Warehouse Commitment Pro Rata Share of any Warehouse Advance to be made to the Company or in the event any Bank otherwise fails to fund its Warehouse Commitment Pro Rata Share of any Warehouse Advance to be made to the Company, the Agent shall promptly notify the other Banks of the occurrence of any such event and the other Banks shall each fund a pro rata share (excluding in the calculation the nonfunding Bank) of the nonfunding Bank's Warehouse Commitment Pro Rata Share of each Advance not funded by such Bank; provided, however, no Bank shall be obligated to fund any amount under this Credit Agreement in excess of its Warehouse Line Commitment. In the event any Bank gives notice to the Agent that such Bank does not intend to fund its Warehouse Commitment Pro Rata Share of any Warehouse Advance to be made to the Company or in the event any Bank otherwise fails to fund its Warehouse Commitment Pro Rata Share of any Advance to be made to the Company, the Agent shall telephonically notify the Company of the occurrence of any such event. The Warehouse Commitment Pro Rata Share of principal payments (from any source whatsoever) payable hereunder to a Bank which fails to fund its



Warehouse Commitment Pro Rata Share of any Warehouse Advance, including any Warehouse Advance requested by the Agent to repay any Swing Advance or Excess Advance, shall be paid on a pro rata basis to the Banks which funded that Bank's Warehouse Commitment Pro Rata Share of such Warehouse Advance, Swing Advance or Excess Advance, as applicable, until the amount which those Banks funded for the Bank which failed to fund, has been repaid in full (the "Repayment Date"). Notwithstanding anything contained herein to the contrary, in the event that any Bank fails to fund its Warehouse Commitment Pro Rata Share of any Warehouse Advance on a Funding Date, if on such Funding Date all conditions precedent to such Warehouse Advance have been satisfied, such Bank shall forfeit all consent and voting rights for all purposes hereunder and under the other Loan Documents for the entire period of time commencing upon its failure to fund on the Funding Date and ending on the Repayment Date; provided, however, such forfeiture shall not apply to the right of a Bank to consent to any amendment or modification of this Credit Agreement or any other Loan Documents which requires the consent of the Agent and all of the Banks pursuant to terms of **Section 9.20** hereof.

2.5 Records.

(a) Advances. The Agent shall record the names and addresses of the Banks and the Pro Rata Shares of the Advances of each Bank from time to time in the records of the Agent. The Company, the Agent and the Banks may treat each Person whose name is so recorded in the records of the Agent as a Bank hereunder for all purposes of this Credit Agreement. The Agent's records maintained pursuant to this **Section 2.5** shall be available for inspection by the Company or any Bank at any reasonable time and from time to time upon reasonable prior notice to the Agent.

(b) Payments. The Agent shall record each repayment or prepayment in respect of the principal amount of the Banks' Pro Rata Shares in the Advances in the Agent's records. Any such recordation in accordance with the terms of this Credit Agreement shall be conclusive and binding on the Company absent manifest error; provided, that failure to make any such recordation, or any error in such recordation, shall not affect the Company's obligation to repay all Advances to the Banks in accordance with this Credit Agreement, the Warehouse Notes and the Swing Note.

(c) Bank's Records. Each Bank shall record on its internal records its Warehouse Commitment Pro Rata Share of each Warehouse Advance made by it to the Company and each payment in respect thereof. Any such recordation in accordance with the terms of this Credit Agreement shall be conclusive and binding on the Company absent manifest error; provided, that failure to make any such recordation, or any error in such recordation, shall not affect the Company's obligation to repay all Warehouse Advances to the Banks in accordance with this Credit Agreement, the Warehouse Notes and the Swing Note; provided further, that in the event of any inconsistency between the Agent's records and any Bank's records, the Agent's records shall govern in the absence of manifest or demonstrable error.

2.6 Certain Representations. Each Request for Advance shall be deemed to be the representation of the Company and of the officer making such request that: (a) all conditions precedent set forth in **Article 4** hereof have been satisfied; (b) the Company is in compliance with all financial covenants set forth in **Article 5** hereof; (c) the representations and warranties contained in **Article 6** hereof remain true and correct in all material respects; and (d) no Event of Default and no Unmatured Event of Default has occurred and is then existing, or will exist upon completion of the requested Advance.



2.7 Payment of the Warehouse Notes.

(a) Termination Date. On the Termination Date, without necessity of notice or demand, the Company shall pay to the Agent for the account of the Banks the full amount of the outstanding principal balance of, and all accrued but unpaid interest on, the Warehouse Notes and the Swing Note.

(b) Warehouse Borrowing Base Deficiency. If, at any time, and for any reason, including without limitation a reduction in the Collateral Value or any part thereof by virtue of such value being marked to market, the sum of the Aggregate Outstanding Warehouse Balance plus the Aggregate Outstanding Excess Balance exceeds the Warehouse Borrowing Base, as determined by the Agent, then the Company shall immediately pay to the Agent an amount equal to the amount by which the sum of the Aggregate Outstanding Warehouse Balance plus the Aggregate Outstanding Excess Balance exceeds the Warehouse Borrowing Base.

(c) Proceeds of Collateral. The proceeds from the Collateral shall be payable to the Agent for application to the Warehouse Notes, the Swing Note and the other Secured Obligations under and in accordance with the terms of the Security Agreement.

2.8 Rates of Interest.

(a) Applicable Rates of Interest.

(i) With respect to all Advances other than Alt A Advances and HELOC/Second Trust Deed Advances, the Swing Note and the Warehouse Notes shall bear interest at the following rates of interest, as applicable: (a) the per annum rate equal to LIBOR plus three quarters of one percent (0.75%) for that portion of the aggregate outstanding principal balance of each Warehouse Note of each Bank which is not a Balance Funded Bank and for that portion of the aggregate outstanding principal balance of the Balance Funded Bank's Warehouse Note and the Swing Note which exceeds the Average Monthly Available Deposits maintained by the Company with the Balance Funded Bank, and (b) the per annum rate equal to one percent (1.00%) for that portion of the aggregate outstanding principal balance of the Warehouse Note payable to the Balance Funded Bank and the Swing Note which does not exceed the Average Monthly Available Deposits maintained by the Company with the Balance Funded Bank; and

(ii) With respect to Alt A Advances and HELOC/Second Trust Deed Advances, the Swing Note and the Warehouse Notes shall bear interest at the following rates of interest, as applicable: (a) the per annum rate equal to LIBOR plus one percent (1.00%) for that portion of the aggregate outstanding principal balance of the each Warehouse Note of each Bank which is not a Balance Funded Bank and for that portion of the aggregate outstanding principal balance of the Balance Funded Bank's Warehouse Note and the Swing Note which exceeds the Average Monthly Available Deposits maintained by the Company with the Balance Funded Bank, and (b) the per annum rate equal to one and one-quarter of one percent (1.25%) for that portion of the aggregate outstanding principal balance of the Warehouse Note payable to the Balance Funded Bank and the Swing which does not exceed the Average Monthly Available Deposits maintained by the Company with the Balance Funded Bank.

2.9 Interest Payments. As soon as reasonably possible subsequent to the availability of the account analysis statement, the Agent shall deliver to the Company and each Bank an interest billing statement (the "Billing Statement"), which Billing Statement shall set forth the interest accrued with respect to the outstanding principal balance of the Warehouse Notes and the Swing Note from and including the first



day of the preceding month through the last day of such month, provided, that any failure or delay in delivering such interest billing statement or any inaccuracy therein shall not affect any of the Company's obligations and liabilities hereunder. Interest shall be payable, (i) on the fifth (5th) calendar day after receipt of the Billing Statement referred to above and (ii) upon repayment of any of the outstanding principal balance of the Swing Note and the Warehouse Notes at maturity (by reason of acceleration or otherwise). Any interest accruing at the Default Rate shall be payable on demand.

2.10 Post-Maturity Interest. Any principal payments on the Swing Note and the Warehouse Notes not paid when due and, to the extent permitted by applicable law, any interest payments on the Swing Note and Warehouse Notes or any fees or other amounts owed hereunder not paid when due, in each case whether at stated maturity, by notice of prepayment, by acceleration or otherwise, shall thereafter bear interest (including post-petition interest in any proceeding under the Bankruptcy Code or other applicable bankruptcy laws) payable on demand at a rate equal to the applicable Default Rate. Payment or acceptance of the increased rates of interest provided for in this **Section 2.10** is not a permitted alternative to timely payment and shall not constitute a waiver of any Event of Default or otherwise prejudice or limit any rights or remedies of the Agent or any Bank.

2.11 Computation of Interest. Interest on the Warehouse Advances, Excess Advances and Swing Advances shall be computed on the basis of a 360-day year, in each case for the actual number of calendar days elapsed in the period during which it accrues.

2.12 General Provisions Regarding Prepayments and Payments.

(a) Prepayments. The Company may, at any time and from time to time, prepay all or any portion of the outstanding principal balance of the Warehouse Notes without premium or penalty. All prepayments (whether voluntary or involuntary, at maturity, by acceleration or otherwise) of the outstanding principal balance of the Notes shall be applied, first, to the repayment of the outstanding principal balance of Swing Note to the full extent thereof, second, to the repayment of this outstanding principal balance of all Excess Advances, third, to any delinquent fees, costs or expenses, fourth, to the repayment of the outstanding principal balance of all Warehouse Advances, and fifth, to the payment of the interest thereon. All prepayments of the outstanding principal balance of the Warehouse Notes shall be applied first to principal bearing interest at the applicable interest rate to the full extent thereof, in a manner which minimizes the amount of any payments required to be made by the Company pursuant to this **Section 2.12** hereof.

(b) Manner and Time of Payment. All payments of principal, interest and fees hereunder, under the Swing Note and under the Warehouse Notes by the Company shall be made without defense, setoff and counterclaim and upon the Agent's receipt of notice from the Company, which notice shall not be given later than the fifth (5th) calendar day after the Company's receipt of the Billing Statement under **Section 2.9** hereof, the Agent shall be authorized to charge the Company's "DDA Account" maintained at National City (Account #986649569) to pay all principal (to the extent that the funds in the Collateral Proceeds Account are not sufficient to make a payment of principal), interest and fees due hereunder, provided there are sufficient funds available in such account for that purpose. If there are not sufficient funds available in such account for that purpose or if the Agent has not received notice from the Company authorizing the Agent to charge the Company's "DDA Account", the Company shall make such payments in same day funds and delivered to the Agent not later than 12:00 p.m. Prevailing Time on the day following the date due at its office located at 101 South Fifth Street, Louisville, Kentucky, for the account of the Banks; funds received by the Agent after that time shall be deemed to have been paid by the Company on the next succeeding Business Day.



(c) Apportionment of Payments. Except as otherwise provided herein, the Agent shall apportion all principal and interest payments on the Warehouse Notes, in each case proportionately to the Banks' respective Warehouse Pro Rata Shares. The Agent shall promptly distribute to each Bank at its primary address set forth below its name on the appropriate signature page hereof or such other address as any Bank may request, its Warehouse Pro Rata Share of all such payments when received by the Agent.

(d) Payments on a Business Day. Whenever any payment to be made hereunder or under the Warehouse Notes or the Swing Note shall be stated to be due on a day that is not a Business Day, such payment shall be made on the next succeeding Business Day and such extension of time shall be included in the computation of the payment of interest on the underlying principal payment due hereunder, under the Swing Note or under the Warehouse Notes or of the fees hereunder, as the case may be.

2.13 Set-Off. The Company hereby irrevocably authorizes each Bank, upon the occurrence of an Event of Default to set off the liability of the Company on the Warehouse Notes and the Swing Note, without notice, against all deposits and credits of the Company with, and any and all claims of the Company against, that Bank at any time outstanding provided, however, that the Banks shall not offset against deposits and credits of the Company held in trust or in a custodial capacity for third parties.

2.14 Fees.

(a) Collateral Handling/Commitment Fee. The Company agrees to pay to the Agent such collateral handling fees (collectively, the "Collateral Handling Fees") and the commitment fee (the "Commitment Fee") in the amounts and at the times set forth in the fee letter issued by the Agent to the Company.

(b) Amendment Fees. The Company agrees to (i) reimburse the Agent for all legal fees reasonably incurred in connection with any amendment to the Loan Documents and (ii) pay to each of the Banks an amendment fee equal to Three Hundred Seventy Five Dollars ($375.00) for each amendment to the Loan Documents; provided, however, the Company shall not be required to pay such $375.00 amendment fee to any of the Banks in connection with any amendment of the Loan Documents which is executed (either individually or as part of a series of amendments) for the sole purpose of extending the Termination Date for not more than an aggregate of one hundred twenty (120) days. Nothing contained in this **Section 2.14** shall compel the Agent or the Banks to authorize or execute any amendment to the Loan Documents, all such amendments being subject to the compete discretion of the Agent and the Banks.

(c) Payment of Fees. All fees due under this **Section 2.14** shall be payable in arrears each month and all such fees shall be computed on the basis of a 360-day year, in each case for the actual number of calendar days elapsed during the period during which it accrues. The Agent shall compute the amounts of the applicable fees include such fees on the Billing Statement to be delivered to the Company each month under **Section 2.9** hereof. The Company shall pay to the Agent the applicable fees set forth in such Billing Statement within five (5) calendar days of its receipt of a Billing Statement.

(d) Fees Non-Refundable. The fees payable under this **Section 2.14** once paid shall be non-refundable, in whole or in part under any circumstances, absent manifest error in the calculation of such fees.

2.15 Commitments. The Company shall obtain and maintain Commitments which, in the aggregate, equal or exceed the aggregate amount of all Loans financed and outstanding under this Credit Agreement and all loans under credit agreements of similar nature with other financial institutions. If an Event



of Default shall occur and continue, at the option of the Agent or the Requisite Banks, such Commitments shall be assigned by the Company to the Agent, for the benefit of the Banks in proportion to their Pro Rata Shares.

2.16 Special Provisions Governing Base Rate.

(a) Notwithstanding any other provision of this Credit Agreement to the contrary, the Agent's determination of LIBOR shall be final, conclusive and binding upon all parties in the absence of manifest error. In the event that (i) it becomes unlawful for the Agent or any Bank to make or maintain LIBOR loans, or (ii) by reasons of circumstances occurring after the date of this Credit Agreement affecting the London Interbank Market, adequate and fair means do not exist for ascertaining LIBOR on the basis provided for in the definition thereof, the Agent or such Bank shall promptly notify Company, and Agent's or such Bank's obligation to offer such LIBOR loans shall be suspended during such period of time.

(b) In the event any applicable law, order, regulation, treaty or directive issued by any central bank or other governmental authority, or in the governmental or judicial interpretation thereof, or compliance by the Agent with any request or directive (whether or not having the force of law) issued subsequent to the date hereof by any central bank or other governmental authority:

(i) does or shall subject the Agent or any Bank to any tax of any kind whatsoever with respect to this Credit Agreement or any Advances made hereunder, or change the basis of taxation of payments to the Agent or any Bank of principal, fee, interest or any other amount payable hereunder except for the change in the rate of tax on the overall net income of the Agent or any Bank imposed by the jurisdiction in which Agent or any Bank maintains its principal office; or

(ii) does or shall impose on the Agent or any Bank any other condition; and the result of any of the foregoing is to materially increase the cost to the Agent or any Bank of making any Advance or renewing or maintaining this Credit Agreement or reduce any amount receivable in respect thereof or to reduce the rate of return on the capital of the Agent or any Bank or any Person controlling the Agent or any Bank, then in any such case, the Company shall promptly pay to the Agent or any Bank upon its written demand any additional amounts necessary to compensate the Agent or any Bank for such additional cost or reduced amounts receivable or rate of return as reasonably determined by Agent or any Bank with respect to this Credit Agreement or Advances made hereunder. If the Agent or any Bank becomes entitled to claim any additional amounts pursuant to this section, it shall promptly notify the Company of the event by reason of which it has become so entitled and provide the Company with a certificate specifying any additional amounts payable and how they are calculated. If the Company reasonably elects to discontinue requesting Advances hereunder and terminates the Warehouse Line as a result of any additional amounts the Company it is reasonably determined by the Agent or any Bank to owe pursuant to the provisions of this Section **2.16(b)(ii),** the Agent and the Banks agree to refund a pro-rata portion of the Commitment Fee theretofore paid by the Company to the Banks for the current period. The provisions of this section shall survive the termination of this Credit Agreement and payment of all other Secured Obligations.

2.17 Certain Representations. Each Request for Advance shall be deemed to be the representation of the Company and of the officer making the request that: (a) all conditions precedent set forth in Article 4 hereof have been satisfied; (b) the Company is in compliance with all financial covenants set forth in Article 5 hereof; (c) the representations and warranties contained in Article 6 hereof remain true and correct in all material respects; and (d) no Event of Default and no Unmatured Event of Default has occurred and is then existing, or will exist upon completion of the requested Advance.



2.18 Discretionary Loans. For each Loan that the Requisite Banks or the Agent agrees to warehouse pursuant to **Section 9.20** hereof, that is not a Wet Loan, the Company agrees to pay an interest premium of one-half of one percent (**0.50%**) in addition to the applicable rate of interest pursuant to **Section 2.8(a)** hereof, as may be the case.

## ARTICLE 3

## COLLATERAL SECURITY

3.1 Collateral. To secure the payment of the Warehouse Notes, the Swing Note and all other Secured Obligations, the Company shall grant to the Agent for the ratable benefit of the Banks in proportion to their Pro Rata Shares, Security Interests in such of its Loans, and other assets constituting Collateral as may be required under the terms of the Security Agreement.

3.2 Security Agreement. The Company shall execute and deliver to the Agent for the ratable benefit of the Banks in proportion to their Pro Rata Shares, the Security Agreement.

**3.3** Priority of Security Interests. The Security Interests shall be first and prior security interests subject only to the limitations set forth in the Loan Documents. The Company, the Agent and the Banks hereby acknowledge and agree that the Agent, on behalf of and for the pro rata benefit of the Banks, now has, and shall continue to have, a first and prior pledge and security interest in and to the Collateral, as collateral security for the Warehouse Advances, the other Secured Obligations, and any other obligations and/or liabilities due and owing by the Company pursuant to this Credit Agreement and each of the other Loan Documents, without priority, distinction or preference of any kind whatsoever.

**3.4** Release of Security Interest. If no Event of Default or Unmatured Event of Default has occurred and is then continuing, the Agent, for and on behalf of the Banks, at the request of the Company, shall release its Security Interest in any item of Collateral so long as after giving effect to any such requested release the Warehouse Borrowing Base shall not be less than the sum of the Aggregate Outstanding Warehouse Balance plus the Aggregate Outstanding Excess Balance, provided that any such release of Collateral shall occur only if expressly permitted by the terms of the Security Agreement, and then only strictly in compliance with the terms thereof.

## ARTICLE 4

## CONDITIONS PRECEDENT

**4.1** Closing; Initial Advance. The obligation of the Agent and the Bank to close the financing contemplated hereunder and make the initial Advance under this Credit Agreement shall be subject to the satisfaction of the following conditions precedent:

(a) Evidence of Corporate Existence and Qualification of the Company. The Company shall have furnished the Agent with a copy of the Company's Articles of Incorporation and all amendments thereto, certified by the Secretary of State of California, together with an original certificate from said Secretary of State, dated not more than thirty **(30)** calendar days prior to the date of this Credit Agreement, stating that the Company is a corporation duly organized, validly existing, and in good standing under the laws of such state, and a copy of the Bylaws of the Company and all amendments thereto, certified by the secretary of the Company to be true, accurate and complete.



(b) Corporate Resolutions. The Company shall have furnished to the Agent copies of updated resolutions reflecting all necessary corporate action taken by the Company to authorize the execution, delivery, and performance of the Credit Agreement, the Warehouse Note, and the other Loan Documents to which the Company is a party on behalf of the Company, certified by the secretary of the Company to be true, correct, and in full force and effect as of the date of the Credit Agreement.

(c) Incumbency Certificate. The Company shall have furnished the Agent with updated incumbency certificates with respect to the officers of the Company, as applicable, authorized to execute and deliver the Credit Agreement and the other Loan Documents to which the Company is a party on behalf of the Company.

(d) Credit Agreement. This Credit Agreement shall have been duly executed and delivered by the Company, the Agent and the Banks and delivered to the Agent.

(e) Notes. The Warehouse Note shall have been duly executed and delivered by the Company and delivered to the Bank.

(f) Loan Documents. All of the other Loan Documents shall have been duly executed and delivered by the Company and each of the other parties thereto and delivered to the Agent.

(g) Financing Statements. The Company shall have executed and delivered, in appropriate form for filing in all appropriate governmental offices, such Uniform Commercial Code financing statements with respect to the Collateral as the Agent shall reasonably request.

(h) Evidence of Insurance. The Company shall have furnished the Agent with evidence of the insurance coverage required to be maintained by the Company pursuant to Section **7.1(i)** hereof.

(i) Financial Statements. The Company shall have furnished the Agent with a copy of its audited financial statements as at December 31, 2006, and its most recent unaudited statements.

(j) Termination Statements and Releases. All Uniform Commercial Code Termination Statements and releases necessary to release of record all existing liens and security interests encumbering any of the Collateral other than those in favor of the Agent on behalf of and for the benefit of the Banks, duly executed and delivered by all appropriate or necessary parties.

(k) UCC Search Reports. UCC Search Reports in the name of the Company shall have been obtained from all appropriate government offices.

(l) Agency Audits. The Company shall have furnished the Agent with a copy of the results of any field audit of the Company's business and/or records performed by GNMA, Fannie Mae, FHLMC, for the Department of Housing and Urban Development within two (2) years prior to the date of this Credit Agreement, together with a copy of all subsequent correspondence relating to such audit between the Company and such agency, to the extent copies of such field audits have not been heretofore delivered to the Agent.

(m) Other Loans. The Company shall furnish the Agent with a summary description of any and all existing loan agreements, lines of credit or similar indebtedness of the Company for



amounts of One Million Dollars ($1,000,000.00) or more to which the Company is a party, such summary shall be provided as a part of Schedule **6.1.**

(n) Covenant Compliance Certificate. The Company shall have furnished the Agent with a completed Covenant Compliance Certificate as of the initial closing date, together with a spreadsheet or other working papers showing the calculations used to prepare such certificate.

(o) Authorized Signer Letter. The Company shall have delivered to the Agent a letter designating the individuals authorized to sign various documents or initiate, authorize and/or confirm electronic communications related to the transactions contemplated hereby, including without limitation, specimen signatures and electronic mail addresses for all such individuals, such letter to be substantially in the form of Exhibit J attached hereto and made a part hereof by this reference.

(p) Power of Attorney. The Power of Attorney, substantially in the form of Exhibit B to the Security Agreement, shall have been duly executed and delivered by the Company to the Agent.

(q) Approved Investor List. The Company shall have provided the Agent with the list of Approved Investors to be attached hereto as Schedule **1.1.**

(r) Representation and Warranty Disclosures. The Company shall have provided the Agent with the list of representation and warranty disclosures to be attached hereto as Schedule **6.1.**

(s) Other Documents. The Company shall have delivered such other documents or instruments or reports including, without limitation, any inter-creditor agreements, as the Agent may reasonably request.

(t) Field Exam and Legal Fees. The Company shall have reimbursed the Agent for (1) the cost of its field exam performed prior to the Closing Date and (2) legal fees and expenses incurred in connection with the preparation, execution and delivery of the Loan Documents up to a maximum dollar amount of Four Thousand Dollars ($4,000.00).

4.2 All Advances. The obligation of the Banks to make their Pro Rata Share of any Advance (including the initial Warehouse Advance), and the Agent's election to make any Swing Advance or any Excess Advance hereunder shall be subject to each of the following conditions precedent:

(a) Covenant Compliance Certificate. In accordance with the provisions of Section **7.3(b)** below, the Company shall have executed and delivered to the Agent a completed Covenant Compliance Certificate, together with a spread sheet or other working papers showing the calculations used to prepare such certificate.

(b) No Default or Unmatured Event of Default. As of the date of the making of such Advance, no Event of Default or Unmatured Event of Default shall have occurred and be then existing.

(c) Compliance with Loan Documents. The Company shall be in full compliance with all material conditions and provisions of this Credit Agreement, the other Loan Documents, and all related instruments and documents.



(d) No Adverse Change. No material adverse change shall have occurred in the condition of the Company, financial or otherwise, or in the earnings or affairs of the Company, since the date of this Credit Agreement.

(e) Representations and Warranties. The representations and warranties contained in **Article 6** of this Credit Agreement and in the Security Agreement shall be true and correct in all material respects on the date of such Advance with the same force and effect as though made on and as of that date.

## ARTICLE 5

## FINANCIAL COVENANTS

So long as any portion of the Advances made under this Credit Agreement remains unpaid or this Credit Agreement continues in effect, unless the Agent and all of the Banks otherwise consent in writing, the Company shall abide by each of the following covenants:

5.1 Borrowing Base. The sum of the Aggregate Outstanding Warehouse Balance **plus** the Aggregate Outstanding Excess Balance shall not exceed the Warehouse Borrowing Base.

5.2 Leverage Ratio. The ratio of Total Indebtedness to Tangible Net Worth shall not exceed 10 to 1.

5.3 Tangible Net Worth. The Tangible Net Worth of the Company shall at all times be greater than the sum of Forty-Five Million Dollars ($45,000,000.00).

5.4 Liquidity. The Company shall at all times maintain a minimum of Fourteen Million Dollars ($14,000,000.00) of Liquid Assets on its balance sheet.

The parties hereto acknowledge and agree that in the event that any of the foregoing covenants are materially changed as a result of a change in GAAP, the Banks, the Agent and the Company will amend the terms of this **Article 5** to accurately reflect the agreement among the Banks, the Agent and the Company with respect to such financial covenants prior to such change in GAAP.

## ARTICLE 6

## REPRESENTATIONS AND WARRANTIES

To induce the Agent and the Banks to enter into this Credit Agreement and to make Advances pursuant thereto, the Company represents and warrants to the Agent and the Banks as follows, which representations and warranties shall survive the execution and delivery of this Credit Agreement and shall be deemed to be continuing representations and warranties until the Warehouse Notes, the Swing Note, and the other obligations herein have been respectively paid in full to the Agent and the Banks and this Credit Agreement has been fully terminated:

6.1 Corporate Organization and Good Standing. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of California, and it has the requisite power and authority to own its properties and to conduct its business in the manner in which such



business is presently conducted. The correct legal name of the Company, its state of incorporation, and the correct address of its principal place of business are set forth in **Schedule 6.1** to this Credit Agreement.

6.2 Qualification. The Company is duly qualified to transact business and is validly existing and in good standing as a foreign corporation in every foreign jurisdiction where the failure to so qualify would materially and adversely affect the Company’s business or its properties.

6.3 Power and Authority. The Company has the requisite power and authority, corporate and otherwise, to enter into this Credit Agreement, to make the borrowings herein contemplated, to execute and deliver the Notes and the other Loan Documents to which it is a party, and to perform its obligations hereunder and thereunder, all of which have been duly authorized by all proper and necessary corporate action, and the same do not and will not:

(a) violate or conflict with any provision of the articles of incorporation or bylaws of the Company;

(b) violate or conflict with the provisions of any agreement, law, rule, regulation, order, writ, judgment, injunction, decree, determination or award to which either the Company is a party or by which it or its property is bound, and that would materially and adversely affect the Company;

(c) result in, or require the creation or imposition of, any lien, pledge, security interest, charge or encumbrance of any nature upon or with respect to any property now or hereafter owned by the Company or any Guarantor, other than such encumbrances as contemplated by the Security Agreement; or

(d) conflict with, result in a breach of, or constitutes-default under, any indenture, loan agreement, credit agreement, or any other agreement or instrument to which either the Company is a party or by which it or its property is bound, and that would materially and adversely affect the Company.

6.4 Binding Effect. This Credit Agreement, the Notes and the other Loan Documents to which the Company is a party are valid, binding, and legally enforceable obligations of the Company in accordance with their respective terms (subject only to limitations as to enforceability which might result from bankruptcy, reorganization, insolvency, or other similar laws affecting creditors' rights generally).

6.5 Financial Condition. The Company's audited financial statements as at December 31, 2006 (which have been prepared in conformity with GAAP applied on a basis consistent with that of the preceding fiscal year), and its most recent unaudited financial statements, copies of which have been furnished to the Agent and the Banks, pursuant to **Section 4.1(i)** of this Credit Agreement, present fairly the financial condition of the Company as at such dates and the results of their operations for the period then ended. There has been no material adverse change in said financial condition except as disclosed in **Schedule 6.1** to this Credit Agreement. The Company does not have any contingent obligations, liabilities, taxes, or other outstanding financial obligations which are material in the aggregate, except as described in **Schedule 6.1** to this Credit Agreement.

6.6 Properties. The Company has good and marketable title to all of its properties and assets, and none of its assets are subject to any mortgage, pledge, title retention lien, security interest, or encumbrance, except for those permitted by **Section 7.2(g)** hereof and those described in **Schedule 6.1** to this Credit Agreement.



6.7 Litigation. No litigation, delinquent tax claim, proceeding, dispute, or governmental proceeding is pending or, to its knowledge, threatened in writing against the Company, which (a) in the opinion of the Company, may have a material adverse effect on the business or condition (financial or other), affairs, or operations of the Company, or (b) involves or may affect the validity or enforceability of any Loan Document or the perfection or priority of any lien created thereby, except those matters described in **Schedule 6.1** to this Credit Agreement.

6.8 Purpose of Advances; Regulations U and X. No part of the proceeds of the borrowings hereunder will be used for any purpose other than financing Loans. No part of the proceeds for the borrowings hereunder will be used to purchase or carry any margin stock (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System) or to extend credit to others for the purpose of purchasing or carrying any margin stock, and the Company is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any such margin stock. If requested by the Agent or any Bank, the Company will furnish such Agent or Bank with a statement in conformity with the requirements of Federal Reserve Form U-1 referred to in said Regulation. The Company also warrants that no part of the proceeds of the borrowings hereunder will be used by it for any purpose which violates, or which is inconsistent with, the provisions of Regulation X of said Board of Governors.

6.9 Investment Company Act. The Company is not an investment company or a company controlled by an investment company within the meaning of the Investment Company Act of 1940, as amended.

6.10 Securities Act. The Company has not issued any unregistered securities in violation of the registration requirements of the Securities Act of 1933, as amended, or of any other law, and is not violating any rule, regulation, or requirement under the Securities Act of 1933, as amended, or the Securities and Exchange Act of 1934, as amended. The Company is not required to qualify an indenture under the Trust Indenture Act of 1939, as amended, in connection with its execution and delivery of the Warehouse Notes, or the Swing Note.

6.11 Permits; Consents, Compliance, etc. The Company has all necessary certificates, licenses, authorizations, registrations, permits and approvals necessary to own and operate its property and to conduct its business as it is currently being conducted. No consent, approval or authorization of, or registration, declaration, or filing with, any governmental authority is required on the part of the Company in connection with the execution and delivery of this Credit Agreement, the Notes or the other Loan Documents (other than filings to perfect the Security Interests), or in connection with the performance of or compliance with the terms, provisions, and conditions hereof except for those that have been obtained. The Company is in compliance with all applicable statues, regulations and orders of, and all applicable restrictions imposed by, all governmental bodies and agencies in respect of the conduct of its business and the ownership of its property. Each Loan at the time it was originated complied in all material respects with applicable local, state and federal laws, including, but not limited to, all applicable predatory and abusive lending laws. None of the Loans are "high cost", "high rate", "high fee" or "predatory" as defined by the applicable predatory and abusive lending laws.

6.12 ERISA. No fact or circumstance, including but not limited to any Reportable Event within the meaning of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), exists in connection with any Plan of the Company ("Plan" shall mean an employee pension benefit plan or pension covered by ERISA which is guaranteed by the Pension Benefit Guaranty Corporation or any successor thereto) which might constitute grounds for the termination of any such Plan by the Pension Benefit Guaranty



Corporation or any successor thereto or for the appointment of a trustee to administer any such Plan. For purposes of this representation and warranty, the Company shall be deemed to have knowledge of all facts attributable to any administrator of any such Plan.

6.13 Affiliates. The correct legal name of each Affiliate, the state of its organization (or, if a natural person, of his or her domicile), and the percentage of such Affiliate's capital stock or equity that is directly or indirectly owned by the Company or the percentage of the Company's stock which is directly or indirectly owned by each Affiliate, as applicable, are set forth in **Schedule 6.1** to this Credit Agreement.

6.14 Tax Returns and Payments. The Company has filed all tax returns (or allowable extension requests) required by law to be filed by it and has paid all taxes, assessments and other governmental charges levied upon its properties, assets, income and franchisees, other than those not yet delinquent and those, not substantial in aggregate amount, which are being contested in good faith by the Company. The charges, accruals and reserves on the books of the Company in respect of their taxes are adequate in the opinion of the Company. The Company knows of no material unpaid assessment for additional taxes or any basis for such assessment.

6.15 No Defaults. The Company is not in default in the payment or performance of any of its obligations or in the performance of any mortgage, indenture, lease, contract or other agreement, instrument or undertaking to which it is a party or by which it or any of its assets may be bound, which default would have a material adverse effect on the business, operations, assets or condition, financial or otherwise, of the Company, taken as a whole. No Event of Default or Unmatured Event of Default hereunder or under the other Loan Documents has occurred and is continuing. The Company is not in default under any order, award or decree of any court, arbitrator or governmental authority binding upon or affecting it or by which any of its assets may be bound or affected which default would have a material adverse effect on the business of the Company. The Company is not subject to any order, award or decree which is likely to materially adversely affect the ability Company to carry on its business as currently conducted or the ability of the Company to perform its obligations under this Credit Agreement, the Notes or the other Loan Documents to which it is a party.

6.16 Holding Company. The Company is not a "holding company" or a "subsidiary company" of a "holding company", within the meaning of the Public Utility Holding Company Act of 1935, as amended.

6.17 Contingent Obligations. The Company does not have on the date hereof any material contingent obligations, material liabilities for taxes, material long-term leases or unusual material forward or long-term commitments, which have not been disclosed to the Agent in writing prior to the date of this Credit Agreement and which would have a material adverse effect on the business, operations, assets or condition, financial or otherwise, of the Company, taken as a whole.

6.18 No Violations. The Company is not a party to any contract or agreement or subject to any charter or other corporate restriction which materially and adversely affects its business, property or financial condition. The execution, delivery and performance of this Credit Agreement, the Notes and the other Loan Documents to which the Company is a party will not result in the violation of or be in conflict with or constitute a default under the Articles of Incorporation or Bylaws of the Company or any term or provision of any mortgage, loan agreement or other instrument, or any judgment, decree, governmental order, statute, rule or regulation, by which the Company is bound or to which any of its assets is subject and will not result in the creation or imposition of any lien on the assets of the Company except as contemplated by this Credit Agreement. The Company is not a party to, or otherwise subject to any provision contained in, any



instrument evidencing indebtedness of the Company, any agreement relating thereto or any other contract or agreement (including its Articles of Incorporation) which restricts or otherwise limits the incurring of the indebtedness to be represented by this Credit Agreement, the Notes and the other Loan Documents.

6.19 Disclosure; Solvency. Neither this Credit Agreement nor any other document furnished to the Agent or the Banks by or on behalf of the Company in connection with the credit facilities contemplated herein contains any statement of any material fact which is untrue or misstates a material fact necessary in order to make the statements contained herein or therein, in light of the circumstances in which they were made, not misleading. There is no fact known to the Company which materially adversely affects or in the future will (so far as the Company can now foresee) materially adversely affect the business, operations, affairs or condition of the Company or any of its or his properties which has not been set forth in this Credit Agreement or in the other documents furnished to the Agent or to the Banks by or on behalf of the Company in connection with the credit facilities contemplated herein. The Company is currently solvent; and neither the issuance and delivery of the Warehouse Notes or the Swing Note, nor the performance of the transactions contemplated hereunder or thereunder, will render the Company insolvent, inadequately capitalized to undertake the transactions contemplated hereunder or to undertake the businesses in which it is presently engaged or about to engage or render the Company unable to pay its or his debts as they become due; the Company is not contemplating either the filing of a petition by it or him or the commencement of a case by it or them under any state or federal bankruptcy or insolvency laws or the liquidation of all or a major portion of its property; and neither the Company has no knowledge of any Person contemplating the filing of any such petition or commencement of any such case against the Company.

## ARTICLE 7

## COVENANTS

7.1 Affirmative Covenants. So long as any portion of the Secured Obligations under this Credit Agreement, including the Notes, remains unpaid or this Credit Agreement continues in effect, unless all of the Banks otherwise consent in writing, the Company shall abide by each of the following covenants and agreements:

(a) Payment and Performance of Obligations. The Company will pay all principal, interest, fees, and other charges with respect to the Notes and any other obligations when and as the same become due and payable, will strictly observe and perform all covenants, agreements, terms, conditions, and limitations contained in this Credit Agreement, the Notes and the other Loan Documents, and will do all things necessary to prevent any forfeiture or impairment of the Agent's or a Bank's rights hereunder or thereunder, and to prevent the occurrence of any Event of Default or an Unmatured Event of Default.

(b) Notice of Default. The Company shall promptly notify the Agent in writing of the occurrence of any Event of Default or Unmatured Event of Default, specifying in connection with such notification all actions proposed to be taken to remedy such circumstance.

(c) Notice of Non-Payment. The Company shall notify the Agent in writing of the occurrence of any failure or refusal by the Company to pay any amount in excess of One Hundred Thousand Dollars ($100,000.00) payable under any agreement to which it or they are a party (other than trade payables less than sixty (60) calendar days past due), within ten (10) calendar days of such failure or refusal, unless the Company is diligently and in good faith contesting their obligations to make such payment by appropriate action.



(d) Notice of Legal Proceedings. The Company shall, promptly upon becoming aware of the existence thereof, notify the Agent in writing of the institution of any litigation or legal proceeding with any person or tribunal, that might materially and adversely affect the condition, financial or otherwise, or the earnings, affairs or properties of the Company.

(e) Continuation of Primary Business. The Company shall continue to maintain the character of its primary business as currently conducted.

(f) Maintenance of Corporate Existence. Qualification and Assets. The Company shall at all times maintain (i) its legal existence as a corporation; (ii) its qualification to transact business and good standing as a foreign corporation in all jurisdictions where the failure to so qualify would materially and adversely affect the nature of its properties or the conduct of its businesses; and (iii) all franchises, licenses, rights, and privileges necessary for the proper conduct of its businesses.

(g) Maintenance of Security. The Company shall execute and deliver to the Agent for the benefit of the Banks all mortgages, security agreements, financing statements, assignments, and such other documents and instruments, and all supplements thereto, and continuation statements thereof, and take such other actions as the Agent deems reasonably necessary in order to maintain as valid, enforceable, and first priority liens and Security Interests granted to the Agent for the ratable benefit of the Banks.

(h) Payment of Taxes and Claims. The Company shall pay all taxes (or file for an allowable extension) imposed upon it or them or upon any of its or their properties or with respect to its or their franchises, business, income, or profits before any material penalty or interest accrues thereon. The Company shall also pay all material claims (including without limitation claims for labor, services, materials, and supplies) for sums which have or shall become due and payable and which by law have or might become a vendors lien or a mechanics, laborers', materialmen's, statutory, or other lien affecting any of its properties; provided, however, that the Company shall not be required to pay any such taxes or claims if (i) the amount, applicability, or validity thereof is being contested in good faith by appropriate legal proceedings promptly initiated and diligently conducted; and (ii) the Company shall have set aside on its books reserves (segregated to the extent required by generally accepted accounting principles) adequate with respect thereto.

(i) Maintenance of Insurance. The Company shall at all times maintain, or cause to be maintained, insurance covering such risks as is customarily carried by prudent businesses similarly situated, including, without limitation, hazard, general liability, fidelity, errors and omissions, and blanket bond coverages in conformity with the requirements set forth in Section 2.7 of the GNMA Mortgage-backed Securities Guide, Handbook 5500.3. All such insurance shall be written naming the Agent, for the benefit of the Banks, as additional insured or loss payee, as applicable. Upon the request of the Agent, the Company shall provide the Agent with a certificate or certificates from one or more reputable insurance companies setting forth the amount or amounts of coverage and containing an agreement from each such insurance company that no termination, expiration, cancellation, or lapse of any such insurance policy shall occur without at least thirty (30) calendar days advance written notice to the Agent.

(j) Compliance with Laws and Agreements; Taxes. The Company shall comply with the provisions of any laws and the provisions of any agreements material to its or their businesses and operations and shall maintain its abilities to perform its obligations under all agreements material to its businesses and operations. The Company will promptly pay and discharge all lawful taxes (or file for an allowable extension), assessments and governmental charges or levies imposed upon it or upon or in respect of all or any part of its property or business and all claims for work, labor or materials which, if unpaid, might become a lien upon any of its assets material to the Company taken as a whole unless permitted by **Section**



**7.2(g)** hereof or otherwise agreed to by the Requisite Banks; provided the Company shall not be required to pay any such tax, assessment, charge, levy, account payable or claim if (i) the validity, applicability or amount thereof is being contested in good faith by appropriate actions or proceedings which will prevent the forfeiture or sale of any property of the Company or any material interference with the use thereof by the Company, and (ii) the Company shall set aside on its books reserves deemed by the Company in its reasonable business judgment to be adequate with respect thereto or such greater amount as may be required by GAAP.

(k) Inspections. The Company shall, at any reasonable time and from time to time upon reasonable prior notice, permit any agents or representatives of the Agent and/or the Banks to inspect, examine, and make copies of and abstracts from its records and books of account, and to discuss its affairs, finances, and accounts with any of its officers, management employees, or independent public accountants (and by this provision the Company hereby authorizes said accountants to discuss with the Agents and the Banks and their respective agents or representatives the Company's affairs, finances, and accounts). The Company shall have the right to have a representative present at any of the inspections, examinations or discussions conducted by the Agent and/or the Banks; provided, however, the Agent and/or the Banks shall not be required to delay any of such inspections, examinations or discussions to accommodate the presence of such representative or representatives.

(l) Records. The Company shall keep accurate records and books of account reflecting all of its financial transactions, in which complete entries shall be made in accordance with generally accepted accounting principles consistently applied.

(m) ERISA. There is no Plan maintained or adopted by the Company.

(n) Further Assurances. The Company shall execute and deliver such other and further instruments, documents, or assurances as in the judgment of the Banks may be reasonably required to more effectively create or perfect the Security Interests or to confirm or evidence the obligations imposed by the terms and provisions of this Credit Agreement, the Notes and the other Loan Documents.

(o) Change in Name or Location. The Company shall notify the Agent in writing at least thirty (30) calendar days in advance of any change in location of its principal place of business, or place where records are kept, or of any proposed change of corporate name. To the extent not in the physical possession of the Agent, the Collateral and all books and records pertaining thereto shall be maintained and stored at the location specified on **Schedule 6.1** to this Credit Agreement, and the Company shall not remove any part of the Collateral from such location, other than temporarily in the ordinary course of business, unless the Company shall have provided the Agent with prior written notification of such change in location in accordance with the terms of this section and shall have assisted the Agent in filing such security agreements, financing statements, or other notices deemed necessary by the Agent to preserve and maintain the continued validity, enforceability, and priority Banks' lien on and Security Interest in the Collateral.

(p) Other Loan Agreements. The Company shall obtain the prior written consent of the Agent written notice at least fifteen (15) calendar days prior to entering into any other loan agreement similar in purpose or effect to this Credit Agreement. Further, the Company shall provide the Agent with copies of all such credit agreements and related documentation and all amendments, modifications and supplements thereto which are entered into after the date hereof.

(q) Change of Ownership. The Company shall obtain the Agent's written consent, which consent shall not be unreasonably withheld, delayed or conditioned, within thirty (30) days of



the effective date of any proposed change of control in the majority ownership of the capital stock of the Company.

(r) Insured Closing Letters. The Company shall cause all Loans financed with the proceeds of an Advance to be closed under an insured closing letter issued by a major nationally recognized title company acceptable to the Agent.

(s) MERS. During any time during which the Company is using the MERS System, the Company shall (a) at all times, maintain its status as a MERS Member, (b) at all times, employ officers who have the authority, pursuant to a corporate resolution from MERS, to execute assignments of mortgage in the name of MERS in the event deregistration from the MERS System is necessary or desirable, (c) at all times remain in compliance in all material respects with all terms and conditions of membership in MERS, including the MERSCORP, Inc. "Rules of Membership" most recently promulgated by MERSCORP, Inc., the "MERS Procedures Manual" most recently promulgated by MERS, and any and all other guidelines or requirements set forth by MERS or MERSCORP, as each of the foregoing may be modified from time to time, including, but in no way limited to compliance with guidelines and procedures set forth with respect to technological capabilities, drafting and recordation of mortgages, registration of mortgages on the MERS System, including registration of the interest of the Agent in such mortgages and membership requirements, (d) promptly, upon the request of the Agent, execute and deliver to the Agent an assignment of mortgage, in blank, with respect to any MERS Mortgage that the Agent determines shall be removed from the MERS System, (e) at all times maintain the Electronic Tracking Agreement in full force and effect, and (f) immediately provide to Agent a copy of any notice received from MERS or MERSCORP pursuant to Section 4(a) of the Electronic Tracking Agreement. The Company shall not de-register or attempt to de-register any mortgage from the MERS System unless the Company has complied with the requirements set forth in the Electronic Tracking Agreement and the requirements hereof and the Security Agreement relating to a release of Collateral.

(t) Hedging Program. The Company shall at all times maintain a Hedging Program which represents a reasonable means for the Company to hedge certain interest rate risks associated with the mortgage banking business, and such Hedging Program shall be acceptable to the Agent in its reasonable discretion.

7.2 Negative Covenants. So long as any portion of the Secured Obligations remains unpaid or this Credit Agreement continues in effect, unless all of the Banks otherwise consent in writing, the Company shall not violate any of the following covenants and agreements:

(a) Limitation on Indebtedness. The Company shall not incur, create, assume, have outstanding, guaranty, or otherwise be or become directly or indirectly liable with respect to any indebtedness, or modify any existing indebtedness, if, as a result thereof, the Company would be in violation of any of the covenants set forth in this Credit Agreement. Further, the Company shall not, without the prior written consent of the Agent and all of the Banks, incur, create, assume, having outstanding, guaranty, or otherwise become directly or indirectly liable with respect to any mortgage warehouse indebtedness, other than the Warehouse Line created hereunder and such indebtedness as shall exist as date hereof and shall be disclosed on **Schedule 6.1** hereof. In the event the Agent and the Banks consent to the incurrence, creation or assumption of any additional mortgage warehouse indebtedness, the Company covenants to execute and deliver an Intercreditor Agreement, fully executed by all of the Company's then current mortgage warehouse lenders and in form acceptable to the Banks and the Agent, within fifteen (15) days of the implementation of such additional mortgage warehouse indebtedness.



(b) Amendment of Corporate Documents. The Company shall not cause or permit any amendment of its Articles of Incorporation or any material change in its Bylaws in effect as of the date hereof.

(c) Redemption and Distributions. Except as permitted under **Section 7.2(k)** hereof, Company shall not: (i) apply any of its property to the purchase, redemption, or other retirement of any shares of any class of its capital stock; (ii) set apart any sum for the payment of or for any dividends on, or for the purchase, redemption, or other retirement of any shares of any class of its capital stock; or (iii) make any other distribution, by reduction of capital or otherwise, in respect of any shares of any class of its capital stock.

(d) Mergers, Sales, Transfers or Other Disposition of Assets. The Company shall not do any of the following without the prior written consent of the Agent, which consent shall not be unreasonably withheld, delayed or conditioned: (i) dissolve or otherwise dispose of all or any material portion of its assets (other than mortgage loans in the normal course of business and unused or obsolete assets of the Company which are not material to its operation), or acquire all or any material portion of the assets or outstanding capital stock of any other business entity if such acquisition involves a purchase price of greater than or equal to Two Hundred Fifty Thousand Dollars ($250,000.00); (ii) sell, lease, or otherwise transfer or dispose of any material assets for less than the higher of book value or fair market value (except assets no longer usable in Company's business); (iii) consolidate with or merge into another corporation or other legal entity or permit one or more other such entities to consolidate with or merge into it if such consolidation or merger involves a purchase price greater than or equal to Two Hundred Fifty Thousand Dollars ($250,000.00); (iv) effect any material adverse change in its capitalization; or (v) sell, lease, transfer, lend, or convey a material portion of any of its material assets to an Affiliate.

(e) VA Guaranties and FHA Insurance. The Company shall not commit or permit to be committed any act which would invalidate the guarantee of the Veterans Administration or insurance by the Federal Housing Administration or cause any impairment to the validity of or priority of the mortgage lien which secures any of the Loans, pledged to the Agent for the ratable benefit of the Banks under the Security Agreement. In the event that any such guarantee or insurance should lapse or otherwise be invalidated, the Company shall, within fifteen (15) days of such lapse or invalidation, cause the Loan affected by such lapse or invalidation to be removed from Collateral, with either (i) substitution of such other property constituting Collateral hereunder of at least equal value, or (ii) payment of the Advance made by the Banks with respect to such Loan.

(f) Maintenance of Qualifications. The Company shall not commit or suffer to be committed any act which would adversely affect its eligibility to participate as an FHA approved mortgagee, as an approved lender under the VA guarantee program, as an approved seller-servicer by GNMA, as an approved seller-servicer of mortgage notes to Fannie Mae and to FHLMC in the FHLMC regions in which it operates.

(g) Liens. The Company shall not create or permit to exist, any mortgage, pledge, title retention, lien, lease purchase, or other encumbrance or security interest, with respect to any assets now owned or hereafter acquired by the Company except: (i) the Security Interests and the liens and security interests created under the Collateral Documents; (ii) materialmen's, mechanics', suppliers', tax, or warehousemen's liens, statutory liens of landlords and other like liens arising in the ordinary course of business which are not yet due or which are being contested in good faith by appropriate proceedings; (iii) liens incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment compensation, and other types of social security, or to secure the performance of other



statutory obligations; (iv) encumbrances consisting of zoning regulations, easements, rights of way, survey exceptions, and other similar restrictions on the use of real property, and minor irregularities in titles thereto which do not materially impair their use in the operation of its business; (v) liens and security interests incurred or made in the purchase of property or equipment in the ordinary course of business; and (vi) existing liens and security interests described in Schedule 6.1 to this Credit Agreement which have been deemed acceptable by the Agent and the Banks.

(h) Guaranties. The Company shall not guaranty, endorse, assume, become surety for, indemnify, or otherwise become or be responsible for the obligations of any Person except: (i) endorsements of negotiable instruments for deposit or collection in the ordinary course of business and (ii) obligations incurred in connection with the sale of Loans in the ordinary course of business of the Company.

(i) Use of Funds. The Company shall not use any finds provided by the Banks under this Credit Agreement, or by any Warehouse Advance, Swing Advance or Excess Advance for any purpose other than funding or purchasing Loans. The Company shall not use the proceeds of any Wet Advance, Jumbo Advance, Alt A Advance or HELOC/Second Trust Deed Advance for any purpose other than the purposes encompassed by the definition of those terms in Article 1 of this Credit Agreement. In addition to the foregoing, the Company shall not use any finds provided by the Banks under this Credit Agreement or by any Warehouse Advance for the purpose of making any Loan that would be subject to the provisions of the Home Ownership and Equity Protection Act of 1994 or other federal or state legislation relating to "high cost" mortgage lending.

(j) Loans and Advances. Other than existing loans to shareholders, the Company shall not, other than in the ordinary course of its business, make any loan or advance to any Person (including without limitation Affiliates) if such loan or advance would cause the aggregate amount of all such loans and advances to all such Persons to be in excess of Two Hundred Fifty Thousand Dollars ($250,000,00), exclusive, however, of the amount of all reasonable salaries, benefits, and occupational expenses that have traditionally been borne by the Company and all loans, advances and distributions made by the Company to LendingTree to pay corporate taxes and/or employee benefits of the Company.

(k) Dividends, Redemption and Distributions. The Company shall not: (i) declare or pay in any fiscal year cash dividends; (ii) declare or pay any dividends payable in its capital stock on any shares of any class of its capital stock; (iii) apply any of its property to the purchase, redemption, or other retirement of any shares of any class of its capital stock; (iv) set apart any sum for the payment of any dividends on, or for the purchase, redemption, or other retirement of, any shares of any class of its capital stock; or (v) make any other distribution, by reduction of capital or otherwise, in respect of any shares of any class its capital stock, if such action would cause an Event of Default or an Unmatured Event of Default hereunder.

(l) Mortgage Loan Early Purchase and Sale/Repurchase Facilities. Except for the respective early purchase lines of credit of the Company currently in effect, the Company shall not, without the prior written consent of the Agent thereto, which consent shall not be unreasonably withheld, delayed or conditioned, enter into any agreement providing facilities for the early purchase or the sale and repurchase of mortgage loans and/or mortgage backed securities. Notwithstanding the foregoing, in the event the Agent consents to the Company entering into agreements for such facilities, at the Agent's request, the Company covenants and agrees to use its best efforts to deliver an Intercreditor Agreement, filly executed by the Company and all of the Company's then current and proposed mortgage warehouse lenders and parties to such early purchase and sale/repurchase facilities, substantially in a form prescribed by the Agent, on or before the date of implementation of such facilities.



7.3 Reporting Requirements. So long as any portion of the Company's liabilities under the Credit Agreement, including the Notes, remains unpaid or this Credit Agreement remains in effect, unless the Requisite Banks otherwise consent in writing, the Company shall furnish to the Agent and the Banks the following reports:

(a) Annual Reports. As soon as available, and in any event within ninety (90) calendar days after the end of each fiscal year of the Company, the Company shall furnish to the Banks (i) a complete annual audited financial statement with all notes thereto, on a consolidated basis with the Company, prepared in reasonable detail in accordance with generally accepted accounting principles consistently applied, and in detail reasonably satisfactory to the Agent, which shall contain at least a balance sheet, a statement of profit and loss and stockholder's equity, and a statement of cash flows, set forth in each case in comparative form with corresponding figures from the preceding fiscal year, and (ii) to the extent the same is prepared by the Company, the management letter prepared by the firm of independent certified public accountants in connection with the certification of the annual audited financial statements of the Company, in form acceptable to the Bank. Each annual audited financial statement of the Company shall be duly certified by a firm of independent certified public accountants of recognized national standing or otherwise acceptable to the Requisite Banks. The certified report of such firm shall include a statement to the effect that the examination made in preparing and certifying such annual audited financial statement has not disclosed the existence of a condition or event at the end of the fiscal year which constitutes an Event of Default or Unmatured Event of Default hereunder, or a statement specifying the nature and period of existence of any such condition or event disclosed by such examination.

(b) Monthly Reports. As soon as available, and in any event within thirty (30) calendar days after the end of each calendar month, the Company shall furnish to each of the Banks (i) financial statements for the preceding fiscal month, prepared on a basis consistent with prior periods and in accordance with generally accepted accounting principles, such monthly financial statements shall contain at least a balance sheet of the Company as of the end of such month and a statement of profit and loss for such month and for the fiscal year to date, (ii) a duly executed Covenant Compliance Certificate, (with calculations attached), and (iii) production numbers for the month and year-to-date, all in such form and detail as the Agent shall reasonably request. Each monthly financial statement shall be accompanied by a certificate chief financial officer of the Company dated as of such date and certifying that the monthly financial statement so provided is correct and complete as of such date and fairly presents the results of operations for the periods then ended, and that there exists no Event of Default or Unmatured Event of Default hereunder and that all representations and warranties contained in this Credit Agreement and the Loan Documents are true and correct as if made again effective on the date of such certificate. The financial statements to be delivered to the Agent under this subsection shall be audited statements same have been obtained by the Company.

(c) Mortgage Position Report. As soon as available and in any event within thirty (30) calendar days after the end of each calendar month, or more frequently if requested by the Agent, a mortgage position report which details the Company's market and commitment positions relative to Loans in pipeline and closed Loans in inventory, such mortgage position report to be in form as is reasonably acceptable to the Agent.

(d) Hedging Reports. At the end of each calendar month, the Company shall provide to the Agent, a secondary marketing report for that month, in form reasonably satisfactory to the Agent (each such report, a "Positions Report"), which shall include a schedule setting forth (A) the components of the Company's Hedging Program as of the end of such month, and (B) the Commitments as of



the end of such month.

(e) Agency Audits. Promptly upon delivery to the Company, the Company shall furnish to the Agent a copy of the results of any field audit of the Company's business and/or records performed by GNMA, Fannie Mae, FHLMC or the Department of Housing and Urban Development, together with a copy of all subsequent correspondence relating to such audit between the Company and such agency.

(f) Updated List of Approved Investors. The Company shall deliver or cause to be delivered to the Agent an updated list of all Approved Investors, immediately upon any change in the same, which list must include the (a) Approved Investor name, (b) contact person, (c) address, (d) phone number, and (e) and upon request by the Agent, the financial statements for such investor.

(g) Other Reports and Information. The Company shall deliver or cause to be delivered to the Agent and/or the Banks such information (not otherwise required to be furnished under this Credit Agreement or the other Loan Documents) respecting its business, affairs, assets, and liabilities, and such statements, lists of property and accounts, reports, opinions, certifications, and documents as the Agent may from time to time reasonably request.

## ARTICLE 8

## EVENTS OF DEFAULT

**8.1** Events of Default. The occurrence of one or more of the following events shall constitute an "Event of Default".

(a) Default under the Loan Documents. The occurrence of an Event of Default under and as defined in this Credit Agreement or any of the other Loan Documents.

(b) Payments. The Company shall fail to make any payment of principal, interest, fees, or other amounts with respect to the obligations or liabilities of the Company to a Bank, whether under this Credit Agreement or any of the other Loan Documents, including without limitation the obligations set forth in the Notes, or otherwise, on or before the date such payment is due pursuant to and such failure shall continue for a period of ten (10) calendar days.

(c) Covenant Defaults. The Company shall fail to perform or observe any covenant, agreement, or provision contained in this Credit Agreement or the other Loan Documents by it to be performed or observed, including without limitation the covenants set forth in Article 7 of this Credit Agreement and such failure with respect thereto shall continue for a period of forty five (45) calendar days, except for the covenants contained in Article 5 and Sections **7.1(a), (b),** (c), (e), **(f), (g), (i), (k), (o)** and (s) and Section 7.2 of this Credit Agreement, for which there shall be no grace period except as specified in Section **8.1(b)** hereof, or the occurrence of any other event of default (other than those described above under any of the other Loan Documents).

(d) Representations and Warranties. Any representation or warranty made or deemed made by the Company herein or in any other Loan Document, including without limitation the representations and warranties set forth in Article **6** of this Credit Agreement, or in any certificate, schedule, statement, report, notice or writing furnished by or on behalf of the Company to the Agent or any Bank,



whether furnished prior to, contemporaneously with, or subsequent to the execution of this Credit Agreement, is untrue or is breached in any material respect.

(e) Default on Indebtedness. Any creditor or any representative of any creditor of the Company declares, or is or becomes entitled to declare, any indebtedness of the Company which exceeds Two Hundred Fifty Thousand Dollars ($250,000.00), to be due and payable prior to its expressed maturity by reason of any material default by the Company in the performance or observance of any obligation or condition, or any such indebtedness becomes due by its terms and is not promptly paid or extended, other than those not yet delinquent and those which are being contested in good faith by the Company.

(f) Insolvency. The Company becomes insolvent or generally does not pay, or admits in writing its inability to pay its debts as they become due, or applies for, consents to, or acquiesces in the appointment of a trustee or receiver of the Company or its property; or in the absence of such application, consent, or acquiescence, a trustee or receiver is appointed for the Company or for a substantial part of its property and is not discharged within forty-five (45) calendar days; or any bankruptcy, reorganization, debt arrangement, or other proceeding under any bankruptcy or insolvency law is instituted by or against the Company and, if instituted against the Company, is consented to or acquiesced in by the Company, or remains for thirty (30) calendar days undismissed or uncontested.

(g) Dissolution or Liquidation. Any dissolution or liquidation proceeding is instituted by or against the Company and, if instituted against the Company, is consented to or acquiesced in by the Company, or remains for thirty (30) calendar days undismissed or uncontested.

(h) Termination or Suspension of Business. The transaction of the usual business of the Company is terminated or suspended.

(i) Judgments. The entry of an uninsured money judgment against the Company in excess of Fifty Thousand Dollars ($50,000,00), unless such judgment shall be satisfied, appealed, discharged, or stayed within thirty (30) calendar days after the entry thereof, and if stayed, within ten (10) calendar days after the expiration or lapse of any such stay.

(j) Material Adverse Change. The occurrence of any material adverse change in the condition of the Company, financial or otherwise.

(k) Change of Ownership. The Company implements any change in majority ownership of the Company without notifying Agent in advance and obtaining Agent's prior written consent, which consent shall not be unreasonably withheld, delayed or conditioned.

8.2 Remedies Not Exclusive. The rights and remedies provided in this Credit Agreement, the Notes, the Collateral Documents and all other Loan Documents are cumulative, may be exercised in such sequence or combination as the Requisite Banks (or all of the Banks if the context so requires pursuant to **Section 9.20** hereof) may elect, and are not exclusive of any rights or remedies otherwise provided by law.

8.3 Remedies Upon Event of Default. If an Event of Default shall have occurred, the Agent may at its sole option, subject to the provisions of **Section 9.20** hereof, exercise any one of more of the following rights and remedies, and any other remedies provided in this Credit Agreement, any of the other Loan Documents, or at law or equity or otherwise, and shall, at the direction of the Requisite Banks, exercise



any one or more of such rights and remedies (provided, however, that if any Event of Default specified in **Sections 8.1(b), 8.1(f)** or **8.1(g)** hereof shall occur, the principal of, and all interest on, the Notes and other liabilities hereunder shall thereupon become due and payable concurrently therewith and the Banks' obligations to make Advances hereunder shall immediately terminate, without any further action by the Agent or any Bank and without presentment, demand, protest, notice of default, notice of acceleration or of intention to accelerate or other notice of any kind, all of which the Company hereby expressly waives):

(a) Acceleration. Declare the unpaid balance of the Notes, including principal, interest, and any fees or other obligations, or any part thereof, to be immediately due and payable, without demand, presentment, or further notice of any kind, the same being hereby expressly waived by the Company, whereupon it shall be due and payable.

(b) Advances; Termination. Refuse to make any further Advances or readvances under any of the Notes, and terminate this Credit Agreement and the other Loan Documents.

(c) Judgment. Reduce any claim to judgment.

(d) Offset. Exercise the rights of offset and/or banker's lien against the interests of the Company in and to every property of the Company (other than escrow deposits or custodial trust accounts managed by the Company) which is in the possession of a Bank to the extent of the full amount of the Company's obligations to such Bank.

(e) Foreclosure/Repurchase. Exercise all those rights and remedies allowed to secured parties by all applicable laws, including without limitation the Kentucky Uniform Commercial Code and the Uniform Commercial Code as enacted in any other jurisdiction in which the Collateral or any portion thereof may be located.

(f) Possession. Enter upon the premises of the Company and take immediate possession of the Collateral, with or without legal process, either personally or by means of a receiver appointed by a court of competent jurisdiction.

(g) Collection of Accounts. Collect and receive all accounts, rents, income, revenue, earnings, issues, and profits arising from the Collateral or any part thereof.

(h) Exercise of Rights. Exercise any and all other rights afforded by any applicable laws or by this Credit Agreement and the other Loan Documents at law, in equity, or otherwise, including, but not limited to, the rights to bring suits or other proceedings before any tribunal of competent jurisdiction, either for specific performance of any covenant or condition contained in the Loan Documents or in aid of the exercise of any right granted to the Agent or a Bank in this Credit Agreement or any other Loan Document.

8.4 Performance by the Banks. Should the Company fail to observe or perform any covenant, duty, or promise by it to be observed or performed under the terms of this Credit Agreement or the other Loan Documents, the Agent or the Banks may, in their discretion and without any obligation to do so, perform or attempt to perform, such covenant, duty, or promise on behalf of the Company, and, in the event the Agent or a Bank should do so, the Company shall immediately upon demand reimburse the Agent or such Bank for all its expenses, disbursements, fees, and costs incurred in connection therewith, with interest thereon at the rate specified in the Notes. The Agent and the Banks do not assume and shall never have,



except by its express written consent, any liability or responsibility for the performance of any covenant, duty, or promise of the Company hereunder.

8.5 Attorneys; Accountants; Other Third Parties. In the exercise of their rights under this Credit Agreement, the Notes, or the other Loan Documents, the Agent and the Banks may retain, consult with, and otherwise utilize the services of counsel, accountants and other third parties. Whenever attorneys, accountants or other third parties are used by the Agent or a Bank in the exercise of any of its remedies under this Credit Agreement, the Notes, or the other Loan Documents, or otherwise, including collection or enforcement of this Credit Agreement, the Notes, or the other Loan Documents, or to enforce, defend, declare, or adjudicate any of the Agent's or a Bank's rights under any of such instruments and documents or in any of the Collateral, whether by suit, negotiation, or otherwise, such reasonable attorneys', accountants' and other third parties' fees as are incurred by the Agent or a Bank in connection therewith shall be payable by the Company to the fullest extent allowed by law provided that an Event of Default has occurred hereunder or it is otherwise determined that the Company is liable to the Agent or a Bank hereunder or under the other Loan Documents.

## ARTICLE 9

## MISCELLANEOUS

9.1 Expenses. The Company agrees to reimburse the Agent, upon demand, for all out-of-pocket expenses (including reasonable attorneys' fees and legal expenses), incurred in connection with the preparation, review, and amendment of this Credit Agreement, and, if an Event of Default has occurred hereunder or if it is otherwise determined that the Company is liable to the Agent or a Bank, the Company agrees to promptly reimburse the Agent or any Bank, upon demand, for all reasonable out-of-pocket expenses (including reasonable attorneys' fees and legal expenses), incurred in enforcing or attempting to enforce the obligations of the Company hereunder and under the Notes and the other Loan Documents, which obligations shall survive any termination of this Credit Agreement.

9.2 Non-Liability of Banks. The relationship between the Company and the Banks is, and shall at all times remain, solely that of debtor and creditor, and the Banks neither undertake nor assume any responsibility or duty to review, inspect, supervise, pass judgment upon, or inform the Company of any matter in connection with any aspect or phase of the Company's businesses, operations, or condition, financial or otherwise. The Company shall rely entirely upon its own judgment with respect to all such matters, and any review of, inspection of, supervision of, exercise of judgment on, or supply of information to, the Company by the Agent or a Bank in connection with any such matter is for the protection and benefit of the Banks, and neither the Company nor any third party is entitled to rely thereon.

9.3 Waivers. etc. No failure to exercise and no delay in exercising, on the part of the Banks or the Agent or any holder of the Notes, of any power or right hereunder or under the Notes or the other Loan Documents and no course of dealing between the Company and the Agent or a Bank or the holder of the Notes, shall operate as a waiver thereof; nor shall any single or partial exercise of any power or right preclude any other or further exercise thereof or the exercise of any other power or right.

9.4 Amendments. Except as set forth in **Section 9.20** hereof, no amendment, modification, or supplement to this Credit Agreement, the Notes, or the other Loan Documents, or to any other document or instrument executed or issued by any of the parties hereto in connection with the transactions contemplated herein, shall be binding unless executed in writing by all parties hereto; and this provision of this Credit Agreement shall not be subject to waiver by any party and shall be strictly enforced.



9.5 Taxes. The Company agrees to pay, and save the Agent and the Banks harmless from all liability for, any stamp or other taxes (otherwise than by a change in taxation of a Bank's overall net income) which may be payable with respect to the execution or delivery of this Credit Agreement, the Notes, and the other Loan Documents, which obligation of the Company shall survive the termination of this Credit Agreement.

9.6 Governing Law. This Credit Agreement shall be construed in accordance with and governed by the law of the Commonwealth of Kentucky, without giving effect to the conflict of laws principles thereof. Service of any writ, process, summons, or complaint upon the Company may be made by mail upon it at the address stated in this Credit Agreement, upon any registered agent for service of process, or by any other method provided by law. Service by any such method shall be conclusively deemed to be legally sufficient in all respects, and the Company hereby irrevocably waives any objection to the service or sufficiency of service of any writ, process, summons, or complaint which is served in accordance with the foregoing.

9.7 Section Titles; Table of Contents. The section titles and the table of contents contained in this Credit Agreement are inserted for convenience only and shall not govern the interpretation of any of the provisions of this Credit Agreement.

9.8 Reliance by the Banks. All covenants, agreements, representations, and warranties made herein by the Company shall, notwithstanding any investigation by the Agent and the Banks, be deemed to be material to the Agent or the Banks and to have been relied upon by the Agent or the Banks and shall survive the execution and delivery of this Credit Agreement.

9.9 Severability. The provisions of this Credit Agreement are severable. If any provision hereof shall be held invalid or unenforceable in whole or in part by a court of competent jurisdiction, the remainder of this Credit Agreement shall not thereby fail or be rendered void or unenforceable, but shall continue in full force and effect, with only the invalid or unenforceable provision rendered a nullity and severed from this Credit Agreement.

9.10 Survival of Representations and Warranties. All representations and warranties made by the Company in this Credit Agreement shall survive the execution hereof, the delivery of the Notes and the making of all Advances, and the Banks and the Agent shall be entitled to rely on such representations and warranties at all times.

9.11 Termination. This Credit Agreement shall terminate on the Termination Date, at which time no further Advances shall be made hereunder. Upon such termination, the Notes shall be immediately due and payable.

9.12 Counterparts; Effectiveness. This Credit Agreement and any amendments, waivers, consents, or supplements may be executed in any number of counterparts, and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts shall together constitute but one and the same instrument. This Credit Agreement shall become effective upon the later of: (a) the receipt by the Agent of a counterpart hereof executed by the Company, the Banks and the Agent; and (b) the delivery to the Company of a counterpart hereof executed by the Company, the Banks and the Agent.



9.13 Entire Agreement. This Credit Agreement, the Notes, the other Loan Documents and all other documents related to any of the foregoing or otherwise contemplated hereunder embody the final and entire agreement between the parties hereto relating to the subject matter hereof and thereof and supersede any and all prior commitments, arrangements, representations, understandings and agreements and any and all oral agreements between the parties relating to the subject matter hereof. There are no unwritten, oral agreements between the parties.

9.14 Exhibits and Schedules. The Exhibits and Schedules to this Credit Agreement are a part hereof, and are hereby incorporated by reference as if fully set out where first mentioned herein.

9.15 Indemnity. The Company shall indemnify and hold harmless the Banks, the Agent, their respective successors, assigns, agents and employees, from and against any and all claims, actions, suits, proceedings, costs, expenses, damages, fines, penalties and liabilities, including, without limitation, reasonable attorneys' fees and costs, arising out of, connected with or resulting from (a) this Credit Agreement or any of the other Loan Documents, (b) the operation of the business of the Company, (c) the Agent's and/or any Bank's preservation or attempted preservation of the Collateral, or (d) any failure of the Liens granted to the Agent in its capacity as agent for the Banks in the Collateral to be or to remain perfected or to have the priority as contemplated herein and in the Collateral Documents; provided, the Company shall have no obligation to indemnify the Banks for any loss caused in whole or in part by the Banks' or the Agent's gross negligence or willful misconduct. At each Bank's request, the Company shall, at its own cost and expense, defend or cause to be defended any and all such actions or suits that may be brought against such Bank as a result of this Credit Agreement or any of the other Loan Documents, unless the claim arose due to gross negligence or willful misconduct on the part of such Bank and, in any event, shall satisfy, pay and discharge any and all judgments, awards, penalties, costs and fines that may be recovered against the applicable Bank in any such action, plus all reasonable attorneys' fees and costs related thereto to the extent permitted by applicable law; provided, however, that each Bank shall give the Company, to the extent such Bank seeks indemnification from the Company under this **Section 9.15,** written notice of any such claim, demand or suit as soon as practicable after the applicable Bank has received written notice thereof, and the applicable Bank shall not settle any such claim, demand or suit, if such Bank seeks indemnification therefor from the Company, without first giving notice to Company of such Bank's desire to settle and obtaining the consent of Company to the same, which consent Company hereby agrees not to unreasonably withhold or delay.

9.16 Role of the Banks. Notwithstanding any of the terms or conditions hereof or of the other Loan Documents to the contrary, the Banks shall not have, and by their execution and acceptance of this Credit Agreement hereby expressly disclaim, any obligation or responsibility for the management, conductor operation of the business and affairs of the Company. Any term or condition hereof, or of any of the other Loan Documents, permitting the Banks to take or refrain from taking any action with respect to the Company or the Collateral shall be deemed solely to permit the Banks to audit and review the management, operation and conduct of the business and affairs of the Company and to maintain and preserve the security given by the Company to the Agent, in its capacity as agent for the Banks, for the Secured Obligations, and may not be relied upon by any other Person. Further, the Banks shall not have, have not assumed, and by their execution and acceptance of this Credit Agreement hereby expressly disclaim, any liability or responsibility for the payment or performance of any indebtedness or obligation of the Company, and no term or condition hereof, or of any of the other Loan Documents, shall be construed otherwise.

9.17 Notices. All notices required or permitted to be given hereunder shall be given in writing and shall be personally delivered or sent by telecopier, by express courier service or by registered or



certified United States mail, return receipt requested, postage prepaid, addressed as follows (or to such other address as to which any party hereto shall have given the other written notice):

| | |
|---|---|
| If to the Company: | At the telecopy number or address specified below the signature of the Company |
| If to the Agent or Banks: | At the telecopy number or address specified below the signature of the applicable Bank |
| | cc: Jeffrey A. Hamilton, Esq.<br>Reed Weitkamp Schell & Vice PLLC<br>500 West Jefferson Street<br>Suite 2400<br>Louisville, KY 40202<br>Ph: (502) 589-1000<br>Fax: (502) 562-2200 |

All notices hereunder shall be deemed given upon the earliest of (a) actual delivery in person or by telecopier, (b) one (1) Business Day after delivery to an express courier service for overnight delivery for next Business Day, and in event express courier service is not available, (y) five (5) Business Days after having been deposited in the United States mails, certified delivery, return receipt requested or (z) the Business Day on which a facsimile was sent and confirmed, in accordance with the foregoing. Any notice of an Event of Default to the Company shall be sent by personal delivery, express courier service or by registered or certified mail in accordance with this **Section 9.17.**

9.18 Ratable Sharing. Except as otherwise specifically set forth in this Credit Agreement, including without limitation, in **Article 2** hereof and this **Section** 9.18, each Bank agrees with each other Bank that (i) with respect to all amounts received by them which are applicable to the payment of principal of or interest on the Advances or fees relating thereto including, without limitation, all amounts received by such Bank pursuant to the exercise of the right of set-off pursuant to this Credit Agreement, equitable adjustment will be made so that all such amounts will be shared among the Banks proportionately to their respective Pro Rata Shares whether received by voluntary payment, by the exercise of the right of set-off or banker's lien, by counterclaim or cross action or by the enforcement of any or all of the Secured Obligations owed by the Company to the Banks hereunder and under the Notes, and (ii) if any of them shall exercise any right of counterclaim, set-off, banker's lien or similar right with respect to amounts owed by the Company hereunder, that Bank shall apportion the amount recovered as a result of the exercise of such right pro rata in accordance with (a) all amounts outstanding at such time owed by the Company to it hereunder, and (b) all amounts otherwise owed by the Company to it, and (iii) if any of them shall thereby through the exercise of any right of counterclaim, set-off, banker's lien or otherwise, or as adequate protection of a deposit treated as cash collateral under the Bankruptcy Code, receive payment or reduction of a proportion of the aggregate amount of principal and interest due with respect to the Advances made by that Bank or any other amount payable hereunder (collectively, the "Aggregate Amount Due" to such Bank), which is greater than the proportion received by any other

Bank in respect of the Aggregate Amount Due to such other Bank, then the Bank receiving such proportionately greater payment shall (y) notify each other Bank and the Agent of such receipt and (z) purchase participations (which it shall be deemed to have done simultaneously upon the receipt of such payment) in the Aggregate Amount Due to the other Banks so that all recoveries of Aggregate Amount Due shall be shared by the Banks in proportion to their respective Pro Rata Shares; provided that if all of part



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of such proportionately greater payment received by such purchasing Bank is thereafter recovered from such Bank, those purchases shall be rescinded and the purchase prices paid for such participations shall be returned to that Bank to the extent of such recovery, but without interest. The Company expressly consents to the foregoing arrangements and agrees that any participant in respect of any Advance may exercise any and all rights of banker's lien, set-off or counterclaim with respect to any and all rights of banker's lien, set-off or counterclaim with respect to any and all monies owing by the Company to that participant as if that participant were a Bank in the amount of such participation held by that participant. Notwithstanding anything contained herein to the contrary, immediately upon the occurrence of an Event of Default, acceleration of the Secured Obligations and/or termination, the Banks hereby absolutely and unconditionally agree to purchase or sell, as applicable, such participation in the Advances outstanding as shall be required to assure that each Bank holds its Pro Rata Share of all such Advances.

9.19 Assignment. This Credit Agreement may not be assigned by the Company without the prior written consent of the Banks. All rights of the Banks hereunder shall inure to the benefit of their respective successors and assigns, and all obligations, covenants and agreements of the Company shall bind its successors and assigns, if any.

9.20 Consent of Banks. Any amendment or modification of this Credit Agreement or any other Loan Document, or waiver of any term or provision hereof or thereof, shall require the affirmative written consent of the Agent and the Requisite Banks; provided, notwithstanding anything herein to the contrary, the following shall require the affirmative written consent of the Agent and all of the Banks: (i) except as permitted under the terms of the Security Agreement, the release of any part of the Collateral from the liens respectively created by the Loan Documents, (ii) the termination, cancellation or release of any Loan Documents, (iii) the decrease in the interest rate(s) borne by the Advances, other than decreases in the interest rate(s) borne by the Advances by virtue of any decreases or changes in the LIBOR as expressly contemplated herein, (iv) any reduction in the amount of the installments of principal due under this Credit Agreement or the Notes or in the aggregate principal amount of principal due thereunder, (v) any extension of the Termination Date or the due dates of any installments of principal of and/or accrued interest on the Notes, (vi) any change in the definition of the term Requisite Banks, (vii) any change in the amount or the calculation of the Commitment Fee, (viii) any change in the computation of (including any change in the definition of any term used in) the Warehouse Borrowing Base, or (ix) any amendment to **Section 2.8** hereof or this **Section 9.20** or any other section of this Credit Agreement that expressly requires the consent of all of the Banks. Notwithstanding anything to the contrary in this **Section 9.20** or elsewhere in this Credit Agreement, (y) with the approval of the Requisite Banks, the Agent may temporarily waive or suspend one or more of this Credit Agreement's eligibility requirements or conditions for a particular grouping of Loans to qualify as Eligible Collateral where their failure to so qualify is beyond the Company's reasonable control and if the Agent and the Requisite Banks believe at the time of such temporary waiver or suspension that the factors which apparently caused such disqualification will be eliminated in a reasonably shorttime, and (z) in addition to the provisions of the foregoing subclause (y) Agent may, in its sole discretion, warehouse or continue to warehouse Loans ("Discretionary Loans") which would otherwise fail to qualify as Eligible Collateral or waive or temporarily suspend or delay any obligation of the Company hereunder in connection with such Discretionary Loans, including, without limitation, suspension of any mandatory prepayment due in connection with such Discretionary Loans, so long as the aggregate Advances outstanding at any one time against such Discretionary Loans shall not exceed Five Million Dollars ($5,000,000.00). Each Loan which the Agent warehouses or continues to warehouse as a particular type of Loan pursuant to subclause (y) or (z) above, shall, for the entire time such Loan is warehoused pursuant to such subclause, be treated as such particular type of Loan for all purposes under this Credit Agreement and each of the other Loan Documents.



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## ARTICLE 10

## THE AGENT

10.1 Appointment. Each Bank hereby irrevocably designates, appoints and authorizes National City to act as Agent for such Bank under this Credit Agreement, to act as collateral agent for such Bank under all Loan Documents and all Uniform Commercial Code Financing Statements filed pursuant thereto and to execute and deliver or accept on behalf of each of the Banks the other Loan Documents. Each Bank hereby irrevocably appoints, designates and authorizes the Agent to act as the Agent under and in accordance with the provisions of the Security Agreement. Each Bank hereby irrevocably authorizes, and each holder of any Note by the acceptance of such Note shall be deemed irrevocably to authorize, the Agent to take such action on behalf of such Bank and such holder under the provisions of this Credit Agreement and the other Loan Documents and any other instruments and agreements referred to herein, and to exercise such powers and to perform such duties hereunder as are specifically delegated to or required of the Agent by the terms hereof, together with such powers as are reasonably incidental thereto. National City agrees to act as the Agent on behalf of the Banks to the extent provided in this Credit Agreement, and National City expressly acknowledges and agrees that it is holding the other Loan Documents for the benefit of the Banks to secure the payment and performance of the Notes and the other obligations of the Company under the Loan Documents.

10.2 Delegation of Duties. The Agent may perform any of its duties hereunder by or through agents or employees and, subject to **Sections 10.5, 10.6 and 10.7** hereof, shall be entitled to engage and pay for the advice or services of any attorneys, accountants or other experts concerning all matters pertaining to its duties hereunder and to rely upon any advice so obtained.

10.3 Nature of Duties; Independent Credit Investigation. The Agent shall have no duties or responsibilities except those expressly set forth in this Credit Agreement and the other Loan Documents and no implied covenants, functions, responsibilities, duties, obligations, or liabilities shall be read into this Credit Agreement or shall otherwise exist. National City agrees that it shall administer its responsibilities and duties as Agent hereunder and under the other Loan Documents with at least the same degree of care that it customarily employs in the administration of similar credit facilities for its own account. The duties of the Agent shall be mechanical and administrative in nature and shall include the duty to provide to each Bank an executed original of such Bank's Note and an executed original of this Credit Agreement and a copy of the other Loan Documents; the Agent shall not have by reason of this Credit Agreement a fiduciary or trust relationship in respect of any Bank; and nothing in this Credit Agreement, expressed or implied, is intended to or shall be so construed as to impose upon the Agent any obligations in respect of this Credit Agreement except as expressly set forth herein. The Agent shall provide the Banks copies of all notices and documents received by it in its capacity as Agent hereunder or under any of the other Loan Documents except as otherwise specifically provided herein. Each Bank expressly acknowledges (i) that the Agent has not made any representations or warranties to it and that no act by the Agent hereafter taken, including any review of the affairs of the Company shall be deemed to constitute any representation or warranty by the Agent to any Bank; (ii) that it has made and will continue to make, without reliance upon the Agent, its own independent investigation of the financial condition and affairs and its own appraisal of the creditworthiness of the Company in connection with this Credit Agreement and the making and continuance of the Warehouse Advances hereunder; and (iii) except as expressly provided herein, that the Agent shall have no duty or responsibility, either initially or on a continuing basis, to provide any Bank with any credit or other information with respect thereto, whether coming into its possession before the making of any Advance or at any time or times thereafter.



10.4 Actions in Discretion of the Agent: Instructions from the Banks. The Agent agrees, upon the written request of the Requisite Banks, to take or refrain from taking any action of the type specified as being within the Agent's rights, powers or discretion herein, provided that the Agent shall not be required to take any action which exposes the Agent to legal liability or which is contrary to this Credit Agreement or any other Loan Documents or applicable law. In the absence of a request by the Requisite Banks, the Agent shall have authority, in its sole discretion, to take or not to take any such action, unless this Credit Agreement specifically requires the consent of the Requisite Banks or all of the Banks. Any action taken or failure to act pursuant to such instructions or discretion shall be binding on the Banks, subject to **Section 10.6** hereof. Subject to the provisions of **Section 10.6** hereof, no Bank shall have any right of action whatsoever against the Agent as a result of the Agent acting or refraining from acting hereunder in accordance with the instructions of the Requisite Banks or all of the Banks, as applicable, or in the absence of such instructions, in the absolute discretion of the Agent.

10.5 Reimbursement and Indemnification of the Agent by the Company. The Company unconditionally agrees to pay or reimburse the Agent and save the Agent harmless against (i) liability for the payment of all reasonable and necessary out-of-pocket costs, expenses and disbursements, including fees and expenses of counsel and consultants, incurred by the Agent (a) in connection with the development, negotiation, preparation, printing, execution, interpretation and performance of this Credit Agreement and the other Loan Documents, subject to the provisions of **Sections 9.1** and **10.7** hereof, (b) relating to any Company requested amendments, waivers or consents pursuant to the provisions hereof, (c) in connection with the enforcement of this Credit Agreement or any other Loan Document or collection of amounts due hereunder or thereunder or the proof and allowability of any claim arising under this Credit Agreement or any other Loan Document, whether in bankruptcy or receivership proceedings or otherwise, and (d) in any workout or restructuring or in connection with the protection, preservation, exercise or enforcement of any of the terms hereof or of any rights hereunder or underany other Loan Document or in connection with any foreclosure/repurchase, collection or bankruptcy proceedings, and (ii) all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which be imposed on, incurred by or asserted against the Agent, in its capacity as such, in any way relating to or arising out of this Credit Agreement or any other Loan Document or any action taken or omitted by the Agent hereunder or thereunder; provided that the Company shall not be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements (a) if the same results from the Agent's or the Banks' gross negligence or willful misconduct, or (b) if the Company was not given notice of the subject claim and the opportunity to participate in the defense thereof, at its expense, or (c) if the same results from a compromise or settlement agreement entered into without the consent of the Company which consent shall not be unreasonably withheld.

10.6 Exculpatory Provisions. Neither the Agent nor any of its directors, officers, employees, agents or affiliates shall (i) be liable to any Bank for any action taken or omitted to be taken by it or them hereunder, or in connection herewith including pursuant to any other Loan Documents, including without limitation, the provision of any notice or copies of documents to the Banks, unless caused by its or their own gross negligence or willful misconduct, (ii) be responsible in any manner to any of the Banks for the effectiveness, enforceability, genuineness, validity or the due execution of this Credit Agreement or any other Loan Document or for any recital, representation, warranty, document, certificate, report or statement herein or made or furnished under or in connection with this Credit Agreement or any other Loan Document, or (iii) be under any obligation to any of the Banks to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions hereof or thereof on the part of the Company, or the financial condition of the Company, or the existence or possible existence of any Event of Default or default under the Loan Documents. Neither the Agent nor any Bank nor any of their respective directors, officers, employees, agents, attorneys or affiliates shall be liable to the Company or any other Person for consequential



damages resulting from any breach of contract, tort or other wrong in connection with the negotiation, documentation or administration of the Loan Documents or the collection of the Advances, except for those caused by or resulting from the gross negligence or willful misconduct thereof.

10.7 Reimbursement and Indemnification of the Agent by the Banks. Each Bank agrees to reimburse and indemnify the Agent (to the extent not reimbursed by the Company and without limiting the obligation of the Company to do so) in proportion to its Pro Rata Share from and against all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against the Agent, in its capacity as such, in any way relating to or arising out of this Credit Agreement or any other Loan Document or any action taken or omitted by the Agent hereunder or thereunder, provided that no such reimbursement shall be required with respect to expenses incurred by the Agent during the time period through the date hereof and no Bank shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements if the same relates to or arises out of the Agent's gross negligence or willful misconduct.

10.8 Reliance by the Agent. The Agent shall be entitled to rely upon any writing, telegram, telex or teletype message, facsimile, resolution, notice, consent, certificate, letter, cablegram, statement, order or other document or conversation by telephone or otherwise believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and upon the advice and opinions of counsel and other professional advisers selected by the Agent. The Agent shall be fully justified in failing or refusing to take any action hereunder unless it shall first be indemnified to is satisfaction by the Banks against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action.

10.9 Notice of Default. The Agent shall not be deemed to have knowledge or notice of the occurrence of any default under the Loan Documents or Event of Default unless the Agent has received written notice from a Bank or the Company referring to this Credit Agreement, specifically describing such default or Event of Default and stating that such notice is a "notice of default." In the event that the Agent receives such a notice of an occurrence of an Event of Default, the Agent shall give prompt notice thereof to the Banks. If an Event of Default shall occur, the Agent shall take such actions as shall be reasonably directed by the Requisite Banks or all of the Banks, as applicable. Unless and until the Agent shall have received such instructions, the Agent may (but shall not be obligated to) take such action or refrain from taking such action, as it shall deem advisable in the best interests of the Banks.

10.10 The Banks in Their Individual Capacities. With respect to its Warehouse Line Commitment and the Warehouse Advances made by it, the entity which is the Agent shall have the same rights and powers hereunder as any other Bank and may exercise the same as though it were not the Agent, and the term "Banks" shall, unless the context otherwise indicates, include the entity which is the Agent in its individual capacity. National City and its affiliates and each of the Banks and their respective affiliates may, without liability to account, except as prohibited herein, make loans to, accept deposits from, discount drafts for, act as trustee under indentures of, and generally engage in any kind of banking or trust business with, the Company and its Affiliates, in the case of the entity which is the Agent, as though it were not acting as Agent hereunder and in the case of each Bank, as though such Bank were not a Bank hereunder.

10.11 Holders of Notes. The Agent may deem and treat any payee of any Note as the owner thereof for all purposes hereof unless and until written notice of the assignment or transfer thereof shall have been filed with the Agent. Any request, authority or consent of any Person who at the time of making such request or giving such authority or consent is the holder of any Note shall be conclusive and binding on



any subsequent holder, transferee or assignee of such Note or of any Note or Notes issued in exchange therefor.

10.12 Successor Agent. The Agent (i) may resign as Agent with the consent of the Company, such consent not to be unreasonably withheld, or (ii) shall resign if such resignation is requested by the Requisite Banks, in either case (i) or (ii) by giving not less than ninety (90) calendar days prior written notice to the Company and the Banks; provided, however, in no event shall the Agent be required to remain in such capacity beyond the Termination Date. If the Agent shall resign under this Credit Agreement, then either (a) the Requisite Banks shall appoint from among the Banks a successor agent for the Banks, subject to the consent of such successor agent by the Company, such consent not to be unreasonably withheld, or (b) if a successor agent shall not be so appointed and approved within the ninety (90) calendar day period following the Agent's notice to the Banks of its resignation, then the Agent shall appoint, with the consent of the Company, such consent not to be unreasonably withheld, a successor agent who shall serve as Agent until such time as the Requisite Banks appoint, and the Company consents, which consent shall not be unreasonably withheld, to the appointment of, a successor agent. Upon its appointment pursuant to either clause (a) or (b) above, such successor agent shall succeed to the rights, powers and duties of the Agent and the term "Agent" shall mean such successor agent, effective upon its appointment, and the former Agent's rights, powers and duties as Agent shall be terminated without any other or further act or deed on the part of such former Agent or any of the parties to this Credit Agreement. After the resignation of any Agent hereunder, the provisions of this **Article 10** shall not by reason of such resignation be deemed to be released from liability for any actions taken or not taken by it while it was an Agent under this Credit Agreement.

10.13 Calculations. In the absence of gross negligence or willful misconduct, the Agent shall not be liable for any error in computing the amount payable to any Bank whether in respect of the Warehouse Advances or the fees or other amounts due to the Banks under this Credit Agreement. In the event an error in computing any amount payable to any Bank is made, the Agent, the Company and each affected Bank shall, forthwith upon discovery of such error, make such adjustments as shall be required to correct such error. In no event, however, shall the Company be required to pay more than the amount of error itself.

10.14 Beneficiaries. Except as set forth in **Sections 10.5 and 10.12** hereof, the provisions of this **Article 10** are solely for the benefit of the Agent and the Banks, and the Company shall not have any rights to rely on or enforce any of the provisions hereof. In performing its functions and duties under this Credit Agreement, the Agent shall act solely as agent of the Banks and does not assume and shall not be deemed to have assumed any obligation toward or relationship of agency or trust with or for the Company or any other Person.

## ARTICLE 11

## ADDITIONAL BANKS; ASSIGNMENTS AND PARTICIPATIONS

11.1 Additional Banks. The Agent with the consent of the Company may at any time propose that one or more commercial banks each of which is organized under the laws United States or any state thereof or organized under the laws of any other country, or a political subdivision thereof (provided that such foreign bank is acting through a branch or agency located in the United States, or is organized under the laws of a country that is a member of the Organization for Economic Cooperation and Development or a political subdivision of such country), is regularly engaged in the business of mortgage warehouse lending, and has capital and surplus of at least Three Hundred Million Dollars ($300,000,000.00) (each, an "Applicant Financial Institution") become an additional Bank hereunder. At such time, the Company or the Agent, as



applicable, shall notify the other parties hereto of the identity of such Applicant Financial Institution and such Applicant Financial Institution's proposed Warehouse Line Commitment (which must not be less than Five Million Dollars ($5,000,000.00) and which must be a multiple of Five Million Dollars ($5,000,000.00)); provided, however, notwithstanding anything contained herein to the contrary, without the prior written consent of the Agent and the Requisite Banks, the Total Warehouse Line Commitment shall never exceed Fifty Million Dollars ($50,000,000.00). The Agent and the Company shall mutually agree on the effective date on which such Applicant Financial Institution shall become a party hereto and a Bank hereunder (the "Adjustment Date"). On such Adjustment Date: (i) the Agent shall deliver to the Company and each of the Banks a Commitment Schedule and Allocation Notice to be effective from such Adjustment Date; (ii) such Applicant Financial Institution shall pay to the Agent, no later than 12:00 noon Prevailing Time, an amount equal to such Applicant Financial Institution's Pro Rata Share of the Aggregate Outstanding Warehouse Balance and the Aggregate Outstanding Excess Balance to be funded on such Adjustment Date, as applicable, whereupon, the Agent shall thereupon remit to the Banks their respective shares of such funds, as applicable, and following such Adjustment Date, fees and interest accrued on Loans to but not including such Adjustment Date shall be payable to the Banks in accordance with their respective Pro Rata Shares prior to such Adjustment Date before giving effect to the readjustment thereof pursuant to the Commitment Schedule and Allocation Notice provided by the Company on such Adjustment Date; (iii) the Agent, the Company and such Applicant Financial Institution shall execute and deliver an agreement in the form of that attached hereto as **Exhibit *G*** (an "Additional Lender Agreement"), which agreement shall constitute an amendment to this Credit Agreement to the extent necessary to reflect the inclusion of such Applicant Financial Institution as a Bank hereunder, and if in connection with the inclusion of such Applicant Financial Institution as a Bank hereunder, the Total Warehouse Line Commitment will be increased, the parties hereto will execute any additional amendments to the Loan Documents as the Agent reasonably requests to reflect such increase; (iv) the Company shall execute and deliver new Notes, as applicable, to such Applicant Financial Institution; (v) subject to the requirements described above, such Applicant Financial Institution shall become a party hereto and a Bank hereunder and shall be entitled to all rights, benefits and privileges accorded a Bank hereunder and under the other Loan Documents and shall be subject to all obligations of a Bank hereunder and under the other Loan Documents; and (vi) the Applicant Financial Institution shall pay to the Agent a registration fee in an amount determined by the Agent in its sole discretion covering the admission of the Applicant Financial Institution into this Credit Agreement. Notwithstanding anything contained herein to the contrary, the Company may, with the prior written consent of the Agent and the Requisite Banks, reduce the Total Warehouse Line Commitment in multiples of Five Million Dollars ($5,000,000.00); provided, however, any such reduction (y) shall not reduce the Agent's Warehouse Pro Rata Share to less than fifty five percent (55%), and (z) any such reduction shall be prorated as to the Banks, except reductions which occur during the annual renewal period which shall only require the consent of the Company and the Agent. Furthermore, the Company may, with the prior written consent of the Agent, remove any financial institution as a Bank hereunder with or without cause.

11.2 Assignments and Participations. No Bank shall sell, assign, transfer or negotiate all or any part of its interests, liabilities or obligations under this Credit Agreement or any other Loan Document. Notwithstanding the foregoing, each Bank shall be permitted to sell, assign, transfer or negotiate such interests, liabilities or obligations to another lender which is an Affiliate of such Bank or if such lender is the surviving entity of a merger, consolidation or other business combination with such Bank (each a "transferee") so long as such transferee meets the capital and surplus requirement of **Section 11.1** hereof and executes an assignment and assumption agreement in form acceptable to the Agent. Each Bank may, at no additional cost to the Company, grant participations in all or any part of the outstanding principal balance of its Warehouse Note and its Warehouse Line Commitment to one or more Persons provided that (i) any such disposition shall not, without the consent of the Company, require the Company to file a registration statement with the Securities and Exchange Commission or apply to qualify the Warehouse Advances or the



Warehouse Notes under the blue sky law of any state; (ii) the holder of any such participation shall not be entitled to require such Bank to take or omit to take any action hereunder; and (iii) any Person to whom such disposition has been made shall not be considered a "Bank" for purposes of this Credit Agreement. No Bank shall, as between the Company and that Bank, be relieved of any of its obligations hereunder as a result of any granting of participations in all or any part of the outstanding principal balance of its Warehouse Note or its Warehouse Line Commitment of or other obligations owed to such Bank. Notwithstanding anything contained here and to the contrary, any Bank may at any time pledge or sign or any portion of such Bank's rights under this Credit Agreement and the other Loan Documents to a Federal Reserve Bank.

## ARTICLE 12

## WAIVER OF JURY TRIAL

THE COMPANY, THE BANKS, AND THE AGENT HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS CREDIT AGREEMENT OR THE OTHER LOAN DOCUMENTS. THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALLENCOMPASSING OF ANY AND ALL DISPUTES THAT MAY BE FILED IN ANY COURT THAT RELATE TO THE SUBJECT MATTER OF THIS TRANSACTION, INCLUDING, WITHOUT LIMITATION, CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW AND STATUTORY CLAIMS. THE COMPANY, THE BANKS, AND THE AGENT EACH ACKNOWLEDGE THAT THIS WAIVER IS A MATERIAL INDUCEMENT FOR EACH SUCH PARTY TO ENTER INTO A BUSINESS RELATIONSHIP, THAT THE COMPANY, THE BANKS, AND THE AGENT HAVE ALREADY RELIED ON THIS WAIVER IN ITS RELATED FUTURE DEALINGS WITH THE OTHERS. THE COMPANY, THE BANKS, AND THE AGENT FURTHER WARRANT AND REPRESENT THAT EACH HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL, AND THAT EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL. THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS CREDIT AGREEMENT OR THE OTHER LOAN DOCUMENTS. IN THE EVENT OF LITIGATION, THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

[The remainder of this page has been intentionally left blank.]



IN WITNESS WHEREOF, the parties hereto have caused this Credit Agreement to be executed as of the day and year first above written.

HOME LOAN CENTER, INC. D/B/A
LENDINGTREE LOANS

By: [ILLEGIBLE]

Title: EVP & COO

| | |
|---|---|
| Address: | Home Loan Center, Inc.<br>d/b/a LendingTree Loans<br>163 Technology Drive<br>Irvine, California 92618 |
| Attn : | Robert Hill<br>Senior Vice President, Finance |
| Fax: | (949) 885-3222 |
| Ph: | (800) 756-0789 |

| | |
|---|---|
| Attn: | Val C. Stiefel<br>Assistant General Counsel |
| Fax: | (949) 231-6516 |
| Ph: | (800) 231-6616 |
| | (the "Company") |

NATIONAL CITY BANK

| | |
|---|---|
| By: | /s/ Michael A. Johnson |
| | Michael A. Johnson |
| Title: | Vice President |
| Address: | National City Bank<br>101 South Fifth Street, 6th Floor<br>Louisville, Kentucky 40202 |
| Attn : | Michael A. Johnson<br>Vice President |
| Fax: | (502) 581-4154 |
| Ph: | (502) 581-7549 |
| | ("National City") |

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NATIONAL CITY BANK,
in its capacity as Agent for the Banks

| | |
|---|---|
| By: | /s/ Michael A. Johnson |
| | Michael A. Johnson |
| Title: | Vice President |
| Address: | National City Bank<br>101 South Fifth Street, 6th Floor<br>Louisville, Kentucky 40202 |
| Attn: | Michael A. Johnson<br>Vice President |
| Fax: | (502) 581-4154 |
| Ph: | (502) 581-7660 |
| | (the "Agent") |

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EXHIBIT A
TO WAREHOUSING CREDIT AGREEMENT

**WAREHOUSE BORROWING BASE FORMULA**

"Warehouse Borrowing Base" shall be determined according to the following formula:

Warehouse Borrowing Base =

+A Collateral Value of all Loans constituting Eligible Collateral which are not included in any other category set forth below.

+B Collateral Value of all Wet Loans constituting Eligible Collateral (B shall not exceed the Wet Advance Sublimit).

+C Collateral Value of all Alt A Loans constituting Eligible Collateral (C shall not exceed the Alt A Advance Sublimit; provided, however, not more than five percent (5%) of the Total Warehouse Line Commitment may be used for Advances supported by Alt A Loans satisfying parts (i), (ii) and (iii)(B) of the definition of Alt A Loan set forth in the Credit Agreement).

+D Collateral Value of all Jumbo Loans constituting Eligible Collateral (D shall not exceed the Jumbo Advance Sublimit).

+E Collateral Value of all Second Trust Deed Loans and HELOC Loans constituting Eligible Collateral (E shall not exceed the HELOC/Second Trust Deed Advance Sublimit).

Provided, however, that (i) notwithstanding anything in the Credit Agreement or the other Loan Documents to the contrary, the Agent may mark an item of Collateral to market at any time for the purpose of determining the Warehouse Borrowing Base; and (ii) the Warehouse Borrowing Base formula set forth above is subject to the further limits set forth in the definition of Collateral Value contained in **Section 1.1** of the Credit Agreement.

DEFINITIONS

Each capitalized term used herein which is not otherwise defined herein shall have the meaning given such term in the Credit Agreement.

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EXHIBIT B
TO WAREHOUSING CREDIT AGREEMENT

**COVENANT COMPLIANCE CERTIFICATE**

[On Company Letterhead]

TO: National City Bank

RE: $50,000,000.00 Warehouse Line

Ladies and Gentlemen:

This Certificate is delivered pursuant to that certain Warehousing Credit Agreement (“Agreement”), dated as of November 26,2007 among National City Bank (the “Bank”), National City Bank, as agent for the Bank (the “Agent”), and Home Loan Center, Inc. d/b/a Lending Tree Loans (the “Company”). Capitalized terms used herein and not defined shall have the meanings ascribed thereto in the Agreement and the Schedules attached thereto.

I hereby certify to the Agent as follows:

1. I am, and at all times mentioned herein have been, the-duly-elected, qualified and acting of the Company.

2. I have individually reviewed the provisions of the Agreement and Schedules thereto, and a review of the activities of Company has been made under my supervision with a view towards determining whether the Company has met and complies with the covenants as set forth in the Agreement.

3. Based on the foregoing review, the representations and warranties made in the Agreement are true and correct in all material respects as of the date hereof, and no Event of Default has occurred, nor does any circumstance exist which with the passage of time or giving notice, or both, would constitute an Event of Default under the Loan Documents.

4. There are no material actions, suits, legal, equitable, arbitration or administrative proceedings pending or threatened against Company, the adverse determination of which could have a material adverse effect on the Loan Documents, the business operations or financial condition of Company or the ability of Company to fulfill its obligations under the Loan Documents.

5. The ratio of Total Indebtedness to Tangible Net Worth, as calculated using the formula set forth in the Agreement, is

Requirement of Agreement: Leverage ratio shall not exceed ten (10) to one (1).

Covenant satisfied Covenant not satisfied

6. The Tangible Net Worth of the Company, as calculated using the formula set forth in the Agreement, is $

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Requirement of Agreement: Minimum Tangible Net Worth of Forty-Five Million Dollars ($45,000,000.00).

Covenant satisfied Covenant not satisfied

7. The Liquid Assets of the Company as defined in the Agreement, is

Requirement of Agreement: Minimum Liquid Assets of Fourteen Million Dollars ($14,000,000.00).

Covenant satisfied Covenant not satisfied

8. The financial statements prepared for the immediately preceding fiscal quarter and year are correct and complete as of their date and fairly present the results of operations of the Company for such periods.

9. All working papers and spreadsheets used in the preparation of this Covenant Compliance Certificate have been attached hereto.

This Covenant Compliance Certificate executed and delivered on ,200 .

**HOME LOAN CENTER, INC.D/B/A
LENDINGTREE LOANS**

By ______________________________

Title: ____________________________

EXHIBIT C-1
TO WAREHOUSING CREDIT AGREEMENT

**WAREHOUSE PROMISSORY NOTE**

$50,000,000.00 Louisville, Kentucky
November 26, 2007

For value received, HOME LOAN CENTER, INC. **D/B/A** LENDINGTREE LOANS, a California corporation with its principal office and place of business at 163 Technology Drive, Irvine, California 92618 (the "Maker"), hereby promises and agrees to pay to the order of NATIONAL CITY BANK, a national banking association, with a principal office and place of business in Louisville, Kentucky (the "Payee"), on or before the Termination Date (as defined in the Credit Agreement defined below), the principal sum of Fifty Million Dollars ($50,000,000.00) or so much thereof as may be advanced to the Maker by the Payee as "Warehouse Advances" or "Excess Advances" under the Credit Agreement referred to below.

This Note is one of the Maker's "Warehouse Notes" referred to in and is issued pursuant to and is entitled to the benefits of that certain Warehousing Credit Agreement dated November 26, 2007 entered into by and among the Maker, the Bank or Banks a party thereto from time to time (including the Payee) and National City Bank, as Agent for such Bank or Banks (the "Agent") (as such agreement may hereafter be amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement"; capitalized terms used herein without definition shall have the meanings assigned those terms in the Credit Agreement).

The unpaid principal balance of this Note, as the same shall exist from time to time, shall bear interest at the rates and in the manner set forth in the Credit Agreement. All payments of principal on this Note that are not paid when due and, to the extent permitted by applicable law, any interest payments on this Note or any fees or other amounts owed hereunder or under the Credit Agreement not paid when due, in each case whether at stated maturity, by notice of prepayment, by acceleration or otherwise, shall thereafter bear additional interest at the Default Rate until paid in full. Interest on delinquent principal and interest shall be payable on demand. In no event shall the interest rate or rates payable under this Note exceed the maximum rate allowed by law. Interest on this Note shall be computed on the basis of a 360-day year, for the actual number of calendar days elapsed in the period during which it accrues.

The Maker covenants and agrees to pay interest on the unpaid principal amount of this Note until paid in full at the rates, at the times and from the dates which shall be determined in accordance with the provisions of Article **2** of the Credit Agreement.

All payments of principal and interest in respect of this Note shall be made in lawful money of the United States of America in same day funds at the office of the Payee, located at 101 South Fifth Street, Louisville, Kentucky, or at such other place as shall be designated in writing for such purpose in accordance with the terms of the Credit Agreement. Until notified in writing of the transfer of this Note, the Maker and the Agent shall be entitled to deem the Payee or such person who has been so identified by the transferor in writing to the Maker and the Agent as the holder of this Note, as the owner and holder of this Note. Each of the Payee and any subsequent holder of this Note agrees that before disposing of this Note or any part thereof it will make a notation hereon or in its records of all principal payments previously made hereunder and of the date to which interest hereon has been paid; provided, however, that failure to make a notation of any payment made on this Note shall not limit or otherwise affect the obligation of the Maker hereunder with respect to payments of principal or interest on this Note.

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This Note is subject to mandatory prepayment and to prepayment at the option of the Maker as provided in of the Credit Agreement.

This Note is subject to restrictions on transfer and assignment as provided in the Credit Agreement.

**THE CREDIT AGREEMENT AND THIS NOTE SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE COMMONWEALTH OF KENTUCKY, WITHOUT REGARD TO CONFLICTS OF LAW PRINCIPLES.**

The terms of this Note are subject to amendment only in the manner provided in the Credit Agreement.

No reference herein to the Credit Agreement and no provision of this Note or the Credit Agreement shall alter or impair the obligation of the Maker, which is absolute and unconditional, to pay the principal of and interest on this Note at the place, at the respective times, and in the currency herein prescribed.

All payments made upon this Note shall be applied first to delinquent accrued interest, if any, then to the outstanding principal balance hereof and then to nondelinquent accrued interest hereon.

This Note is secured by the Security Agreement and each of the other Collateral Documents.

Upon the occurrence of any Event of Default under the Credit Agreement, or at any time thereafter, the entire unpaid principal balance of, and all accrued interest on, this Note may become, or may be declared to be, immediately due and payable in the manner, upon the conditions and with the effect provided in the Credit Agreement. If this Note is placed in the hands of an attorney for collection, or if this Note is collected through-any court, the Maker promises and agrees to pay to the Agent and the Payee all reasonable costs and expenses of collection permitted by law, including, but not limited to, attorneys' fees and court costs as provided in the Credit Agreement.

Failure of the Agent or the Payee to exercise any of its rights and remedies hereunder, or under the Credit Agreement, the Security Agreement or the other Loan Documents, shall not constitute a waiver of the right to exercise the same at that or any other time. All remedies of the Agent and the Payee in the event of a breach or default hereunder or under any of the instruments referred to herein shall be cumulative to the fullest extent permitted by law. Time shall be of the essence with respect to all of the Maker's obligations hereunder.

The Maker hereby waives presentment, demand, notice of dishonor, protest, notice of protest, and nonpayment and all exemptions to which it may be entitled under the laws of the Commonwealth of Kentucky, the State of California or any other state of the United States or of the United States, and further agrees that the holder hereof shall have the right, subject to the provisions of the Credit Agreement, to grant the Maker any extension of time for payment of this Note, to modify the terms of any of the instruments referred to herein with the consent of all other parties thereto, or to release any party liable hereon without in any way affecting the liability of the Maker or any other parties liable for payment of this Note.

**EACH OF THE MAKER AND THE PAYEE, HEREBY WAIVES ITS RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS NOTE OR THE OTHER LOAN DOCUMENTS. THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL-ENCOMPASSING OF ANY AND ALL DISPUTES THAT MAY BE FILED IN ANY COURT THAT RELATE TO THE SUBJECT MATTER OF THIS TRANSACTION, INCLUDING, WITHOUT LIMITATION, CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW AND STATUTORY CLAIMS.**

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EACH OF THE MAKER AND THE PAYEE ACKNOWLEDGES THAT THIS WAIVER IS A MATERIAL INDUCENZENT FOR EACH SUCH PARTY TO ENTER INTO A BUSINESS RELATIONSHIP, AND THAT EACH OF THE MAKER AND THE PAYEE HAS ALREADY RELIED ON THIS WAIVER IN ITS RELATED FUTURE DEALINGS WITH THE OTHER. EACH OF THE MAKER AND THE PAYEE FURTHER WARRANTS AND REPRESENTS THAT EACH HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL, AND THAT EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL. THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS NOTE OR THE OTHER LOAN DOCUMENTS. IN THE EVENT OF LITIGATION, THIS NOTE MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

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IN WITNESS WHEREOF, the Maker has caused this Note to be duly executed and delivered by its duly authorized officer as of the date first written above.

**HOME LOAN CENTER, INC. D/B/A**
**LENDINGTREE LOANS**

By: ______________________________

Title: ______________________________

(the “Maker”)

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EXHIBIT E
TO WAREHOUSING CREDIT AGREEMENT

SWING **PROMISSORY NOTE**

$ Louisville, Kentucky
, 20

For value received, HOME LOAN CENTER, INC. D/B/A LENDINGTREE LOANS, a California corporation with its principal office and place of business at 163 Technology Drive, Irvine, California 92618 (the “Maker”), hereby promises and agrees to pay to the order of NATIONAL CITY BANK, a national banking association, with a place of business in Louisville, Kentucky (the “Payee”), on or before the Termination Date (as defined in the Credit Agreement defined below), the principal sum of MILLION DOLLARS ($ ,000,000.00) or so much thereof as may be advanced to the Maker by the Payee as “Swing Advances” under the Credit Agreement referred to below.

This Note is the “Swing Note” referred to in and is issued pursuant to and is entitled to the benefits of that certain Warehousing Credit Agreement dated November 26, 2007 entered into by and among the Maker, the Bank or Banks party thereto from time to time and National City Bank, as agent for the Bank or Banks (the “Agent”) (as such agreement may be amended, restated, supplemented or otherwise modified from time to time, the “Credit Agreement”; capitalized terms used herein without definition shall have the meanings assigned those terms in the Credit Agreement).

The unpaid principal balance of this Note, as the same shall exist from time to time, shall bear interest at the rates and in the manner set forth in the Credit Agreement. All payments of principal on this Note that are not paid when due and, to the extent permitted by applicable law, any interest payments on this Note or any fees or other amounts owed hereunder or under the Credit Agreement not paid when due, in each case whether at stated maturity, by notice of prepayment, by acceleration or otherwise, shall thereafter bear additional interest at the Default Rate until paid in full. Interest on delinquent principal and interest shall be payable on demand. In no event shall the interest rate or rates payable under this Note exceed the maximum rate allowed by law. Interest on this Note shall be computed on the basis of a 360-day year, for the actual number of calendar days elapsed in the period during which it accrues.

The Maker covenants and agrees to pay interest on the unpaid principal amount of this Note until paid in full at the rates, at the times and from the dates which shall be determined in accordance with the provisions of **Article 2** of the Credit Agreement.

All payments of principal and interest in respect of this Note shall be made in lawful money of the United States of America in same day funds at the office of the Agent, located at 101 South Fifth Street, Louisville, Kentucky, or at such other place as shall be designated in writing for such purpose in accordance with the terms of the Credit Agreement. Until notified in writing of the transfer of this Note, the Maker and the Agent shall be entitled to deem the Payee or such person who has been so identified by the transferor in writing to the Maker and the Agent as the holder of this Note, as the owner and holder of this Note. Each of the Payee and any subsequent holder of this Note agrees that before disposing of this Note or any part thereof it will make a notation hereon or in its records of all principal payments previously made hereunder and of the date to which interest hereon has been paid; provided, however, that failure to make a notation of any payment made on this Note shall not limit or otherwise affect the obligation of the Maker hereunder with respect to payments of principal or interest on this Note.

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This Note is subject to mandatory prepayment and to prepayment at the option of the Maker as provided in the Credit Agreement.

This Note is subject to restrictions on transfer and assignment as provided in the Credit Agreement.

**THE CREDIT AGREEMENT AND THIS NOTE SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE COMMONWEALTH OF KENTUCKY, WITHOUT REGARD TO CONFLICTS OF LAW PRINCIPLES.**

The terms of this Note are subject to amendment only in the manner provided in the Credit Agreement.

No reference herein to the Credit Agreement and no provision of this Note or the Credit Agreement shall alter or impair the obligation of the Maker, which is absolute and unconditional, to pay the principal of and interest on this Note at the place, at the respective times, and in the currency herein prescribed.

All payments made upon this Note shall be applied first to delinquent accrued interest, if any, then to the outstanding principal balance hereof and then to nondelinquent accrued interest hereon.

This Note is secured by the Security Agreement and each of the other Collateral Documents.

Upon the occurrence of any Event of Default under the Credit Agreement, or at any time thereafter, the entire unpaid principal balance of and all accrued interest on, this Note may become,-or may be declared to be, immediately due and payable in the manner, upon the conditions and with the effect provided in the Credit Agreement. If this Note is placed in the hands of an attorney for collection, or if this Note is collected through any court, the Maker promises and agrees to pay to the Agent and the Payee all reasonable costs and expenses of collection permitted by law, including, but not limited to, attorneys’ fees and court costs as provided in the Credit Agreement.

Failure of the Agent or the Payee to exercise any of its rights and remedies hereunder, or under the Credit Agreement, the Security Agreement or the other Loan Documents, shall not constitute a waiver of the right to exercise the same at that or any other time. All remedies of the Agent and the Payee in the event of a breach or default hereunder or under any of the instruments referred to herein shall be cumulative to the fullest extent permitted by law. Time shall be of the essence with respect to all of the Maker’s obligations hereunder.

The Maker hereby waives presentment, demand, notice of dishonor, protest, notice of protest, and nonpayment and all exemptions to which it may be entitled under the laws of the Commonwealth of Kentucky, the State of California or any other state of the United States, or of the United States, and further agrees that the holder hereof shall have the right, subject to the provisions of the Credit Agreement to grant the Maker any extension of time for payment of this Note, to modify the terms of any of the instruments referred to herein with the consent of all other parties thereto, or to release any party liable hereon without in any way affecting the liability of the Maker or any other parties liable for payment of this Note.

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EACH OF THE MAKER AND THE PAYEE HEREBY WAIVES ITS RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS NOTE OR THE OTHER LOAN DOCUMENTS. THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL-ENCOMPASSING OF ANY AND ALL DISPUTES THAT MAY BE FILED IN ANY COURT THAT RELATE TO THE SUBJECT MATTER OF THIS TRANSACTION, INCLUDING, WITHOUT LIMITATION, CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW AND STATUTORY CLAIMS. EACH OF THE MAKER AND THE PAYEE ACKNOWLEDGES THAT THIS WAIVER IS A MATERIAL INDUCEMENT FOR EACH SUCH PARTY TO ENTER INTO A BUSINESS RELATIONSHIP, AND THAT EACH OF THE MAKER AND THE PAYEE HAS ALREADY RELIED ON THIS WAIVER IN ITS RELATED FUTURE DEALINGS WITH THE OTHER. EACH OF THE MAKER AND THE PAYEE FURTHER WARRANTS AND REPRESENTS THAT EACH HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL, AND THAT EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL. THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS NOTE OR THE OTHER LOAN DOCUMENTS. IN THE EVENT OF LITIGATION, THIS NOTE MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

[The remainder of this page has been intentionally left blank.]

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IN WITNESS WHEREOF, the Maker has caused this Note to be duly executed and delivered by its duly authorized officer as of the day, month and year first written above.

**HOME LOAN CENTER, INC. D/B/A**
**LENDINGTREE LOANS**

By: ________________________________

Title: ________________________________

(the "Maker")

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EXHIBIT G
TO WAREHOUSING CREDIT AGREEMENT

ADDITIONAL LENDER AGREEMENT

THIS ADDITIONAL LENDER AGREEMENT (the "AL Agreement") is made and dated as of , 20 by (the "Applicant Financial Institution"), NATIONAL CITY BANK, as "Agent" under the Credit Agreement referred to in Recital A below (in such capacity, the "Agent"), and HOME LOAN CENTER, INC. D/B/A **LENDINGTREE** LOANS, a California corporation (the "Company").

RECITALS

A. The Applicant Financial Institution desires to become a "Bank" under that certain Warehousing Credit Agreement dated as of November 26, 2007 (as may be amended, supplemented and modified from time to time, the "Credit Agreement") by and among the Agent, the Banks currently participating therein (collectively, the "Existing Banks") and the Company, effective as of , 20 (the "Adjustment Date"). Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Credit Agreement.

B. The Applicant Financial Institution has been approved for inclusion as a Bank under the terms of the Credit Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

AGREEMENT

1. The Applicant Financial Institution hereby acknowledges and agrees that from and after the Adjustment Date it shall be a party to the Credit Agreement and the other Loan Documents as a "Bank" thereunder for all purposes and shall be entitled to all rights, benefits and privileges accorded a Bank thereunder and shall be subject to all obligations of a Bank thereunder.

2. The Applicant Financial Institution hereby agrees to purchase on the Adjustment Date and to accept the assignment and transfer of a portion of the obligations held by the Existing Banks consistent with the Commitment Schedule and Allocation Notice delivered by the Agent effective as of the Adjustment Date, a copy of which is attached hereto as <u>Exhibit A</u>.

3. The Applicant Financial Institution: (a) represents, warrants and covenants that (i) it is a banking corporation or other warehouse lender duly organized under the laws of the State of , (ii) it is regularly engaged in the business of mortgage warehousing lending, and (iii) it has capital and surplus of at least Three Hundred Million Dollars ($300,000,000.00); (b) confirms that it has received a copy of the Loan Documents, together with copies of any financial statements requested by the Applicant Financial Institution and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this AL Agreement, (c) agrees that it will, independently and without reliance upon the Agent or any Existing Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, (d) appoints and authorizes the Agent to take such actions as agent on its behalf and to exercise such powers under

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the Loan Documents as are delegated to the Agent by the terms thereof on the terms set forth therein, including, without limitation, the terms set forth in **Article 10** of the Credit Agreement entitled "The Agent", (e) agrees that on and after the Adjustment Date it will perform all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Bank, and (f) agrees that its payment instructions and notice instructions are as set forth in **<u>Schedule I</u>** attached hereto.

4. Notices shall be given under this AL Agreement in the manner set forth in the Credit Agreement.

5. The address of the Applicant Financial Institution for purposes of the Credit Agreement shall be as set forth beneath its signature below.

6. This AL Agreement shall be governed by and construed and interpreted in accordance with the laws of the Commonwealth of Kentucky.

7. This AL Agreement may be executed in counterparts and such counterparts together shall constitute one and the same agreement.

8. This AL Agreement, when executed by each of the parties hereto shall constitute an amendment of the Credit Agreement consistent with the Commitment Schedule and Allocation Notice referred to in Paragraph 2 above.

IN WITNESS WHEREOF, the undersigned have duly executed this Additional Lender Agreement as of the day and year first above written.

APPLICANT FINANCIAL INSTITUTION: [ ]

By: ______________________________

Title: ______________________________

Address: ______________________________

______________________________

Attn: ______________________________

NATIONAL CITY BAIVK,
a national banking association

By: ______________________________

Title: ______________________________

(“Agent”)

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HOME LOAN CENTER, INC. D/B/A
LENDINGTREE LOANS,
a California corporation

By: ______________________________

Title: ______________________________

(“Company”)

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SCHEDULE 1.1
TO WAREHOUSING CREDIT AGREEMENT

**APPROVED INVESTOR LIST**

[See attached list]

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| lnvestor Name | Investor Desk Contact | Contact Phone# | Contact Email | Investor Audit Contac Contact Phone# Contact Email |
|---|---|---|---|---|
| Best Effort Commitments | | | | |
| Aurora Loan Services | Christian Stevens | (720) 945-5353 | cstevens@alservices.com | |
| BayView Financial Trading Group | Peter Wicknertz | (305) 341-3673 | peterwicknertz@bayviewfinancial.com | |
| Charter One | Margo Knopf | (513) 833-2808 | mknopf@CharterOneBank.com | |
| Chase Home Finance LLC | Miguel Parducho | (661) 297-5175 | rniqdel.s.parducho@chase.com | |
| Citi Mortgage | Mauricio Perez | (805) 578-4698 | mauricio.perez@citigroup.com | |
| Countrywide Home Loans | Josh Copeland | (415) 835-1233 (; | Joshua_Copeland@countrywide.com | |
| Deutsche Bank | Bill Moss | (212) 250-2367 | william.moss@db.com | |
| EMC Mortgage Corporation / Bear Stearns | Erin Johnson | (214) 626-3301 | Erin.Johnson@bear.com | |
| GMAC Bank | Pat Gilmore | (714) 849-3679 | Pat iGilmore@GMACM.COM | |
| Goldman Sachs | Sandra Keebler | (212) 902-5626 | sandra.keebler@gs.com | |
| Greenpoint Mortgage | Martha Satterfield | (323) 850-5744 | martha.satterfield@,qreenpoint.com | |
| IndyMac | Edward Aloe | (626) 535-5298 | edwbrd.aloe@indvrnacbank.com | |
| National City Mortgage | Brian Barnes | (602) 392-1192 | Brian.Barnes@ncmc.com | |
| Residential Funding Corporation | Pat Gilmore | (714) 849-3679 | Pat Gilmore@GMACM.COM | |
| Wells Fargo Bank | Eddie Fernandez | (949) 347-2063 | edward.fernandez@wellsfargo.com | |
| Countrywide Securities Corp | Robert Wellerstein | (818) 225-3804 | robert wellerstein@countrywide.com | |
| Franklin Credit Management Corp. | Bob Balsamo | (201) 604-4451 | bbalsamo@franklincredit.com | |
| U.S. Bank | | | | |
| Freddie Mac | | | | |
| Fannie Mae | | | | |
| **MBS/AOT Trades** | | | | |
| Bear Stearns | Mieko Willoughby | (877) 391-4039 | rnilloughby@bear.com | |
| Goldman Sachs | Steve Harris | (212) 902-4570 | steve.harris@gs.com | |
| Lehman Brothers | Adrienne Coyle | (212) 526-7605 | adrienne.coyle@lehman.com | |
| Merrill Lynch | Kathy Wade | (206) 340-4334 | kathy_wade@rnl.com | |
| WaMu Capital | Kimberly Cottrell | (212) 702-6906 | kimberly.cottrell@wamu.net | |

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SCHEDULE 6.1
TO WAREHOUSING CREDIT AGREEMENT

**REPRESENTATION AND WARRANTY DISCLOSURES**

A. Legal Name, State of Organization and Principal Place of Business for the Company

(i) Home Loan Center, Inc. d/b/a LendingTree Loans
(ii) California
(iii) 163 Technology Drive
Irvine, California 92618

B. Material Adverse Changes in Financial Condition of the Company

[To Be Provided by the Company]

C. Material Obligations, Liabilities, Taxes or Financial Obligations of the Company

[To Be Provided by the Company]

D. Litigation of the Company

[To Be Provided by the Company]

E. Legal Name, State of Organization and Principal Place of Business for each Affiliate

[To Be Provided by the Company]

F. Loans in Excess of $100,000.00

[To Be Provided by the Company]

G. Assumed and Fictitious Names of the Company

[To Be Provided by the Company]

**Exhibit 10.14**

**MASTER REPURCHASE AGREEMENT**
(the "Agreement")

between

**COUNTRYWIDE BANK, FSB**
("Buyer")

and

**HOME LOAN CENTER, INC.**
("Seller")

dated as of

**January 25, 2008**

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TABLE OF CONTENTS

ARTICLE 6
SECURITY; SERVICING; MARGIN ACCOUNT MAINTENANCE; CUSTODY OF MORTGAGE LOAN DOCUMENTS AND REPURCHASE TRANSACTIONS



ARTICLE 7
CONDITIONS PRECEDENT



ARTICLE 8
REPRESENTATIONS AND WARRANTIES



ARTICLE 9
AFFIRMATIVE COVENANTS



ARTICLE 10
NEGATIVE COVENANTS







ARTICLE 11
DEFAULTS AND REMEDIES

EXHIBITS



SCHEDULES





# MASTER REPURCHASE AGREEMENT

THIS MASTER REPURCHASE AGREEMENT (the **“Agreement”**) is made and entered into as of January 25, 2008 by and between Countrywide Bank, FSB, a California corporation (**“Buyer”),** and Home Loan Center, Inc., a California corporation (**“Seller”**).

## RECITALS

A. Seller has requested Buyer to enter into transactions with Seller whereby Seller may, from time to time, sell to Buyer certain 1st and 2nd lien residential mortgage loans and/or other mortgage related assets and interests, against the transfer of funds by Buyer, with a simultaneous agreement by Buyer to sell to Seller such purchased assets at a date certain after the Purchase Date, against the transfer of funds by Seller (each such transaction, a **"Transaction"**).

B. Buyer has agreed to enter into such Transactions, subject to the terms and conditions set forth in this Agreement.

C. Seller and Buyer have previously entered into that certain Revolving Credit and Security Agreement dated March 17, 2003 (the **"Warehouse Agreement"**). As of the date of this Agreement, Seller has one or more outstanding Advances (as defined in the Warehouse Agreement) under the Warehouse Agreement and Buyer has a secured interest in the Collateral (as defined in the Warehouse Agreement) pledged by Seller for such outstanding Advances. By execution of this Agreement, Seller and Buyer restate their respective rights, obligations and interests with respect to such Advances and Collateral, and hereby agree that such Collateral shall constitute Purchased Assets and that such outstanding Advances shall constitute the Purchase Price for the Purchased Mortgage Loans relating to such Purchased Assets (as each such term is defined in this Agreement). Further, each Purchased Mortgage Loan shall be subject to a Transaction hereunder as of the Effective Date. The restatement of rights, obligations and interests of Seller and Buyer under this recital shall not be a novation of the Warehouse Agreement and such rights, obligations and interests shall be continuous.

NOW, THEREFORE, in consideration of the mutual rights and obligations provided herein and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Seller and Buyer agree as follows:

## ARTICLE 1
## DEFINITIONS AND PRINCIPLES OF CONSTRUCTION

1.1 **Defined Terms**. As used in this Agreement, capitalized terms shall have the meanings set forth in Exhibit A hereto, unless the context otherwise requires. All such defined terms shall, unless specifically provided to the contrary, have the defined meanings set forth herein when used in any other agreement, certificate or document made or delivered pursuant hereto.

1.2 **Principles of Constructions**.

(a) Accounting Terms. Accounting terms not otherwise defined herein shall have the meanings given under GAAP.

(b) Number. All terms defined in this Agreement may be used in the singular or the plural, as the context requires.

(c) Successors and Assigns. Reference to any party shall mean that party and its successors and assigns permitted by the terms of this Agreement.



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## ARTICLE 2
## AMOUNT AND TERMS OF TRANSACTIONS

2.1 **Agreement to Enter into Transactions**. Subject to the terms and conditions of this Agreement and provided that no Event of Default has occurred and is continuing, Buyer agrees, from time to time during the term of this Agreement, to enter into Transactions with Seller; provided, however, that the Buyer shall not have any obligation to enter into any Transaction which will cause the total aggregate Transactions outstanding at any one time to exceed the Aggregate Transaction Limit or the aggregate type of Transactions outstanding at any one time to exceed the applicable Type Sublimit.

2.2 **Transaction Limits**. The Aggregate Transaction Limit and each Type Sublimit shall be as set forth in the Transactions Terms Letter. Upon the occurrence of an Event of Default, Buyer shall have the right, in its sole and good faith discretion, to reduce, whether permanently or temporarily, and without refund of any fee or other amount previously paid by Seller, the Aggregate Transaction Limit and/or each Type Sublimit. In the event of any reduction pursuant to this Section 2.2, Buyer shall give Seller prior written notice thereof, which notice shall designate (a) the effective date of any such reduction, (b) the amount of the reduction and (c) the Transaction and/or Type Sublimit limit(s) to which such reduction amount shall apply. Buyer shall not be liable to Seller for any costs, losses or damages arising from or relating to a reduction by Buyer in the Aggregate Transaction Limit or any Type Sublimit.

2.3 **Description of Purchased Assets**. With respect to each Transaction, Seller shall cause to be maintained with Buyer Purchased Assets consisting of a Purchased Mortgage Loan(s) with a Asset Value not less than, at any date, the related Purchase Price for such Transaction. With respect to each Transaction, the type of Purchased Mortgage Loan shall be the type of Mortgage Loan as specified in the Transactions Terms Letter as the Type, and in each case shall consist of the type of mortgage loans, mortgage related securities, or interests therein as described in Bankruptcy Code section 101(47)(A). If there is uncertainty as to the Type of a Purchased Mortgage Loan, Buyer, in its sole and good faith discretion, shall determine the correct Type for such Purchased Mortgage Loan.

2.4 **Maximum Transaction Amounts**. Each Transaction shall not exceed the lesser of:

(a) the applicable Type Sublimit, as determined by the type of Purchased Mortgage Loan;

(b) the Aggregate Transaction Limit, minus the aggregate amount of all other Transactions outstanding, if any; and

(c) the Asset Value of the related Purchased Mortgage Loan(s).

2.5 **Use of Proceeds**. Seller shall use the Purchase Price of each Transaction solely for the purpose of originating and/or acquiring the related Purchased Mortgage Loan(s).

2.6 **Price Differential**.

(a) Pricing Rate. Notwithstanding that Buyer and Seller intend that the Transactions hereunder be sales by Seller to Buyer of the Purchased Mortgage Loans for all purposes except accounting and tax purposes, Seller shall pay Buyer a price differential on the Purchase Price for each Purchased Mortgage Loan from the Date of Disbursement until, but not including, the date of repurchase, at an annual rate equal to the sum of the Applicable Pricing Rate plus the applicable Margin; provided, however, that if a Purchased Mortgage Loan is deemed to be a Noncompliant Mortgage Loan, thereafter, such Purchase Price shall bear a price differential at an annual rate equal to the sum of the Applicable Pricing Rate plus the Type Margin for a Noncompliant Mortgage Loan.



Notwithstanding the foregoing, if the Repurchase Price for a Transaction is not paid by Seller when due (whether at the Repurchase Date, upon acceleration or otherwise), the Purchase Price shall bear a price differential from the date due until paid in full at an annual rate equal to the Default Rate.

(b) Time for Payment. Accrued interest for each Purchase Price shall be due and payable on each Payment Date which occurs prior to the date on which the Repurchase Price is paid. On the date that the Repurchase Price is paid, all accrued interest not otherwise paid by Seller shall be due and payable.

(c) Computations. All computations of price differentials and fees payable hereunder shall be based upon a year of three-hundred sixty (360) days.

2.7 **Terms and Conditions of Transactions**. Upon the occurrence of an Event of Default, the terms and conditions of the Transactions as set forth in the Transactions Terms Letter, this Agreement or otherwise may be changed from time to time by Buyer at its sole and good faith discretion by providing prior notice to Seller.

2.8 **Guarantee**. As may be determined necessary by Buyer from time to time in its sole and good faith discretion and as indicated in the Transactions Terms Letter, Seller agrees to cause to be executed and delivered to Buyer such Guarantees and/or additional security agreements as additional support for Seller's obligations hereunder, which Guarantees and/or additional security agreements shall be considered "margin payments" as such term is defined in Bankruptcy Code Section 741(5).

## ARTICLE 3
## PROCEDURES FOR REQUESTING AND ENTERING INTO TRANSACTIONS

3.1 **Policies and Procedures**. In connection with the Transactions contemplated hereunder, Seller shall comply with all applicable policies and procedures of Buyer as may currently exist or as hereafter created to conform to current legal and reasonable market requirements. Such policies and procedures may be in writing, published on Buyer's website(s) or otherwise contained in the Handbook. Buyer shall have the right to change, revise, amend or supplement its policies and procedures and the Handbook from time to time to conform to current legal requirements or Buyer practices by giving advance notice via Buyer's website thereof to Seller.

3.2 **Request for Transaction; Asset Data Record**.

(a) Request for Transaction. Seller shall request a Transaction by delivering to Buyer, electronically or in writing, an Asset Data Record for each Mortgage Loan intended to be the subject of the Transaction no later than the Transaction Request Deadline; provided, however, that if Seller intends to request a Transaction or series of Transactions equal to or greater than ten million ($10,000,000) dollars, Seller shall provide Buyer not fewer than one (1) Business Day prior written notice thereof. If Buyer determines that the requested Transaction complies with the terms and conditions of this Agreement, Buyer shall confirm to Seller the terms of Transactions electronically or in writing. Buyer reserves the right to reject any Transaction request that Buyer determines, in its sole and good faith discretion, fails to comply with the terms and conditions of this Agreement or Buyer's then current policies and procedures, which current policies and procedures shall be available via Buyer's website prior to any request for a Transaction.

(b) Failure to Enter into Transaction: Cancellation of Transaction. Other than those Transactions that Buyer declines, or a return of Repurchase Price of a Wet Mortgage Loan as defined in Section 3.6(d) if Seller fails five (5) times or more to enter into a particular Transaction after Seller has requested a particular Transaction and submitted a



Asset Data Record in connection with such request, for each Transaction requested by Seller thereafter for which Seller fails to enter into such Transaction, Seller shall pay Buyer the Breakage Fee and reimburse Buyer for any reasonable out-of-pocket losses, costs and expenses incurred by Buyer in connection with such failure to enter into the Transaction, including, without limitation, costs relating to re-employment of funds obtained by Buyer and fees payable to terminate the arrangements through which such funds were obtained. In addition, if following disbursement by Buyer of the Purchase Price relating to any Transaction, Seller cancels such Transaction, regardless of the number of Transactions Seller has previously cancelled, Seller shall pay Buyer a price differential on such Purchase Price from the Date of Disbursement until, but not including, the date the Purchase Price is returned to Buyer.

(c) Form of Asset Data Record. Buyer shall have the right to revise or supplement the form of the Asset Data Record from time to time by giving reasonable prior notice thereof to Seller via Buyer's website.

3.3 **Delivery of Mortgage Loan Documents**.

(a) Dry Mortgage Loans. Prior to any Transaction related to a Dry Mortgage Loan, Seller shall deliver to Buyer acting as custodian or its Custodian, or authorize and direct the Closing Agent to deliver to Buyer acting as custodian or its Custodian, the related Mortgage Loan Documents.

(b) Wet Mortgage Loans. With respect to a Transaction the subject of which is a Wet Mortgage Loan, Seller shall deliver to Buyer or its Custodian, or authorize and direct the Closing Agent to deliver to Buyer or its Custodian, the related Mortgage Loan Documents within the

Wet Mortgage Loans Maximum Dwell Time.

(c) Government Mortgage Loans. If a Government Mortgage Loan is the subject of a Transaction, Seller shall, at the request of Buyer, deliver to Buyer acting as custodian or its Custodian, within sixty (60) calendar days following the date of such Transaction, a mortgage insurance policy issued under an FHA insurance program or a guaranty for the full and timely payment of principal and interest issued by the VA, as applicable, or evidence of such insurance or guaranty, as applicable, including proof of payment of the premium and the case number so Buyer can access the information on the computer system maintained by FHA or the VA.

(d) Mortgage Loan Documents in Seller's Possession. At all times during which the Mortgage Loan Documents related to any Purchased Mortgage Loan are in the possession of Seller, and until such Purchased Mortgage Loan is repurchased by Seller, Seller shall hold such Mortgage Loan Documents in trust for the exclusive benefit of Buyer and shall act only in accordance with Buyer's written instructions thereto.

(e) Other Mortgage Loan Documents in Seller's Possession. With respect to each Purchased Mortgage Loan, until such Purchased Mortgage Loan is repurchased by Seller, Seller shall hold in trust all mortgage loan documents related to such Purchased Mortgage Loan and not delivered to Buyer, including, without limitation, the Other Mortgage Loan Documents, as applicable.

3.4 **Haircut**. With respect to each Transaction, Seller shall ensure that there are sufficient funds on deposit in the Over/Under Account such that following the withdrawal of the Haircut by Buyer, the balance of the Over/Under Account is equal to or greater than the minimum required balance, as set forth in the Transactions Terms Letter.



3.5 **Over/Under Account**.

(a) Minimum Balance. Seller shall at all times maintain a margin balance in the Over/Under Account of not than less than that amount set forth in the Transactions Terms Letter, which account shall be used to assist in settling the Transactions and any other obligations under this Agreement. Buyer shall not be required to segregate and hold funds deposited by or on behalf of Seller in the Over/Under Account separate and apart from Buyer's own funds or funds deposited by or held for others. Upon the occurrence of an Event of Default, Buyer shall have the right, in its sole and good faith discretion, to increase the minimum margin balance Seller is required to maintain in the Over/Under Account by giving notice to Seller thereof.

(b) Deposits.

(i) Seller. Seller shall deposit margin in the form of funds in the Over/Under Account in accordance with the terms of this Agreement, including, without limitation, Section 3.4 and Section 3.5(a).

(ii) Buyer. Buyer shall credit to the Over/Under Account all amounts in excess of those amounts due to Buyer in accordance with the Principal Agreements on the date Buyer receives or has received both (1) a payment by Seller or an Approved Investor pursuant to a Purchase Commitment and (2) a Purchase Advice relating to such payment without discrepancy; provided, however, that funds and Purchase Advices received by Buyer after that time set forth in the Transactions Terms Letter, shall be deemed to have been received on the next Business Day. Buyer shall use reasonable efforts to notify Seller if there is a discrepancy between a wire transfer and the related Purchase Advice, and thereafter, Seller shall notify Buyer as to whether Buyer should accept such settlement payment despite the discrepancy between the amount received and the related Purchase Advice; provided, however, that if an Event of Default has occurred and is continuing, Buyer is not obligated to receive approval from Seller prior to accepting any amounts received and releasing the related Purchased Assets.

(iii) Settlement Statement. Buyer shall deliver to Seller via facsimile or make available to Seller via the Internet within one (1) Business Day following settlement of an Transaction, or as soon thereafter as is reasonably possible, a settlement statement, which includes an explanation of all amounts credited by Buyer to the Over/Under Account to settle the Transaction.

(c) Withdrawals.

(i) Seller. If the amount credited to the Over/Under Account creates a balance in excess of the minimum margin balance required pursuant to Section 3.5(a) above, provided that no Event of Default has occurred and is continuing, Seller may submit a written request to Buyer for return or payment of such excess funds. If any such request is received by Buyer prior to 10:00 a.m. (Pacific time) on a Business Day, Buyer shall use commercially reasonable efforts to wire such requested excess funds to Seller by the end of such Business Day and in no event no later than two (2) Business Days after Buyer's receipt of such request. Notwithstanding anything contained in this Section 3.5(c)(i) to the contrary, Buyer reserves the right to reject any request for excess funds from the Over/Under Account if Buyer determines, in its sole and good faith discretion, that such excess funds shall be used to satisfy Seller's outstanding obligations under this Agreement or are subject to other rights as provided in this Agreement.



(ii) Buyer. Buyer may, from time to time and without separate authorization by Seller or notice to Seller, withdraw funds from the Over/Under Account to settle amounts owed in accordance with the terms of this Agreement or to otherwise satisfy Seller's obligations under this Agreement, including, without limitation:

(1) with respect to any Transaction, to deliver the Haircut to the Closing Agent;

(2) to reimburse itself for any reasonable costs and expenses incurred by Buyer as contemplated by this Agreement, and as permitted herein;

(3) to pay itself any price differential on a Purchase Price that is due and owing;

(4) to Seller as provided in Section 3.5(c)(i);

(5) as security for the performance of Seller’s obligations hereunder;

(6) without limiting the generality of Section 3.5(c)(ii)(5), as security for a Transaction as provided in Section 6.3(a) or as repayment of a Repurchase Price as provided in Section 6.3(b); and

(7) in the exercise of Buyer’s or its Affiliates’ rights under Section 6.3(d) or Section 11.8.

(d) Failure to Maintain Balance. If, at any time, Seller fails to maintain in the Over/Under Account the minimum margin balance as required hereunder, in addition to any other rights and remedies that Buyer may have against Seller, and upon one (1) Business Day notice, Buyer shall have the right, at its sole and good faith discretion, to stop entering into Transactions with Seller and/or to charge Seller accrued interest on that portion of the minimum margin balance that Seller has failed to maintain, at the Default Rate, from the time that such balance failed to be maintained until the time that funds are deposited into or held in the Over/Account to comply with such minimum margin balance requirements hereunder. Without limiting the generality of the foregoing, it is understood and agreed that should the balance in the Over/Under Account become negative, Seller will continue to owe Buyer accrued interest as provided herein.

(e) Security Interest. Any funds of Seller at any time deposited or held in the Over/Under Account, whether such funds are required to be deposited and held in the Over/Under Account pursuant to this Section 3.5 or otherwise, are hereby pledged by Seller as security for its obligations under this Agreement, and Seller hereby grants a security interest in such funds to Buyer.

3.6 **Payment of Purchase Price**.

(a) Payment of Purchase Price. On the Purchase Date for each Transaction, ownership of the Purchased Mortgage Loans shall be transferred to Buyer against the simultaneous transfer of the Purchase Price to Seller simultaneously with the delivery to Buyer of the Purchased Mortgage Loans relating to each Transaction. With respect to the Purchased Mortgage Loans being sold by Seller on the Purchase Date, Seller hereby sells, transfers, conveys and assigns to Buyer or its designee without recourse, but subject to the terms of this Agreement, all the right, title and interest of Seller in and to the Purchased Mortgage Loans together with all right, title and interest in and to the proceeds of any related Purchased Assets.



(b) Methods of Payment. On the Purchase Date for each Transaction:

(i) Buyer may pay the Purchase Price (A) by wire transfer in accordance with Seller’s wire instructions in Exhibit J, (B) if Seller is approved to receive the Purchase Price via cashiers check and has requested to receive the Purchase Price via cashiers check, by cashiers check or (C) if Seller is approved to present funding drafts to Buyer and Seller has requested to receive the Purchase Price via funding draft, by funding draft, subject to the requirements of Section 3.8. Unless Seller is approved to receive the Purchase Price via cashiers check or funding draft and Seller has requested that payment be made using one of these methods for a particular Transaction, Buyer shall pay the Purchase Price for all Transactions by wire transfer. Buyer shall have no obligation to pay the Purchase Price by cashiers check or funding draft unless and until Seller has requested to receive payment in such manner and Seller has otherwise complied with all applicable policies and procedures regarding such methods of payment. Notwithstanding the foregoing, Buyer shall not be obligated to pay the Purchase Price under any method of payment to any Closing Agent or warehouse lender that is not an Approved Payee. Further, the payment of the Purchase Price by Buyer to any Closing Agent or warehouse lender that is not an Approved Payee shall not make such Closing Agent or warehouse lender an Approved Payee. Any funds disbursed by Buyer to Seller or its Approved Payee shall be subject to all applicable federal, state and local laws, including, without limitation, regulations and policies of the Board of Governors of the Federal Reserve System on Reduction of Payments System Risk. Seller acknowledges that as a result of such applicable laws, regulations and policies, equipment malfunction, Buyer’s approval procedures or circumstances beyond the reasonable control of Buyer, the payment of a Purchase Price using one or more of the methods described above may be delayed. Further, Seller acknowledges that a funding draft may not constitute “good funds” under certain state laws and funds will not be released to the payee until Buyer, in its sole and good faith discretion, has reviewed and accepted the funding draft following presentment of the draft to the payor bank. Buyer shall not be liable to Seller for any costs, losses or damages arising from or relating to any such delays; or

(ii) Notwithstanding the foregoing, where a Purchased Mortgage Loan is the subject of third party financing, Buyer may pay all or any portion of the Purchase Price directly to the warehouse or other lender that has a security interest in the Purchased Mortgage Loan to satisfy the related indebtedness and obtain a release of such security interest.

(c) Transaction Limitations and Other Restrictions Relating to Closing Agents. Notwithstanding that a particular Transaction request will not exceed the Aggregate Transaction Limit or applicable Type Sublimit, if the payment of the Purchase Price for such Transaction to the related Closing Agent will violate Buyer’s applicable policies and procedures (as contained in the Handbook or otherwise) regarding payments to Closing Agents, Buyer may refuse to pay the Purchase Price to such Closing Agent.

(d) Return of Purchase Price. If a Wet Mortgage Loan subject to a Transaction is not closed within three (3) Business Days following the payment of the Purchase Price, Seller shall immediately return, or cause to be immediately returned, the Purchase Price to Buyer. If the Purchase Price was paid by cashiers check or funding draft, Seller shall immediately void, or cause to be immediately voided (i.e. direct the Closing Agent to immediately void) the cashiers check or funding draft, as applicable. Further, Seller shall pay Buyer all fees and any price differential thereon immediately upon notification from Buyer; provided, however, that price differential shall continue to accrue until the Purchase Price is returned to Buyer or the voided cashiers check is received and cancelled by Buyer, as applicable. If a cashier's check has been issued with respect to any Transaction, Buyer shall not be obligated to wire funds or issue another cashiers check to fund such Transaction until the original voided cashiers check has been received and cancelled by Buyer.

3.7 **Approved Payees**.

(a) Closing Agents. In order for a Closing Agent to be designated an Approved Payee with respect to any Purchase Price, Seller shall submit to Buyer the following documents:

(i) if the title company issuing the title policy that covers the applicable Purchased Mortgage Loan has not issued to Buyer a blanket Closing Protection Letter, which covers closings conducted by this Closing Agent in the jurisdiction where this closing will take place:

(1) a valid blanket Closing Protection Letter, in a form acceptable to Buyer, issued to Seller or Buyer by the title company, which is issuing the title insurance policy that covers the related Purchased Mortgage Loan, that covers closings conducted by the Closing Agent in the jurisdiction where this closing will take place and if applicable, an assignment to Buyer of such Closing Protection Letter, substantially in the form of Exhibit F hereto; or

(2) a valid Closing Protection Letter, in a form acceptable to Buyer, issued to Seller or Buyer by the title company, which is issuing the title insurance policy that covers the related Purchased Mortgage Loans, that covers the closing of this specific Purchased Mortgage Loan and if applicable, an assignment to Buyer of such Closing Protection Letter, substantially in the form of Exhibit F hereto; or

(3) if Closing Protection Letters are not available or are limited in their applicability in the jurisdiction where the closing takes place, any other documents Buyer may reasonably require, including without limitation an assignment to Buyer of Seller's rights under its fidelity bond and errors and omissions policy, substantially in the form of Exhibit F hereto; and

(ii) evidence that the Irrevocable Closing Instructions, in the applicable form and signed by Seller and Buyer, have been delivered to such Closing Agent.

(b) Warehouse Lenders. In order for a warehouse lender to be designated an Approved Payee with respect to any Purchase Price, Seller shall submit to Buyer a written request, including the name and address of the warehouse lender, demonstrating a need for such designation. Notwithstanding the foregoing, Buyer reserves the right to refuse to designate any warehouse lender as an Approved Payee, or, alternatively, to require additional terms and conditions in order for Buyer to pay a Purchase Price to the warehouse lender.

(c) Approval Process. Buyer shall review the applicable documents and notify Seller within two (2) Business Days as to whether such Closing Agent or warehouse lender has been designated by Buyer, in its sole and good faith discretion, to be an Approved Payee with respect to such Purchase Price. Buyer may withdraw its approval of any Closing Agent or warehouse lender as an Approved Payee if Buyer becomes aware of any facts or circumstances at any time related to such Closing Agent or warehouse lender which Buyer determines, in its sole and good faith discretion, materially and adversely affects



the Closing Agent or warehouse lender or otherwise makes the Closing Agent or warehouse lender unacceptable as an Approved Payee upon notification to Seller.

3.8 **Funding Drafts**.

(a) Blank Funding Drafts. If Seller is approved by Buyer to receive Purchase Prices by funding draft, Buyer, at its discretion, shall provide Seller with a limited number of blank drafts. Seller shall store such blank drafts in a secure location and employ sufficient security procedures to ensure that each funding draft issued by Seller is authorized, authentic and complete. As requested by Buyer, Seller shall submit to Buyer an accounting of all blank drafts provided to Seller, certified by Seller's president or chief financial officer. Seller shall notify Buyer immediately if it discovers that any blank drafts are missing or otherwise not accounted for.

(b) Completion of Funding Drafts. With respect to any Purchase Price to be paid by funding draft, Seller shall not complete a funding draft until after it has submitted a Asset Data Record for the related Transaction to Buyer that includes the number of the draft that is to be used for the Purchase Price. Seller is responsible for completing each funding draft clearly and accurately. Buyer shall not be obligated to accept any funding draft that contains incorrect information, is illegible or is not signed by at least two (2) authorized officers of Seller. If Seller makes an error in completing a funding draft, Seller shall void the draft and return the voided draft to Buyer with its accounting of blank drafts. Further, Seller shall notify Buyer immediately in order to confirm a new draft number with respect to the Purchase Price. Buyer shall not have an obligation to accept any funding draft if the draft number does not match that approved by Buyer in connection with a specific Transaction.

(c) Acceptance of Funding Drafts. The payment of the Purchase Price by funding draft is subject to Buyer's acceptance of the funding draft following presentment to the payor bank. Buyer will accept a funding draft upon confirmation of Seller's compliance with the terms of this Agreement, including, without limitation, receipt by Buyer of the Asset Data Record prior to the date the funding draft was written, information contained on the funding draft is consistent with that previously provided to Buyer and the payee is an Approved Payee, as applicable. If Buyer rejects a funding draft for any reason, the Purchase Price for such Transaction may be paid by a new funding draft, provided all applicable procedures are followed, or by an alternate payment method.

(d) Condition Precedent. As a condition precedent to Seller issuing a funding draft, Seller shall have delivered to Buyer:

(i) a completed signature card, in form and substance satisfactory to the bank on which the funding drafts are drawn; and

(ii) a certificate of Seller's corporate secretary, dated as of the current date, as to the incumbency and authenticity of the signatures of the officers of Seller authorized to sign funding drafts and the resolutions of the board of directors authorizing such officers to sign funding drafts on behalf of Seller.

ARTICLE 4
REPURCHASE

4.1 **Repurchase Price**.

(a) Payment of Repurchase Price. The Repurchase Price for each Purchased Mortgage Loan shall be payable in full and by wire transfer in accordance with Buyer's wire



instructions in Exhibit J upon the earliest to occur of (i) the Repurchase Date of the Purchased Mortgage Loan, (ii) the occurrence of any Repurchase Acceleration Event with respect to such Transaction or (iii) the expiration or termination of this Agreement. Such obligation to repurchase exists without regard to any prior or intervening liquidation or foreclosure with respect to any Purchased Mortgage Loan. While it is anticipated that Seller will repurchase each Purchased Mortgage Loan on its related Repurchase Date, Seller shall repurchase any Purchased Mortgage Loan hereunder on demand without any pre-payment penalty or premium.

(b) Effect of Payment of Repurchase Price. On the Repurchase Date (or such other date on which the Repurchase Price is paid by Seller), termination of the related Transaction will be effected by the repurchase by Seller or its designee of the Purchased Mortgage Loans and the simultaneous transfer of the Repurchase Price to an account of Buyer, or transfer of additional Mortgage Loan(s) (in each case as further described at Section 6.5), and all of Buyer's rights, title and interests therein shall then be conveyed to Seller or its designee. Seller is obligated to obtain the Mortgage Loan Documents from Custodian at Seller's expense on the Repurchase Date.

4.2 **Repurchase Acceleration Events**. The occurrence of any of the following events shall be a Repurchase Acceleration Event with respect to a Transaction:

(a) Buyer in its sole and good faith discretion has determined that the Purchased Mortgage Loan is a Defective Mortgage Loan;

(b) thirty (30) calendar days elapse from the date the Mortgage Loan Documents relating to the Purchased Mortgage Loan were delivered to an Approved Investor and such Approved Investor has not returned the Mortgage Loan Documents or purchased the Purchased Mortgage Loan, unless an extension is granted by Buyer, in its sole and good faith discretion;

(c) ten (10) Business Days elapse from the date a Mortgage Loan Document relating to the Purchased Mortgage Loan was delivered to Seller for correction or completion, without being returned to Buyer or its designee;

(d) Seller fails to deliver to Buyer the related Mortgage Loan Documents within the Wet Mortgage Loans Maximum Dwell Time or any Mortgage Loan Document delivered to Buyer, upon examination by Buyer, is found not to be in compliance with the requirements of this Agreement or the related Purchase Commitment and is not corrected within the Wet Mortgage Loans Maximum Dwell Time;

(e) Regardless of whether a Purchased Mortgage Loan is a Defective Mortgage Loan, a foreclosure or similar type of proceeding is initiated with respect to the Purchased Mortgage Loan; or

(f) the further sale of the Purchased Mortgage Loan by Seller.

4.3 **Reduction of Asset Value as Alternative Remedy**. In Buyer's sole and good faith discretion, in lieu of requiring full repayment of the Repurchase Price upon the occurrence of a Repurchase Acceleration Event, Buyer may elect to reduce the Asset Value of the related Purchased Mortgage Loan (to as low as zero) and accordingly require a full or partial repayment of such Repurchase Price or the delivery of other funds or collateral, which additional assets shall be "margin payments" or "settlement payments" as such terms are defined in Bankruptcy Code Section 741(5) and (8), respectively.



4.4 **Designation as Noncompliant Mortgage Loan as Alternative Remedy**. In Buyer's sole and good faith discretion, in lieu of requiring full repayment of the Repurchase Price upon the occurrence of a Repurchase Acceleration Event, Buyer may elect to deem the related Purchased Mortgage Loan a Noncompliant Mortgage Loan, provided that (a) after such Purchased Mortgage Loan is deemed to be a Noncompliant Mortgage Loan, the aggregate original Asset Value of all Noncompliant Mortgage Loans does not exceed the Type Sublimit for Noncompliant Mortgage Loans; (b) the Asset Value of the Noncompliant Mortgage Loan is greater than the Repurchase Price or Seller provides additional Purchased Assets or repays part of the Repurchase Price as provided in Section 6.3 in each case as a "margin payment" as such term is defined in Bankruptcy Code Section 741(5); and (c) Seller delivers to Buyer all documentation relating to the Purchased Mortgage Loan reasonably requested by Buyer.

4.5 **Illegality or Impracticability**. Notwithstanding anything to the contrary in this Agreement, if Buyer determines in its sole and good faith discretion that any law, regulation, treaty or directive or any change therein or in the interpretation or application thereof, or any circumstance materially and adversely affecting the London interbank market, the repurchase market for mortgage loans or mortgage-backed securities or the source or cost of Buyer's funds, shall make it unlawful, impractical, or commercially unreasonable for Buyer to enter into or maintain Transactions as contemplated by this Agreement (a) the commitment of Buyer hereunder to enter into or to continue to maintain Transactions shall be cancelled and (b) the Repurchase Price for each Transaction then outstanding shall be immediately due and payable upon the earlier to occur of (i) the related scheduled Repurchase Date, (ii) within five (5) Business Days after the date required by any financial institution providing funds to Buyer, (iii) sale of the Purchased Mortgage Loan in accordance with the terms of this Agreement, (iv) the date as of which Buyer determines that such Transactions are unlawful or (v) within five (5) Business Days after the date Buyer determines that the payment of the Repurchase Price on its scheduled Repurchase Date will be impractical or commercially unreasonable because of the severe nature of the material and adverse change affecting the London interbank market, the repurchase market for mortgage loans or mortgage-backed securities or the source or cost of Buyer's funds. For the avoidance of doubt, it is understood and agreed that a material and adverse change affecting the London interbank market, the repurchase market for mortgage loans or mortgage-backed securities or the source or cost of Buyer's funds shall not automatically require Seller to pay the Repurchase Price for any Transaction then outstanding before its related scheduled Repurchase Date unless Buyer has made an additional determination that such change is severe, in which case, Seller shall have the time specified in subsection (v) in which to pay the Repurchase Price for each such Transaction. Buyer shall not be liable to Seller for any costs, losses or damages arising from or relating from any actions taken by Buyer pursuant to this Section 4.5.

4.6 **Payments Pursuant to Sale to Approved Investors**. Seller shall direct each Approved Investor purchasing a Purchased Mortgage Loan to pay directly to Buyer, by wire transfer of immediately available funds, the full purchase price, without set-off, as set forth in the applicable Purchase Commitment. In addition, Seller shall provide Buyer with a Purchase Advice relating to such payment. Seller shall not direct the Approved Investor to pay to Buyer an amount less than the full purchase price set forth in the applicable Purchase Commitment or modify or otherwise change the wire instructions for payment of the purchase price provided to Approved Investor by Buyer. Buyer shall apply all amounts received for the account of Seller in accordance with Section 4.7 below and credit all amounts due Seller to the Over/Under Account in accordance with Section 3.5(b)(ii) above. Buyer may reject any amount received from an Approved Investor and not release the related Purchased Mortgage Loan if (a) Buyer does not receive a Purchase Advice in respect of any wire transfer, or (b) Buyer does not receive the full purchase price, without set-off, as set forth in the applicable Purchase Commitment or (c) the amount received is not sufficient to pay the Repurchase Price. Alternatively, in lieu of rejecting an amount received by Buyer from an Approved Investor, at Buyer's sole option and discretion, if the amount received from the Approved Investor does not equal or exceed the Repurchase Price, Buyer may accept the amount received from the Approved Investor and deduct the remaining amounts owed by Seller from the Over/Under Account or demand payment of such remaining amount from Seller.



If Seller receives any funds intended for Buyer, Seller shall segregate and hold such funds in trust for Buyer and immediately pay to Buyer all such amounts by wire transfer of immediately available funds together with providing Buyer with a settlement statement for the transaction.

4.7 **Application of Payments from Seller or Approved Investors**. Unless Buyer determines otherwise in its sole and good faith discretion, payments made directly by Seller or an Approved Investor to Buyer shall be applied in the following order of priority:

(a) first, in the exercise of Buyer's rights under Section 6.3(d) or Buyer' or its Affiliates' rights under Section 11.8.

(b) second, to all costs, expenses and fees incurred or charged by Buyer under this Agreement that are not related to a specific Transaction;

(c) third, to any amounts due and owing to Buyer pursuant to Section 6.3;

(d) fourth, to all costs, expenses and fees incurred or charged by Buyer under this Agreement that are related to the Transaction in connection with which the payment is made;

(e) fifth, to the price differential due and owing on the Purchase Price in connection with which the payment is made;

(f) sixth, to the price differentials on any Purchase Prices related to any other Transactions that are outstanding, due and owing, applied first to the Transaction with the earliest date;

(g) seventh, to the amount of the Repurchase Price for the Transaction in connection with which the payment is made; and

(h) eighth, to the amount of any Repurchase Prices related to any other Transactions that are outstanding, due and owing, applied first to the Transaction with the earliest date.

Buyer and Seller intend and agree that all such payments shall be "settlement payments" as such term is defined in Bankruptcy Code Section 741(8). After the settlement payments have been applied as set forth above, Buyer shall deposit in the Over/Under Account any amounts that remain.

4.8 **Method of Payment**. Except as otherwise specifically provided herein, all payments hereunder must be received by Buyer on the date when due and shall be made in United States dollars by wire transfer of immediately available funds to such account designated by Buyer from time to time. Whenever any payment to be made hereunder shall be stated to be due on a day that is not a Business Day, the due date thereof shall be extended to the next succeeding Business Day, and with respect to payments of the Purchase Price, the price differential thereon shall be payable at the Applicable Pricing Rate during such extension. All payments made by or on behalf of Seller with respect to any Transaction shall be applied to Seller's account in accordance with Section 3.5(b)(ii) and Section 4.7 above and shall be made in such amounts as may be necessary in order that all such payments after withholding for or on account of any present or future taxes, levies, imports, duties or other similar charges of whatsoever nature imposed by any government or any political subdivision or taxing authority hereof, other than any taxes on or measured by the net income of Buyer pursuant to the state, federal and local tax laws of the jurisdiction where Buyer's principal office or offices or lending office or offices are located, compensate Buyer for any additional cost or reduced amount receivable of making or maintaining Transactions as a result of such taxes, imports, duties or other charges. All payments to be made by or on behalf of Seller with respect to any Transaction shall be made without set-off, counterclaim or other defense.



4.9 **Notification of Payment**. Seller shall provide Buyer not fewer than one (1) Business Day prior written notice if Seller or an Approved Investor intends to remit a payment to Buyer equal to or greater than ten million ($10,000,000) dollars.

4.10 **Authorization to Debit**. In addition to any other authorizations to and rights of Buyer hereunder, Seller hereby expressly authorizes Buyer to debit any account maintained by Seller with any depository institution into which any funds related to the Purchased Mortgage Loans or related Purchased

Assets have been deposited, including without limitation, any operating, settlement or custodial account, for the deposited amounts related to the Purchased Mortgage Loans due Buyer hereunder. For the avoidance of doubt, the foregoing debit rights of Buyer shall not apply to Purchased Mortgage Loans which have been repurchased by Seller pursuant to Section 6.5.

4.11 **Book Account**. Buyer and Seller shall maintain an account on their respective books of all Transactions entered into between Buyer and Seller and for which the Repurchase Price has not yet been paid. As a courtesy to Seller, Buyer shall provide such information to Seller via the Internet or by telephone or facsimile, if Seller is unable to access the information via the Internet. Notwithstanding the foregoing, Seller shall be responsible for maintaining its own book account and records of Transactions entered into with Buyer, amounts due to Buyer in connection with such Transactions and for paying such amounts when due. Failure of Buyer to provide Seller with information regarding any Transaction shall not excuse Seller's timely performance of all obligations under this Agreement, including, without limitation, payment obligations under this Agreement.

4.12 **Full Recourse**. The obligations of Seller from time to time to pay the Repurchase Price, Margin Deficit payments, settlement payments and all other amounts due under this Agreement shall be full recourse obligations of Seller.

ARTICLE 5
FEES

5.1 **Payment of Fees**. Seller shall pay to Buyer those fees set forth in this Agreement or the Transactions Terms Letter when they become due and owing. Without limiting the generality of the foregoing, the initial Facility Fee shall be paid on or before the Effective Date and if this Agreement is renewed, thereafter on or before the anniversary of the Effective Date. Further, the Unused Facility Fee shall be paid quarterly in arrears, on the first day of the months of January, April, July and October, for each preceding calendar quarter. Buyer shall be entitled to withdraw from the Over/Under Account or retain from payments made by Seller or an Approved Investor, subject to Section 4.6, any fees permitted under this Agreement that are due and owing. If such amounts on deposit in the Over/Under Account or payments received in connection with a Transaction are not sufficient to pay Buyer all fees owed, Buyer shall notify Seller and Seller shall pay to Buyer, within one (1) Business Day, all unpaid fees.

ARTICLE 6
SECURITY; SERVICING; MARGIN ACCOUNT MAINTENANCE; CUSTODY OF MORTGAGE LOAN DOCUMENTS AND REPURCHASE TRANSACTIONS

6.1 **Precautionary Grant of Security Interest**. Although the parties intend that all Transactions hereunder be sales and purchases (other than for accounting and tax purposes) and not loans, and without prejudice to the provisions of Section 6.6 and the expressed intent of the parties, if any Transactions are deemed to be loans, as security for the performance of all of Seller's obligations hereunder, Seller hereby pledges, assigns and grants to Buyer a continuing first priority security interest in and lien upon the Purchased Assets, and Seller shall have all the rights and remedies of a "secured party" under the Uniform Commercial Code. Possession of any promissory notes, instruments or documents by the Custodian shall constitute possession on behalf of Buyer. At any time and from time to time, upon the written request of Buyer, and at the sole expense of Seller, Seller will promptly and duly execute and deliver, or will promptly cause to



be executed and delivered, such further instruments and documents and take such further action as Buyer may reasonably request for the purpose of obtaining or preserving the full benefits of this Agreement and of the rights and powers herein granted, including, without limitation, the filing of any financing or continuation statements under the Uniform Commercial Code in effect in any jurisdiction with respect to the Purchased Assets and the liens created hereby. Seller also hereby authorizes Buyer to file any such financing or continuation statement in a manner consistent with this Agreement to the extent permitted by applicable law. A carbon, photographic or other reproduction of this Agreement shall be sufficient as a financing statement for filing in any jurisdiction. This Agreement shall constitute a security agreement.

6.2 **Servicing**.

(a) Servicer. Other than as set forth in Section 6.2(m), Seller shall service, or shall cause the Servicer to service, the Purchased Mortgage Loans on behalf of Buyer as agent for Buyer for the period between the Purchase Date and the Repurchase Date of the Purchased Mortgage Loans.

(b) Servicing Agreement. If there is a Servicer of the Purchased Mortgage Loans, Seller shall enter into a Servicing Agreement with the Servicer on behalf of Buyer, which such Servicing Agreement shall be on terms agreed to by Buyer, and which shall include, at a minimum, (i) a recognition by the Servicer of Buyer's interests and rights to the Purchased Mortgage Loans as provided under this Agreement; (ii) an obligation for the Servicer to service the Purchased Mortgage Loans consistent with the degree of skill and care that the Servicer customarily requires with respect to similar Mortgage Loans owned or managed by it but in no event no less than in accordance with Accepted Servicing Practices; (iii) an obligation to comply with all applicable federal, state and local laws and regulations; (iv) an obligation to maintain all state and federal licenses necessary for it to perform its servicing responsibilities; (v) an obligation not to impair the rights of Buyer in any Purchased Mortgage Loans or any payment thereto and (vi) an obligation to collect all sums payable in respect of the Purchased Mortgage Loans on behalf of Buyer, in trust, in segregated custodial accounts. Further, such Servicing Agreement shall contain express reporting requirements and other rights to allow Buyer to inspect the records of the Servicer with respect to the Purchased Mortgage Loans. Buyer may terminate the servicing of any Purchased Mortgage Loan with the then existing Servicer in accordance with either Section 6.2(f) or Section 6.2(m).

(c) Servicing Obligations of Seller. To the extent Seller shall service any Purchased Mortgage Loan, Seller shall:

(i) Service and administer the Purchased Mortgage Loans on behalf of Buyer in accordance with prudent mortgage loan servicing standards and procedures generally accepted in the mortgage banking industry and in accordance with the degree of care and servicing standards generally prevailing in the industry, including all applicable requirements of any Agency, and the requirements of any applicable Purchase Commitment and the Approved Investor, so that the eligibility of the Purchased Mortgage Loan for purchase under such Purchase Commitment is not voided or reduced by such servicing and administration;

(ii) Subject to Subsection 6.2(f), and to the extent not otherwise held by the Custodian, Seller shall at all times maintain and safeguard the Mortgage Loan File for the Purchased Mortgage Loan, and in any event shall maintain and safeguard photocopies of the documents delivered to Buyer pursuant to Section 3.3, and accurate and complete records of its servicing of the Purchased Mortgage Loan; Seller's possession of such Mortgage Loan File is for the sole



purpose of servicing such Purchased Mortgage Loan and such retention and possession by Seller is in a custodial capacity only;

(iii) Buyer may, at any time during Seller's business hours on reasonable notice, examine and make copies of such documents and records, or require delivery of the originals of such documents and records to Buyer or its designee;

(iv) At Buyer's request, Seller shall promptly deliver to Buyer reports regarding the status of any Purchased Mortgage Loan being serviced by it, which reports shall include, but shall not be limited to, a description of any default thereunder for more than thirty (30) days or such other circumstances that could cause a Material Adverse Change on such Purchased Mortgage Loan, Buyer's title to such Purchased Mortgage Loan or the collateral securing such Purchased Mortgage Loan; Seller is required to deliver such reports until the repurchase of the Purchased Mortgage Loan by Seller; and

(v) Seller shall immediately notify Buyer if Seller becomes aware of any payment default that occurs under a Purchased Mortgage Loan.

(d) Sale or Transfer of Servicing Rights. Seller shall not sell or transfer any rights to service a Purchased Mortgage Loan without the prior written consent of Buyer.

(e) Release of Mortgage Loan Files. Seller shall release its custody of the contents of any Mortgage Loan File only in accordance with the written instructions of Buyer, except when such release is required as incidental to Seller's servicing of the Purchased Mortgage Loan, is required to complete the Purchase Commitment, or as required by law.

(f) Right to Appoint Successor Servicer. Buyer reserves the right, upon the occurrence of an Event of Default, to appoint a successor servicer to service any Purchased Mortgage Loan (each a **"Successor Servicer"**). In the event of such an appointment, Seller shall perform all acts and take all action so that any part of the Mortgage Loan File and related servicing records held by Seller, together with all funds in the Custodial Account and other receipts relating to such Purchased Mortgage Loan, are promptly delivered to the Successor Servicer. Seller shall have no claim for lost Servicing Fees, lost profits or other damages if Buyer appoints a Successor Servicer hereunder.

(g) Reserved.

(h) Reserved.

(i) Reserved.

(j) Servicer Notice. Seller shall provide promptly to Buyer (i) a Servicer Notice addressed to and agreed to by the Servicer, advising the Servicer of such matters as Buyer may reasonably request, including, without limitation, recognition by the Servicer of Buyer's interest in such Purchased Mortgage Loans and the Servicer's agreement that upon receipt of notice of an Event of Default from Buyer, it will follow the instructions of Buyer with respect to the servicing of the Purchased Mortgage Loans.

(k) Notification of Servicer Defaults. If Seller should discover that, for any reason whatsoever, any entity responsible to Seller by contract for managing or servicing any such Purchased Mortgage Loan has failed to perform fully Seller's obligations under this Agreement or any of the obligations of such entities with respect to the Purchased Mortgage Loans, Seller shall promptly notify Buyer.



(l) Termination. Upon the occurrence of any Event of Default or Potential Default or a material default by Servicer under the Servicing Agreement, Buyer shall have the right to immediately terminate the Servicer's right to service the Purchased Mortgage Loans without payment of any penalty or termination fee. Seller shall cooperate, or cause the Servicer to cooperate, in transferring the servicing of the Purchased Mortgage Loans to a successor servicer appointed by Buyer in its sole and good faith discretion.

(m) Buyer's Right to Service. Buyer or its designee, at the Buyer's discretion, shall be entitled to service some or all of the Purchased Mortgage Loans following the occurrence of an Event of Default or Potential Default, and thus receive and collect all sums payable in respect of same. Upon Buyer's exercising of a valid right to service under this Agreement, and written notice to Seller that Buyer desires to service some or all of the Purchased Mortgage Loans, Seller shall promptly cooperate, or shall cause the Servicer to promptly cooperate, with all instructions of Buyer and do or accomplish all acts or things necessary to effect the transfer of the servicing to Buyer, at Seller's sole expense. Upon Buyer's servicing of the Purchased Mortgage Loans, (i) Buyer may, in its own name or in the name of Seller or otherwise, demand, sue for, collect or receive any money or property at any time payable or receivable on account of or in exchange for the Purchased Mortgage Loan(s), but shall be under no obligation to do so; (ii) Seller shall, if Buyer so requests, pay to Buyer all amounts received by Seller upon or in respect of the Purchased Mortgage Loan(s) or other Purchased Assets, advising Buyer as to the source of such funds; and (iii) all amounts so received and collected by Buyer shall be held by it as part of the Purchased Assets or applied against any outstanding Repurchase Price owed Buyer.

6.3 **Margin Account Maintenance**.

(a) Asset Value. Buyer shall have the right to determine the Asset Value of each Purchased Mortgage Loan on a daily basis.

(b) Margin Deficit and Margin Call. If Buyer shall determine at any time that (A) the Asset Value of a Purchased Mortgage Loan subject to a Transaction is less than the related Repurchase Price or (B) the aggregate Asset Value of all Purchased Mortgage Loans for all such Transactions is less than the aggregate Repurchase Price (in either case, a **"Margin Deficit"**), then Buyer may, at its sole option and by notice to Seller (as such notice is more particularly set forth below, a **"Margin Call"**), require Seller to either:

(i) transfer to Buyer or its designee cash or eligible Mortgage Loans approved by Buyer in its sole and good faith discretion (**"Additional Purchased Mortgage Loans"**) so that the individual Asset Value of the Purchased Mortgage Loan or the aggregate Asset Value of the Purchased Mortgage Loans, including any such cash or Additional Purchased Mortgage Loans, will not be less than the individual Repurchase Price for the Transaction or the aggregate Repurchase Price for all Transactions by more than fifty thousand ($50,000) dollars; or

(ii) pay one or more Repurchase Prices in an amount sufficient to reduce the outstanding Repurchase Prices to an amount at least fifty thousand ($50,000) dollars greater than the Asset Value of the Purchased Mortgage Loan(s).

If Buyer delivers a Margin Call to Seller on or prior to 12:00 p.m.. (Pacific time) on any Business Day, then Seller shall transfer cash or Additional Purchased Mortgage Loans to Buyer no later than 5:00 p.m. (Pacific time) the next Business Day. If Buyer delivers a Margin Call to Seller after 12:00 p.m. (Pacific time) on any Business Day, Seller shall be required to transfer cash or Additional Purchased Mortgage Loans no later than 12:00 p.m. (Pacific time) on the 2nd subsequent Business Day. Notice of a Margin Call may be



provided by Buyer to Seller electronically or in writing, such as via electronic mail or posting such notice on Buyer's customer website(s).

(c) Buyer's Discretion. Buyer's election not to make a Margin Call at any time there is a Margin Deficit shall not in any way limit or impair its right to make a Margin Call at any time a Margin Deficit exists.

(d) Over/Under Account. Buyer may, in its sole and good faith discretion, withdraw from the Over/Under Account amounts equal to any Margin Deficit which is not otherwise satisfied by Seller within the time frames provided in this Section 6.3.

(e) Credit to Repurchase Price. Any cash transferred to Buyer pursuant to this Section 6.3 shall be credited to the Repurchase Price of the related Transaction(s).

6.4 **Custody of Mortgage Loan Documents**.

(a) Custodial Arrangements. Buyer may appoint any Person to act as the Custodian to hold possession of the Mortgage Loan Documents (or a portion thereof) and to take actions at the direction of Buyer. Seller hereby consents to any and all such appointments and agrees to deliver the Mortgage Loan Documents to the Custodian upon the direction of Buyer. Seller further agrees that (i) the Custodian shall be exclusively the agent, bailee and/or custodian of Buyer; (ii) receipt of the Mortgage Loan Documents by the Custodian shall be constructive receipt by Buyer of the Mortgage Loan Documents; (iii) Seller shall not have and shall not attempt to exercise any degree of control over the Custodian or any Mortgage Loan Document held by the Custodian.

(b) Temporary Withdrawal of Mortgage Loan Documents for Correction. Buyer may, in its sole and good faith discretion, permit Seller to withdraw, for a period not to exceed ten (10) Business Days, specified Mortgage Loan Documents for the purpose of correcting or completing such documents; provided, however, that unless otherwise agreed to by Buyer in writing, in no event shall the outstanding balance of the Transactions related to such Mortgage Loan Documents exceed five percent (5%) of the Aggregate Transaction Limit. Notwithstanding the foregoing, Buyer shall be deemed to be in possession of any Mortgage Loan Documents released pursuant to this Section 6.4(b), and the interest of Buyer in the related Purchased Mortgage Loan shall continued unimpaired until the Mortgage Loan Documents are returned to, or the proceeds thereof are received by, Buyer.

(c) Delivery of Mortgage Loan Documents to Approved Investors. Provided that no Event of Default has occurred and is continuing, upon the written request of Seller, Buyer may, at its option and in its sole and good faith discretion, deliver to an Approved Investor set forth in the related Purchase Commitment, or its custodian, the Mortgage Loan Documents relating to a specified Purchased Mortgage Loan. All such Purchased Mortgage Loans and the related Mortgage Loan Documents shall at all times be covered by one or more Bailee Agreements, and Buyer or its designee will not release Mortgage Loan Documents to an Approved Investor unless Buyer or its Custodian has received a signed Bailee Agreement from the Approved Investor. Notwithstanding the foregoing, Buyer shall be deemed to be in possession of any Mortgage Loan Documents released pursuant to this Section 6.4(c), and the interest of Buyer in the related Purchased Mortgage Loan shall continue unimpaired until the Mortgage Loan Documents are returned to, or proceeds thereof are received by, Buyer. If the Approved Investor does not purchase a Purchased Mortgage Loan as contemplated by the related Purchase Commitment, Seller shall, upon the request of Buyer, assist Buyer in the recovery of any Mortgage Loan Documents not returned by the Approved Investor to Buyer.



(d) Delivery of Mortgage Loan Documents Relating to Mortgage-Backed Securities. Upon the written request of Seller, Buyer may, at its option and in its sole and good faith discretion, deliver to the certifying custodian the Mortgage Loan Documents relating to those Purchased Mortgage Loans that will be pooled to support a Mortgage-Backed Security. All such Purchased Mortgage Loans and the related Mortgage Loan Documents shall at all times be covered by a Bailee Agreement, and Buyer or its designee will not release Mortgage Loan Documents to a certifying custodian unless Buyer or its designee has received a signed tri-party custodial agreement from such custodian, in a form acceptable to Buyer. Buyer shall have no obligation to release any Mortgage Loan Documents to any certifying custodian that will not sign a custodial agreement acceptable to Buyer. Notwithstanding the foregoing, Buyer shall be deemed to be in possession of any Mortgage Loan Documents released pursuant to this Section 6.4(d), and the interest of Buyer in the related Purchased Mortgage Loan shall continue unimpaired until the Mortgage Loan Documents are returned to, or proceeds thereof are received by, Buyer. Seller shall pay for all costs of the certifying custodian and use its best efforts to ensure that the issuer delivers the Mortgage-Backed Securities to the certifying custodian.

6.5 **Release of Mortgage Loan Documents**. Provided that no Event of Default has occurred and is continuing, Seller may repurchase a Purchased Mortgage Loan by either:

(a) paying, or causing an Approved Investor to pay, to Buyer, subject to Sections 4.6 and 4.7 above, the Repurchase Price; or

(b) transferring to Buyer additional Mortgage Loan(s) satisfactory to Buyer and/or cash, in aggregate amounts sufficient to cover the amount by which the aggregate amount of Transactions then outstanding hereunder (plus accrued interest and accrued fees with respect thereto) exceeds the Asset Value of the existing Purchased Mortgage Loan(s), excluding the Purchased Mortgage Loan(s) to be released.

Upon receipt of the applicable amount, as set forth above, Buyer shall deliver or shall cause the Custodian to deliver the related Mortgage Loan Documents to Seller or Seller's designee, if such documents have not already been delivered pursuant to a Bailee Agreement. If such release gives rise to or perpetuates a Margin Deficit, Buyer shall notify Seller of the amount thereof and Seller shall thereupon satisfy the Margin Call in the manner specified in Section 6.3(b). Buyer shall have no obligation to release a repurchased Purchased Mortgage Loan or terminate its security interest in such Purchased Mortgage Loan until such Margin Call is satisfied.

6.6 **Sales Transactions; Repurchase Transactions**. For the avoidance of doubt, Buyer and Seller confirm that the Transactions contemplated by this Agreement are intended to be sales transactions and absolute assignments of the Purchased Mortgage Loans by Seller to Buyer, and not borrowings secured by the Purchased Mortgage Loans. Title to all Purchased Mortgage Loans and related Purchased Assets shall pass to Buyer upon payment of the Purchase Price. Accordingly, beginning on the Purchase Date and prior to the Repurchase Date, Buyer may in its sole discretion and without notice to Seller engage in repurchase transactions with respect to any or all of the Purchased Mortgage Loans or otherwise pledge, hypothecate, assign, transfer or convey any or all of the Purchased Mortgage Loans (such transactions, **"Repurchase Transactions"**), provided, however, that to the extent Buyer engages in any Repurchase Transactions, it shall have reacquired title to the Purchased Mortgage Loans prior to the Repurchase Date. Seller shall not be responsible for any additional obligations, costs or fees in connection with such Repurchase Transactions. Seller shall not take any action inconsistent with Buyer's ownership of a Purchased Mortgage Loan and shall not claim any legal, beneficial or other interest in such a Purchased Mortgage Loan other than the limited right and obligations to provide servicing of such Purchased Mortgage Loans where Buyer designates Seller as servicer as provided in Section 6.2.



ARTICLE 7
CONDITIONS PRECEDENT

7.1 **Initial Transaction**. As conditions precedent to Buyer's obligation to enter into the initial Transaction hereunder:

(a) Seller shall have delivered to Buyer, in form and substance satisfactory to Buyer:

(i) this Agreement signed by Seller;

(ii) the Transactions Terms Letter signed by Seller;

(iii) an Electronic Tracking Agreement signed by Seller;

(iv) if required in the Transactions Terms Letter, a Guarantee(s) signed by each Guarantor(s);

(v) a Power of Attorney signed by Seller;

(vi) a certified copy of Seller's articles or certificate of incorporation and bylaws (or corresponding organizational documents if Seller is not a corporation) and, if required by Buyer, a certificate of good standing issued by the appropriate official in Seller's jurisdiction of organization, dated no less recently than one (1) month prior to the date hereof;

(vii) a certificate of Seller's corporate secretary, substantially in the form of Exhibit C hereto, dated as of the Effective Date, as to the incumbency and authenticity of the signatures of the officers of Seller executing the Principal Agreements and the resolutions of the board of directors of Seller (or its equivalent governing body or Person), substantially in the form of Exhibit D hereto;

(viii) independently audited financial statements of Seller (and its Subsidiaries, on a consolidated basis) for each of the two (2) fiscal years most recently ended (if available), containing a balance sheet and related statements of income, stockholders' equity and cash flows, all prepared in accordance with GAAP, applied on a basis consistent with prior periods, and otherwise acceptable to Buyer, together with an auditor's opinion that is unqualified or otherwise is consented to in writing by Buyer;

(ix) if more than one (1) year has passed since the close of the most recently ended fiscal year, interim financial statements of Seller covering the period from the first day of the current fiscal year to the last day of the most recently ended month;

(x) financial statements of each of the Guarantors, if any, signed by them, dated no less recently than three (3) months prior to the date of the initial Transaction;

(xi) Reserved. (there is no section 9.11)

(xii) if required by Buyer, a subordination agreement, in form and substance satisfactory to Buyer, executed by any Person which is, as of the Effective Date, a creditor of Seller, including each Guarantor (if required by the Transaction Terms Letter) and each Affiliate of Seller that is a creditor of Seller;

(xiii) an Acknowledgement of Confidentiality of Password Agreement;

(xiv) the initial Facility Fee, if applicable;

(xv) a Servicer Notice, if applicable;

(xvi) if so requested by Buyer, the Control Agreement in a form reasonably satisfactory to Buyer;

(xvii) if required, a Servicing Agreement signed by the Servicer and Seller;

(xviii) a copy of Seller's underwriting guidelines for Mortgage Loans:

(xix) that certain letter agreement regarding Acquisition of Home Loan Center, Inc. by LendingTree, LLC, dated as of January 25, 2008 by and between Buyer, Seller and LendingTree, LLC; and

(xx) such other documents as Buyer or its counsel may reasonably request.

(b) Buyer shall have determined that it has received satisfactory evidence that the appropriate Uniform Commercial Code Financial Statements (UCC-1) and/or such other instruments as may be necessary in order to create in favor of Buyer, a perfected first-priority security interest in the Purchased Mortgage Loans and related Purchased Assets should any of the Transactions be deemed to be loans, and same shall have been duly executed and appropriately filed or recorded in each office of each jurisdiction in which such filings and recordations are required to perfect such first-priority security interest.

7.2 **All Transactions**. As conditions precedent to Buyer considering whether to enter into any Transaction hereunder, including the initial Transaction:

(a) Seller shall have delivered to Buyer, in form and substance satisfactory to Buyer and not later than the Transaction Request Deadline:

(i) a Asset Data Record for the Purchased Mortgage Loan, which Asset Data Record may be an individual record or part of a group report and shall be authenticated by Seller with the PIN or the handwritten signature of an authorized officer of Seller;

(ii) the Mortgage Loan Documents relating to the Purchased Mortgage Loan, unless such Purchased Mortgage Loan is a Wet Mortgage Loan;

(iii) a copy of a Purchase Commitment for the related Purchased Mortgage Loan, unless the Transactions Terms Letter states otherwise;

(iv) written evidence that all Transaction Requirements have been satisfied; and

(v) such other documents pertaining to the Transaction as Buyer may reasonably request, from time to time.

(b) an amount equal to the Haircut plus the minimum required balance, as set forth in Section 3.5(a), shall be on deposit in the Over/Under Account;

(c) Seller shall have paid all Facility Fees and Unused Facility Fees that are due;

(d) Seller shall have designated an Approved Payee, if applicable, to whom such funds shall be delivered;



(e) the representations and warranties of Seller set forth in Article 8 hereof shall be true and correct in all material respects as if made on and as of the date of each Transaction. At the request of Buyer, Buyer shall have received an officer's certificate signed by a responsible officer of Seller certifying as to the truth and accuracy of same;

(f) if required by Buyer, Seller and each Guarantor (if required by the Transactions Terms Letter) shall have performed all agreements to be performed by them hereunder and under the Guarantee, respectively, and after giving effect to the requested Transaction, there shall exist no Event of Default or Potential Default hereunder;

(g) no Potential Default, Event of Default or a Material and Adverse Change shall have occurred and be continuing; and

(h) Seller shall have deposited all amounts required under Section 6.2(g) into the Custodial Account.

7.3 **Intercreditor Agreements**. If required by Buyer, within sixty (60) calendar days following the Effective Date, Seller shall deliver to Buyer an lntercreditor Agreement signed by each creditor that provides warehouse lines of credit, repurchase facilities or similar mortgage finance arrangements to Seller. By way of example but not limitation, if Seller has a mortgage financing agreement with a syndication of creditors or if an Affiliate of Seller is providing Seller a warehouse line of credit or mortgage financing, Buyer may require that such creditors execute an lntercreditor Agreement. If Seller fails to provide Buyer with any required Intercreditor Agreement within the time frame stated herein, Buyer may, in its sole and good faith discretion, determine that such failure adversely affects the creditworthiness of Seller and may modify the terms and conditions under which it will continue to enter into Transactions with Seller. Buyer shall not be liable to Seller for any costs, losses or damages arising from or relating to any changes made by Buyer to the terms and conditions under which it will continue to enter into Transactions with Seller. Further, Buyer agrees that it shall deliver to Seller a signed Intercreditor Agreement substantially in a form similar to Exhibit L, as requested by Seller if required by any other creditor that provides Seller warehouse lines of credit, repurchase facilities or similar mortgage finance arrangements.

7.4 **Satisfaction of Conditions**. The entering into of any Transaction prior to or without the fulfillment by Seller of all the conditions precedent thereto, whether or not known to Buyer, shall not constitute a waiver by Buyer of the requirements that all conditions, including the non-performed conditions, shall be required to be satisfied with respect to all Transactions. All conditions precedent hereunder are imposed solely and exclusively for the benefit of Buyer and may be freely waived or modified in whole or in part by Buyer. Any waiver or modification asserted by Seller to have been agreed by Buyer must be in writing. Buyer shall not be liable to Seller for any costs, losses or damages arising from Buyer's determination that Seller has not satisfactorily complied with any applicable condition precedent.

ARTICLE 8
REPRESENTATIONS AND WARRANTIES

8.1 **Representations and Warranties Concerning Seller**. Seller represents and warrants to and covenants with Buyer that the following are true and correct as of the Effective Date through and until the date on which all obligations of Seller under this Agreement are fully satisfied:

(a) Due Formation and Good Standing. Seller is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, has the full legal power and authority to own its property and to carry on its business as currently conducted and is duly qualified to do business and is in good standing in each jurisdiction in which the transaction of its business makes such qualification necessary.



(b) Authorization. The execution, delivery and performance by Seller of the Principal Agreements and all other documents and transactions contemplated thereby, are within Seller's corporate powers, have been duly authorized by all necessary corporate action and do not constitute or will not result in (i) a breach of any of the terms, conditions or provisions of Seller's articles or certificate of incorporation or bylaws (or corresponding organizational documents if Seller is not a corporation); (ii) a material breach of any legal restriction or any agreement or instrument to which Seller is now a party or by which it is bound; (iii) a material default or an acceleration under any of the foregoing; or (iv) the violation of any law, rule, regulation, order, judgment or decree to which Seller or its property is subject.

(c) Enforceable Obligation. The Principal Agreements and all other documents contemplated thereby constitute legal, binding and valid obligations of Seller, enforceable in accordance with their respective terms, except as limited by bankruptcy, insolvency or other similar laws affecting the enforcement of creditor's rights.

(d) Approvals. The execution and delivery of the Principal Agreements and all other documents contemplated thereby and the performance of Seller's obligations thereunder do not require any license, consent, approval, authorization or other action of any Person, including any state, federal, governmental or regulatory authority, or if required, such license, consent, approval, authorization or other action has been obtained prior to the Effective Date.

(e) Compliance with Laws. Seller is not in violation of any provision of any applicable law, or of any judgment, award, rule, regulation, order, decree, writ or injunction of any court or public regulatory body or authority that will have a material adverse effect on the business, operations, assets or financial condition of Seller.

(f) Financial Condition. All financial statements of Seller and each Guarantor (if indicated in the Transactions Terms Letter) delivered to Buyer fairly and accurately present the financial condition of the parties for whom such statements are submitted. The financial statements of Seller have been prepared in accordance with GAAP consistently applied throughout the periods involved, and there are no contingent liabilities not disclosed thereby that would adversely affect the financial condition of Seller. Since the close of the period covered by the latest financial statement delivered to Buyer with respect to Seller, there has been no material adverse change in the assets, liabilities or financial condition of Seller nor is Seller aware of any facts that, with or without notice or lapse of time or both, would or could result in any such material adverse change. No event has occurred, including, without limitation, any litigation or administrative proceedings, and no condition exists or, to the knowledge of Seller, is threatened, that (i) might render Seller unable to perform its obligations under the Principal Agreements and all other documents contemplated thereby; (ii) would constitute an Event of Default; or (iii) might adversely affect the financial condition of Seller or the validity, priority or enforceability of the Principal Agreements or any other documents contemplated thereby.

(g) Credit Facilities. The only credit facilities, including repurchase agreements for mortgage loans and mortgage-backed securities, of Seller that are presently in effect and are secured by mortgage loans or provide for the purchase, repurchase or early funding of mortgage loan sales, are with Persons disclosed to Buyer at the time of application, or thereafter disclosed to and approved by Buyer, and, if required by Buyer, such Persons have executed and delivered an Intercreditor Agreement (or will execute and deliver an lntercreditor Agreement within sixty (60) days following the Effective Date in accordance with Section 7.3) or warehouse lenders that are Approved Payees.

(h) Title to Assets. Seller has good, valid, insurable (in the case of real property) and marketable title to all of its properties and other assets, whether real or personal, tangible



or intangible, reflected on the financial statements delivered to Buyer with respect to Seller, except for such properties and other assets that have been disposed of in the ordinary course of business of Seller's mortgage banking business, and all such properties and other assets are free and clear of all liens except as disclosed in such financial statements.

(i) Litigation. There are no actions, claims, suits, investigations, or proceedings pending, or to the knowledge of Seller, threatened or reasonably anticipated against or affecting Seller in any court or before or by any arbitrator, government commission, board, bureau or other administrative agency that, if adversely determined, may reasonably be expected to result in any material and adverse change in the business, operations, assets, licenses, qualifications or financial condition of Seller.

(j) Payment of Taxes. To the best of its knowledge, Seller has filed all tax returns and reports required to be filed and has paid all taxes, assessments, fees and other governmental charges levied upon it or its property or income that are due and payable, including interest and penalties, or has provided adequate reserves for the payment thereof.

(k) No Defaults. Seller is not in default under any indenture, mortgage, deed of trust, agreement or other instrument or contractual or legal obligation to which it is a party or by which it is bound.

(i) ERISA. If applicable, Seller is in compliance in all material respects with the requirements of ERISA, and no Reportable Event has occurred under any Plan maintained by Seller.

(m) Approved Mortgagee. If represented in Buyer's Credit Application or otherwise indicated by Seller to Buyer, Seller is an approved FHA, VA, Ginnie Mae, Fannie Mae and/or Freddie Mac seller, mortgagee and/or servicer and is in good standing with these agencies.

(n) True and Complete Disclosure. Seller shall make full disclosure to Buyer of all information that could materially adversely affect the execution, delivery and performance by Seller of its obligations under the Principal Agreements. All information furnished to Buyer by or on behalf of Seller in connection with the Principal Agreements or any transaction contemplated thereby, including, without limitation, all information set forth in the Application, is true, accurate and complete in all material respects on the date furnished, and there has been no material adverse change in the condition, financial or otherwise, of Seller from the time such information was provided to Buyer.

(o) Ownership; Priority of Liens. Seller owns all Mortgage Loans identified in the Transactions Terms Letter that are to become Purchased Mortgage Loans, and any Transaction shall convey all of Seller's right, title and interest in and to such Purchased Mortgage Loans and other Purchased Assets to Buyer. This Agreement shall also create in favor of Buyer, a valid, enforceable, perfected first priority lien and security interest in the Purchased Mortgage Loans and other Purchased Assets, prior to the rights of all third Persons and subject to no other liens.

(p) Investment Company Act. Seller is not an "investment company" or a company controlled by an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

(q) Filing Jurisdictions; Relevant States. Schedule 1 sets forth all of the jurisdictions and filing offices in which a financing statement should be filed in order for Buyer to perfect its



security interest in the Purchased Assets. Schedule 1 sets forth all of the states or other jurisdictions in which Seller originates Mortgage Loans in its own name or through brokers on the date of this Agreement.

(r) Seller Solvent; Fraudulent Conveyance. As of the date hereof and immediately after giving effect to each Transaction, the fair value of the assets of Seller is greater than the fair value of the liabilities (including, without limitation, contingent liabilities if and to the extent required to be recorded as a liability on the financial statements of Seller in accordance with GAAP) of Seller and Seller is and will be solvent, is and will be able to pay its debts as they mature and does not and will not have an unreasonably small capital to engage in the business in which it is engaged and proposes to engage. Seller does not intend to incur, or believe that it has incurred, debts beyond its ability to pay such debts as they mature. Seller is not contemplating the commencement of insolvency, bankruptcy, liquidation or consolidation proceedings or the appointment of a receiver, liquidator, conservator, trustee or similar official in respect of Seller or any of its assets. Seller is not transferring any Mortgage Loans with any intent to hinder, delay or defraud any of its creditors.

(s) Custodial Account. All funds required to be segregated and deposited into the Custodial Account have been so segregated and deposited.

(t) Chief Executive Office. Seller's principal place of business is located at 163 Technology Drive, Irvine, CA 92618.

8.2 **Representations and Warranties Concerning Purchased Assets**. Seller represents and warrants to and covenants with Buyer that the following are true and correct with respect to each Purchased Mortgage Loan as of the related Purchase Date through and until the date on which such Purchased Mortgage Loan is repurchased by Seller:

(a) Eligible Loan. The Mortgage Loan is a Conventional Conforming Mortgage Loan, Government Mortgage Loan, Jumbo Mortgage Loan, Super Jumbo Mortgage Loan, Expanded Criteria Mortgage Loan, Subprime Mortgage Loan, Closed-End Second Lien Mortgage Loan, HELOC Mortgage Loan or Nonperforming/Subperforming Mortgage Loan, as applicable. The Mortgage Loan is a legal, valid and binding obligation of the Mortgagor thereunder, enforceable in accordance with its terms and subject to no offset, defense or counterclaim, obligating Mortgagor to make the payments specified therein.

(b) Purchase Commitment. Unless otherwise stated in the Transactions Terms Letter, the Mortgage Loan is covered by a Purchase Commitment that permits assignment thereof to Buyer, does not exceed the availability under such Purchase Commitment, conforms to the requirements and specifications set forth in such Purchase Commitment and the related regulations, rules, requirements and/or handbooks of the applicable Approved Investor and is eligible for sale to and insurance or guaranty by, respectively, the applicable Approved Investor and any applicable Insurer.

(c) Asset Data Record. The information contained in the Asset Data Record is true, correct and complete in all material respects.

(d) Origination and Servicing. The Mortgage Loan has been originated and serviced in material compliance with all industry standards, applicable Approved Investor and Insurer requirements and all applicable federal, state and local statutes, regulations and rules, including, without limitation, the Federal Truth-in-Lending Act of 1968, as amended, and Regulation Z thereunder, the Federal Fair Credit Reporting Act, the Federal Equal Credit Opportunity Act, the Federal Real Estate Settlement Procedures Act of 1974, as amended, and Regulation X thereunder, and all applicable usury, licensing, real property, consumer protection and other laws.

(e) Mortgage Loan Documents. The Mortgage Loan is evidenced by instruments acceptable to FHA, VA, Fannie Mae, Freddie Mac or the Approved Investor, as applicable, given the type of Mortgage Loan. The Mortgage Loan Documents and other mortgage loan documents have been duly executed and delivered by the Mortgagor and create valid and legally binding obligations of the Mortgagor, enforceable in accordance with their terms, except as may be limited by bankruptcy or other laws affecting the enforcement of creditor's rights generally, and there are no valid rights of rescission, set-offs, counterclaims or other defenses with respect thereto.

(f) Lien Position. The Mortgage Loan is secured by a valid first priority lien on the Mortgaged Property under the laws of the state where the related mortgaged property in located; provided, however, that if the Mortgage Loan is a Closed-End Second Lien Mortgage Loan or HELOC Mortgage Loan, it is secured by a valid second lien on the Mortgaged Property.

(g) No Future Advances. Except in the case of a HELOC Mortgage Loan where there may be future disbursements, the full original principal amount of each Mortgage Loan, net of any discounts, has been fully advanced or disbursed to the Mortgagor named therein, unless otherwise expressly agreed by the parties in writing. Seller shall retain the ability to enter into a Transaction in circumstances where funds shall be held in escrow after the Transaction date pending the completion of on-site improvements.

(h) No Default. There is no default, breach, violation or event of acceleration existing under the Mortgage or the related Mortgage Note, and no event has occurred that, with the passage of time or with notice and the expiration of any grace or cure period, would constitute a default, breach, violation or event of acceleration. Seller has not waived any default, breach, violation or event of acceleration.

(i) No Waiver. The terms of the Mortgage Loan have not been waived, impaired, changed or modified, except to the extent such amendment or modification has been disclosed to Buyer in writing and does not affect the salability of the Mortgage Loan pursuant to the applicable Purchase Commitment.

(j) Taxes and Insurance. All taxes, governmental assessments, insurance premiums, water, sewer and similar municipal charges (if included in the applicable property tax billing statement), leasehold payments or ground rents that previously became due and owing have been paid or a escrow of funds has been established in an amount sufficient to pay for every such item that remains unpaid.

(k) Private Mortgage Insurance. Each Conventional Conforming Mortgage Loan is insured by a policy of private mortgage insurance in the amount required by Fannie Mae or Freddie Mac, as applicable, and by an Insurer and all provisions of such private mortgage insurance policy have been and are being complied with, such policy is in full force and effect and all premiums due thereunder have been paid. There are no defenses, counterclaims or rights of setoff affecting the Conventional Conforming Mortgage Loan or affecting the validity or enforceability of any private mortgage insurance applicable to such Mortgage Loan.

(l) Government Mortgage Loans. If the Mortgage Loan is represented by Seller to have, or to be eligible for, FHA insurance, such Mortgage Loan is insured, or eligible to be insured, pursuant to the National Housing Act. If the Mortgage Loan is represented by Seller to be guaranteed, or to be eligible for guarantee, by the VA, such Mortgage Loan is guaranteed, or eligible to be guaranteed, under the provisions of Chapter 37 of Title 38 of the United States Code. As to each FHA insurance certificate or each VA guaranty certificate, Seller has complied with applicable provisions of the insurance for guaranty contract and federal statutes and regulations, all premiums or other charges due in



connection with such insurance or guarantee have been paid, there has been no act or omission that would or may invalidate any such insurance or guaranty, and the insurance or guaranty is, or when issued, will be in full force and effect with respect to such Government Mortgage Loan. There are no defenses, counterclaims or rights of setoff affecting the Government Mortgage Loan or affecting the validity or enforceability of the FHA insurance or VA guaranty applicable to such Mortgage Loan.

(m) Hazard Insurance. The Mortgage Loan is covered by a policy of hazard insurance, flood insurance and insurance against other insurable risks and hazards as required by the applicable Approved Investor and the agreements applicable to such Mortgage Loan, in amounts not less than the outstanding principal balance of the Mortgage Loan or such maximum lesser amount as permitted by the applicable Approved Investor and applicable law, all in a form usual and customary in the industry and that is in full force and effect, and all amounts required to have been paid under any such policy have been paid.

(n) Title Insurance. A valid and enforceable title insurance policy has been issued or a commitment to issue such title insurance policy has been obtained for the Mortgage Loan in an amount not less than the original principal amount of such Mortgage Loan, which title insurance policy insures that the Mortgage relating thereto is a valid first lien or second lien, as applicable, on the property therein described and that the mortgaged property is free and clear of all encumbrances and liens having priority over the first lien of the Mortgage (unless the Mortgage Loan is a Closed-End Second Lien Mortgage Loan or HELOC Mortgage Loan) and otherwise in compliance with the requirements of the applicable Approved Investor. The title insurance company that issued the applicable Closing Protection Letter has also issued or has committed to issue the title insurance policy.

(o) Assignment. The Assignment (i) has been duly authorized by all necessary corporate action by Seller, duly executed and delivered by Seller and is the legal, valid and binding obligation of Seller enforceable in accordance with its terms, and (ii) complies with all applicable laws including all applicable recording, filing and registration laws and regulations and is adequate and legally sufficient for the purpose intended to be accomplished thereby, including, without limitation, the assignment of all of the rights, powers and benefits of Seller as mortgagee.

(p) No Fraud. No error, omission, misrepresentation, negligence, fraud or similar occurrence has taken place in any material respect with respect to the Mortgage Loan on the part of any Person, including, without limitation, the Mortgagor, any appraiser, any builder or developer or any other party involved in the origination of the Mortgage Loan or in the application of any insurance in relation to such Mortgage Loan.

8.3 **Continuing Representations and Warranties**. By submitting a Asset Data Record hereunder, Seller shall be deemed to have represented and warranted the truthfulness and completeness of the statements set forth in Sections 8.1 and 8.2.



ARTICLE 9
AFFIRMATIVE COVENANTS

Seller hereby covenants and agrees with Buyer that during the term of this Agreement and for so long as there remain any obligations of Seller to be paid or performed under the Principal Agreements:

9.1 **Financial Statements and Other Reports.**

(a) Interim Statements. Seller shall deliver to Buyer financial statements of Seller, including statements of income and changes in shareholders' equity for the period from the beginning of such fiscal year to the end of such month or quarter, within the time frame required in the Transactions Terms Letter, and the related balance sheet as of the end of such month or quarter, within the time frame required in the Transactions Terms Letter, all in reasonable detail and certified by an officer of the Seller, subject, however, to year-end audit adjustments;

(b) Annual Statements. Seller shall deliver to Buyer, within the time frame required in the Transactions Terms Letter, audited financial statements of Seller, including statements of income and changes in shareholders' equity for such fiscal year and the related balance sheet as at the end of such fiscal year, all in reasonable detail and accompanied by an opinion of a certified public accounting firm reasonably satisfactory to Buyer including a management representation letter signed by the chief financial officer of Seller stating that the financial statements fairly present the financial condition and results of operations of Seller as of the end of, and for, such year;

(c) Officer's Certificate. Together with the financial statements required to be delivered pursuant to Sections 9.1(a) and (b), Seller shall deliver to Buyer an officer's certificate substantially in the form of Exhibit E hereto;

(d) Annual Statements of Guarantor. If required by Buyer, Seller shall deliver to Buyer updated financial statements of each Guarantor (if required and indentified in the Transaction Terms Letter), signed by each of them, within the time frame required in the Transactions Terms Letter, and, if no time frame is specified, within ninety (90) days following the end of each calendar year;

(e) Hedging Reports. Upon request, Seller shall deliver to Buyer, or caused to be delivered to Buyer, a reconciliation report, in a form reasonably satisfactory to Buyer, including, without limitation, a report of all outstanding Transactions and their related Purchase Commitments, availability under unused Purchase Commitments and all amounts outstanding and available under other warehouse lines of credit, repurchase agreements and similar credit facilities; and

(f) Reports and Information Regarding Purchased Mortgage Loans. Seller shall deliver to Buyer, with reasonable promptness, copies of any reports related to the Purchased Mortgage Loans and any other information in Seller's possession related to the Purchased Mortgage Loans as Buyer, in its sole and good faith discretion, may reasonably request.

(g) Other Reports. As may be reasonably requested by Buyer from time to time, Seller shall deliver to Buyer, within thirty (30) days of filing or receipt (i) copies of all regular or periodic financial or other reports, if any, that Seller files with any governmental, regulatory or other agency and (ii) copies of all audits, examinations and reports concerning the operations of Seller from any Approved Investor, Insurer or licensing authority. Seller shall also deliver to Buyer, with reasonable promptness, such further information reasonably related to the business, operations, properties or financial



condition of Seller, in such detail and at such times as Buyer, in its sole and good faith discretion, may request. Seller understands and agrees that all reports and information provided to Buyer by or relating to Seller may be disclosed to Buyer's Affiliates.

9.2 **Inspection of Properties and Books**. As required by applicable law and prudent mortgage banking practices, Seller shall keep accurate and complete records of the Purchased Mortgage Loans. At no cost to Buyer (except in the case where Buyer desires information from third parties), Seller shall permit authorized representatives of Buyer to discuss the business, operations, assets and financial condition of Seller with its officers and employees and to examine its books of account and make copies and/or extracts thereof, upon reasonable notice to Seller at Seller's place of business during normal business hours. Further, Seller will provide its accountants with a copy of this Agreement promptly after the execution hereof and will instruct its accountants to answer, at no cost to Buyer, any and all questions that any authorized representative of Buyer may address to them in reference to the financial condition or affairs of Seller. Seller may have its representatives in attendance at any meetings between the officers or other representatives of Buyer and Seller's accountants held in accordance with this authorization.

9.3 **Notice**. Seller shall give Buyer prompt written notice, in reasonable detail, of:

(a) any and all material changes to the information set forth in the Application;

(b) any action, suit or proceeding instituted by or against Seller in any federal or state court or before any commission or other regulatory body (federal, state or local, foreign or domestic and if permitted by such body), or any such action, suit or proceeding threatened in writing against Seller, in any case, if such action, suit or proceeding, or any such action, suit or proceeding threatened against Seller, involves a potential liability, on an individual or aggregate basis, that, if adversely determined, may reasonably be expected to result in any material and adverse change in the business, operations, assets, licenses, qualifications or financial condition of Seller.

(c) the filing, recording or assessment of any valid federal, state or local tax lien against it, or any of its assets;

(d) the occurrence of any Event of Default;

(e) the actual or threatened suspension, revocation or termination of Seller's licensing or eligibility, in any respect, as an approved, licensed lender, seller, mortgagee or servicer that, if adversely determined, may reasonably be expected to result in any material and adverse change in the business, operations, assets, licenses, qualifications or financial condition of Seller.

(f) the suspension, revocation or termination of any existing and material credit or investor relationship to facilitate the sale and/or origination of residential mortgage loans if such suspension revocation or termination is made by any party other than Seller;

(g) any demand(s), whether on an individual or aggregate basis, by an Approved Investor or Insurer for (i) the repurchase of a mortgage loan(s) that, if adversely determined, may reasonably be expected to result in any material and adverse change in the business, operations, assets, licenses, qualifications or financial condition of Seller.

(h) any potential or existing Purchased Mortgage Loan where a director, officer, shareholder, member, partner or owner of Seller is the Mortgagor or guarantor or where the related Mortgaged Property is being sold by a director, officer, shareholder, member, partner or owner of Seller;



(i) any Purchased Mortgage Loan ceases to be an eligible Purchased Asset for the security of the Transactions;

(j) any Approved Investor that threatens to set-off amounts owed by Seller to such Approved Investor against the purchase proceeds owed by the Approved Investor to Seller for the Purchased Mortgage Loans (excluding amounts owed by Seller to the Approved Investor which are directly related to the Purchase Mortgage Loans and which are allowed to be set-off by the Approved Investor pursuant to the Bailee Agreement);

(k) any change in the Executive Management of Seller;

(l) any other action, event or condition of any nature that could be reasonably expected to lead to or result in a material adverse effect on the business, operations, assets or financial condition of Seller or that, without notice or lapse of time or both, would constitute a default under any agreement, instrument or indenture to which Seller is a party or to which Seller, its properties or assets may be subject; and

(m) any (i) change to the location of its principal place of business from that specified in Section 8.1(t), (ii) change in the name, identity or corporate structure (or the equivalent) or change in the location where Seller maintains its records with respect to the Purchased Assets, or (iii) reincorporation or reorganization of Seller under the laws of another jurisdiction.

9.4 **Additional Financing**. If Seller intends to enter into any financing or lending arrangements such as or similar to warehouse lines of credit or repurchase arrangements, Seller shall notify Buyer not fewer than fifteen (15) Business Days prior to the execution of such arrangement.

9.5 **Servicing of Mortgage Loans**. Subject to Section 6.2 above, Seller shall service all Purchased Mortgage Loans at Seller's expense, but in consideration of the Servicing Fee, and without charge of any kind to Buyer. Seller may delegate its obligations hereunder to service the Purchased Mortgage Loans (subject to Section 6.2) to an independent servicer provided that such independent servicer and the related Servicing Agreement has been approved by Buyer and such independent servicer has executed a Servicing Agreement with Buyer. The failure of Seller to obtain the prior approval of Buyer regarding the delegation of its servicing obligations to an independent servicer and/or the failure of the independent servicer to execute and return to Buyer a Servicing Agreement shall be considered an Event of Default hereunder. In any event, Seller or its delegate shall service such Purchased Mortgage Loans with the degree of care and in accordance with the servicing standards generally prevailing in the industry, including those required by Fannie Mae, Freddie Mac and Ginnie Mae.

9.6 **Evidence of Purchased Assets**. Seller shall indicate on its computer records that each Purchased Mortgage Loan has been included in the Purchased Assets and, at the request of Buyer, place on each of its written records pertaining to the Purchased Mortgage Loans a legend, in form and content satisfactory to Buyer, indicating that such Purchased Mortgage Loan has been sold to Buyer.

9.7 **Protection of Purchased Mortgage Loans**. Seller shall allow Buyer (a) to inspect any Mortgaged Property relating to a Purchased Mortgage Loan; (b) to appear in or intervene in any proceeding or matter affecting any Purchased Mortgage Loan or other Purchased Assets or the value thereof; (c) to initiate, commence, appear in and defend any foreclosure, action, bankruptcy or proceeding which could adversely affect Buyer's ownership or security of the Purchased Assets or the value thereof, or the rights and powers of Buyer; (d) to contest by litigation or otherwise any lien asserted against the Purchased Mortgage Loans or other Purchased Assets or against the related Mortgaged Property, the improvements, or the personal property identified therein; and/or (e) to make payments on account of such encumbrances, charges, or liens and to service any Purchased Mortgage Loan and take any action it may deem appropriate to collect



(d) the aggregate original Asset Value of those Purchased Mortgage Loans that are deemed to be Defective Mortgage Loans is greater than or equal to ten percent (10%) of the outstanding Transactions for more than two (2) consecutive Business Days;

(e) any of Seller's representations or warranties made in Section 8.1 or in any statement or certificate at any time given by Seller in writing pursuant hereto or in connection herewith shall be false in any material respect on the date as of which made and such occurrence shall not have been remedied within three (3) Business Days after receipt of notice from Buyer of such occurrence;

(f) the failure of Seller to perform, comply with or observe any material term, covenant or agreement applicable to Seller as contained in Articles 9 and 10 of this Agreement;

(g) the failure of Seller to perform, comply with or observe any other material term, covenant or agreement applicable to Seller as contained in this Agreement and such occurrence shall not have been remedied within thirty (30) days after receipt of notice from Buyer of such occurrence;

(h) an Insolvency Event shall have occurred with respect to Seller or any Guarantor; provided, however, that if there are two or more Guarantors (if required by the Transaction Terms Letter) and an Insolvency Event occurs with respect to one or more of them, Buyer shall reasonably consider the aggregate net worth of those Guarantor(s) for which an Insolvency Event has not occurred and reasonably determine whether such aggregate net worth is sufficient for Buyer to continue to enter into Transactions with Seller hereunder, and in the event Buyer makes such a determination, the Insolvency Event with respect to the Guarantor(s) shall not be considered an Event of Default under this subsection;

(i) one or more judgments or decrees shall be entered against Seller involving a liability of five hundred thousand ($500,000) dollars or more, and all such judgments or decrees shall not have been vacated, discharged, stayed or bonded pending appeal within sixty (60) days after entry thereof;

(j) any Plan maintained by Seller or any subsidiary of Seller shall be terminated within the meaning of Title IV of ERISA or a trustee shall be appointed by an appropriate United States District Court to administer any Plan, or the Pension Benefit Guaranty Corporation (or any successor thereto) shall institute proceedings to terminate any Plan or to appoint a trustee to administer any Plan if as of the date thereof Seller's liability or any such subsidiary's liability (after giving effect to the tax consequences thereof) to the Pension Benefit Guaranty Corporation (or any successor thereto) for unfunded guaranteed vested benefits under the Plan exceeds the then current value of assets accumulated in such Plan by more than fifty thousand ($50,000) dollars (or in the case of a termination involving Seller as a "substantial employer" (as defined in Section 4001(a)(2) of ERISA) the withdrawing employer's proportionate share of such excess shall exceed such amount);

(k) Seller as employer under a Plan that is a multiemployer plan shall have made a complete or partial withdrawal from such Plan and the plan sponsor of such Plan shall have notified such withdrawing employer that such employer has incurred a withdrawal liability in an annual amount exceeding fifty thousand ($50,000) dollars;

(l) Seller shall purport to disavow its obligations hereunder or shall contest the validity or enforceability of the Principal Agreements or Buyer's interest in any Purchased Mortgage Loan or other Purchased Assets;



(m) if applicable, the death of any Guarantor(s) who is an individual shall occur;

(n) a Material and Adverse Change shall occur;

(o) a change in any Key Personnel as set forth in the Transactions Terms Letter shall occur, if applicable;

(p) any Principal Agreement shall for whatever reason (including an event of default thereunder) be terminated, without the consent of Buyer (other than, with respect to the Custodial Agreement, due to the resignation of the Custodian for reasons other than a breach by Seller of the Custodial Agreement), or this Agreement shall for any reason cease to create a valid, first priority security interest or ownership interest upon transfer in any of the Purchased Assets;

(q) a breach of any of Seller's or Servicer's servicing obligations, including, but not limited to, its failure to deposit any funds required to be deposited under Section 6.2(g) into the Custodial Account; or

(r) if Seller is a member of MERS, Seller's membership in MERS is terminated for any reason.

With respect to any Event of Default which requires a determination to be made as to whether such Event of Default has occurred, such determination shall be made in Buyer's sole and good faith discretion and Seller hereby agrees to be bound by and comply with any such determination by Buyer.

11.2 **Remedies**. Subject to Section 11.2(f) below, upon the occurrence of an Event of Default, Buyer may, by notice to Seller, declare all or any portion of the Repurchase Prices related to the outstanding Transactions to be due and payable whereupon the same shall become due and payable, and the obligation of Buyer to enter into Transactions shall thereupon terminate. Further, it is understood and agreed that upon the occurrence of an Event of Default, Seller shall strictly comply with the negative covenants contained in Article 10 hereunder and in no event shall Seller declare and pay any dividends, incur additional Debt or Subordinated Debt, make payments on existing Debt or Subordinated Debt or otherwise distribute or transfer any of Seller's property and assets to any Person without the prior written consent of Buyer; provided, however, that for as long as such Event of Default is occurring, Seller may incur and pay trade Debt that is, or was, incurred in the ordinary course of business of Seller's mortgage banking business. Upon the occurrence of any Event of Default, Buyer may also:

(a) enter the office(s) of Seller and take possession of any of the Purchased Assets including any records that pertain to the Purchased Assets;

(b) communicate with and notify Mortgagors of the Purchased Mortgage Loans and obligors under other Purchased Assets or on any portion thereof, whether such communications and notifications are in verbal, written or electronic form, including, without limitation, communications and notifications that the Purchased Assets have been assigned to Buyer and that all payments thereon are to be made directly to Buyer or its designee; settle compromise, or release, in whole or in part, any amounts owing on the Purchased Mortgage Loans or other Purchased Assets or any portion of the Purchased Assets, on terms acceptable to Buyer; enforce payment and prosecute any action or proceeding with respect to any and all Purchased Assets; and where any Purchased Mortgage Loans or other Purchased Assets is in default, foreclose upon and enforce security interests in, such Purchased Assets by any available judicial procedure or without judicial process and sell property acquired as a result of any such foreclosure;

(c) collect payments from Mortgagors and/or assume servicing of, or contract with a third party to service, any or all Purchased Mortgage Loans requiring servicing and/or perform any obligations required in connection with Purchase Commitments, such third party's fees to be paid by Seller. In connection with collecting payments from Mortgagors and/or assuming servicing of any or all Purchased Mortgage Loans, Buyer may take possession of and open any mail addressed to Seller, remove, collect and apply all payments for Seller, sign Seller's name to any receipts, checks, notes, agreements or other instruments or letters or appoint an agent to exercise and perform any of these rights. If Buyer so requests, Seller shall promptly forward to Buyer or its designee, all further mail and all "trailing" documents, such as title insurance policies, deeds of trust, and other documents, and all loan payment histories, both in paper and electronic format, in each case, as same relate to the Purchased Mortgage Loans;

(d) proceed against Seller under this Agreement or against any Guarantor(s) under their respective Guaranty (if contemplated by the Transaction Terms Letter), or both; and/or

(e) pursue any rights and/or remedies available at law or in equity against Seller or any Guarantor(s) (if contemplated by the Transaction Terms Letter), or both.

(f) if the Event of Default is the occurrence of a Material and Adverse Change with respect to general market circumstances or conditions, including, without limitation, if any law, regulation, treaty or directive or any change therein or in the interpretation or application thereof, or any circumstance affecting the London interbank market or the repurchase market for mortgage loans or mortgage-backed securities, the Repurchase Prices related to the then outstanding Transactions shall be due and payable on their respective scheduled Repurchase Date unless Buyer has made an additional determination that such change is severe, in which case, Buyer may declare all or any portion of the Repurchase Prices related to the then outstanding Transactions to be immediately due and payable.

11.3 **Treatment of Custodial Account**. During the existence of an Event of Default, notwithstanding any other provision of this Agreement, Seller shall have no right to withdraw or release any funds in the Custodial Account to itself or for its benefit to which it is not entitled under this Agreement, nor shall it have any right to set-off any amount owed to it by Buyer against funds held by it for Buyer in the Custodial Account. During the existence of an Event of Default, Seller shall promptly remit to or at the direction of Buyer all funds related to the Purchased Mortgage Loans in the Custodial Account.

11.4 **Sale of Purchased Assets**. Following an Event of Default, and after giving Seller five (5) business days in which to purchase for itself the Purchased Assets, Buyer may securitize or otherwise sell the Purchased Assets with no obligation to reacquire title as provided in Section 6.6 and Buyer shall incur no liability as a result of such transaction. For the avoidance of doubt, Buyer may sell the Purchased Assets as part of a pool comprised of, all or part of, the Purchased Assets and other mortgage loans owned by Buyer; in such instance, the value of the Purchased Assets shall be determined on a pro rata basis. Seller hereby waives any claims it may have against Buyer arising by reason of the fact that the price at which the Purchased Assets may have been sold at such private sale was less than the price which might have been obtained at a public sale or was less than the aggregate Repurchase Price amount of the outstanding Transactions, even if Buyer accepts the first offer received and does not offer the Purchased Assets, or any part thereof, to more than one offeree.

11.5 **No Obligation to Pursue Remedy**. Seller waives any right to require Buyer to (a) proceed against any Person, (b) proceed against or exhaust all or any of the Purchased Assets or pursue its rights and remedies as against the Purchased Assets in any particular order, or (c) pursue any other remedy in its power. Buyer shall not be required to take any steps necessary to preserve any rights of Seller against holders of mortgages prior in lien to the lien of any Purchased



Mortgage Loan included in the Purchased Assets or to preserve rights against prior parties. No failure on the part of Buyer to exercise, and no delay in exercising, any right, power or remedy provided hereunder, at law or in equity shall operate as a waiver thereof; nor shall any single or partial exercise by Buyer of any right, power or remedy provided hereunder, at law or in equity preclude any other or further exercise thereof or the exercise of any other right, power or remedy. The remedies herein provided are cumulative and are not exclusive of any remedies provided at law or in equity.

11.6 **Reimbursement of Costs and Expenses**. Buyer may, but shall not be obligated to, advance any sums or do any act or thing necessary to uphold and enforce the lien and priority of, or the security intended to be afforded by, any Purchased Mortgage Loan, including, without limitation, payment of delinquent taxes or assessments and insurance premiums. All advances, charges, reasonable costs and expenses, including reasonable attorneys' fees and disbursements, incurred or paid by Buyer in exercising any right, power or remedy conferred by this Agreement, or in the enforcement hereof, together with interest thereon, at the Default Rate, from the time of payment until repaid, shall become a part of the Repurchase Price.

11.7 **Application of Proceeds**. The proceeds of any sale or other enforcement of Buyer's interest in all or any part of the Purchased Assets shall be applied by Buyer:

(a) first, to the payment of the costs and expenses of such sale or enforcement, including reasonable compensation to Buyer's agents and counsel, and all expenses, liabilities and advances made or incurred by or on behalf of Buyer in connection therewith;

(b) second, to the payment of any other amounts due under this Agreement other than the aggregate Repurchase Price;

(c) third, to the payment of the aggregate Repurchase Price;

(d) fourth, to the payment to Seller, or to its successors or assigns, or as a court of competent jurisdiction may direct, of any surplus then remaining from such proceeds. If the proceeds of any such sale are insufficient to cover the costs and expenses of such sale, as aforesaid, and the payment in full of the aggregate Repurchase Price and all other amounts due hereunder, Seller shall remain liable for any deficiency.

11.8 **Rights of Set-Off**. Buyer shall have the following rights of set-off:

(a) If Seller shall default in the payment or performance of any of its obligations under this Agreement, Buyer shall have the right, at any time, and from time to time, without notice, to set-off claims and to appropriate or apply any and all deposits of money or property or any other indebtedness at any time held or owing by Buyer to or for the credit of the account of Seller against and on account of the obligations and liabilities of Seller under this Agreement, irrespective of whether or not Buyer shall have made any demand hereunder and whether or not said obligations and liabilities shall have become due; provided, however, that the aforesaid right to set-off shall not apply to any deposits of escrow monies being held on behalf of the Mortgagors related to the Purchased Mortgage Loans or other third parties. Without limiting the generality of the foregoing, Buyer shall be entitled to set-off claims and apply property held by Buyer with respect to any Transaction against obligations and liabilities owed by Seller to Buyer with respect to any other Transaction.

(b) In addition to the rights in subsection (a), Buyer and its Affiliates, including, without limitation, Balboa Insurance Group, Inc., Countrywide Home Loans, Inc., Countrywide Securities Corporation, Countrywide Bank, FSB and LandSafe, Inc. (collectively, **"Countrywide Related Entities"**), shall have the right to set-off and to appropriate or



apply any and all deposits of money or property or any other indebtedness at any time held or owing by the Countrywide Related Entity to or for the credit of the account of Seller and its Affiliates against and on account of the obligations of Seller under any agreement(s) between Seller and or its Affiliates, on the one hand, and the Countrywide Related Entity, on the other hand, irrespective of whether or not the Countrywide Related Entity shall have made any demand hereunder and whether or not said obligations shall have matured. In exercising the foregoing right to set-off, any Countrywide Related Entity shall be entitled to withdraw funds in the Over/Under Account which are being held for or owing to Seller to set-off against any amounts due and owing by Seller to the Countrywide Related Entity. If a Countrywide Related Entity other than Buyer intends to exercise its right to set-off in this subsection (b), such Countrywide Related Entity shall provide Seller prior notice thereof, and upon Seller's receipt of such notice, if the basis for such right to set-off is Seller's breach or default of its obligations to the Countrywide Related Entity, Seller shall have three (3) Business Days to cure any such breach or default in order to avoid such set-off.

11 .9 **Reasonable Assurances**. If, at any time during the term of the Agreement, Buyer has reason to believe that Seller is not conducting its business in accordance with, or otherwise is not satisfying: (i) all applicable statutes, regulations, rules, and notices of federal, state, or local governmental agencies or instrumentalities, all applicable requirements of Approved Investors and Insurers and prudent industry standards or (ii) all applicable requirements of Buyer, as set forth in this Agreement, then, Buyer shall have the right to demand, pursuant to notice from Buyer to Seller specifying with particularity the alleged act, error or omission in question, reasonable assurances from Seller that such a belief is in fact unfounded, and any failure of Seller to provide to Buyer such reasonable assurances in form and substance reasonably satisfactory to Buyer, within the time frame specified in such notice, shall itself constitute an Event of Default hereunder, without a further cure period. Seller hereby authorizes Buyer to take such actions as may be necessary or appropriate to confirm the continued eligibility of Seller for Transactions hereunder, including without limitation (i) ordering credit reports and (ii) contacting Mortgagors, licensing authorities and Approved Investors or Insurers.

## ARTICLE 12
## INDEMNIFICATION

12.1 **Indemnification**. Seller shall indemnify and hold harmless Buyer, its Affiliates and any of their respective officers, directors, employees and agents from and against any and all liabilities, obligations, losses, damages, penalties, judgments, suits, costs, expenses and disbursements of any kind whatsoever that may be imposed upon, incurred by or asserted against Buyer, its Affiliates and their respective officers, directors, employees and agents in any way relating to or arising out of the Principal Agreements or any other document referred to therein or any of the transactions contemplated thereby, except for liabilities, losses and damages solely resulting from the gross negligence or willful misconduct of Buyer and its Affiliates.

12.2 **Payment of Taxes**. Seller shall pay and hold Buyer harmless from and against any and all present and future stamp, documentary and other similar taxes with respect to the Purchased Assets, the Principal Agreements and other documents related thereto and hold Buyer harmless from and against any and all liabilities with respect to or resulting from any delay or omission to pay such taxes.

## ARTICLE 13
## TERM AND TERMINATION

13.1 **Term**. Provided that no Event of Default has occurred and is continuing, and except as otherwise provided for herein, this Agreement shall commence on the Effective Date and continue until the Expiration Date set forth in the Transactions Terms Letter. Following expiration or termination of this Agreement, all indebtedness due Buyer under the Principal Agreements shall be immediately



due and payable without notice to Seller and without presentment, demand, protest, notice of protest or dishonor, or other notice of default, and without formally placing Seller in default, all of which are hereby expressly waived by Seller.

13.2 **Termination**.

(a) Buyer may, with or without cause, terminate this Agreement at any time on not less than sixty (60) days prior notice to Seller. During such prior notice time period and until the expiration thereof, Buyer shall continue to make Transactions to Seller pursuant to the terms and conditions of this Agreement, provided, however, within forty-five (45) days after the expiration of such time period, Seller shall pay the Repurchase Price for all outstanding Transactions.

(b) In addition to the remedies afforded Buyer upon the occurrence of an Event of Default, including, without limitation, those remedies afforded Buyer under this Agreement, Buyer may immediately terminate this Agreement by providing notice to Seller if such Event of Default is not cured within any applicable cure period expressly provided for in this Agreement.

(c) Buyer may immediately terminate this Agreement by providing notice to Seller if Buyer determines that there has been fraud, misrepresentation or any similar intentional conduct on behalf of Seller, its officers, directors, employees, agents and/or its representatives with respect to any of Seller's obligations, responsibilities or actions undertaken in connection with this Agreement.

(d) Buyer may immediately terminate this Agreement if (i) this Agreement or any Transaction is deemed by a court or by statute to not constitute a "repurchase agreement," a "securities contract," or a "master netting agreement," as each such term is defined in the Bankruptcy Code, (ii) payments or security offered hereunder are deemed by a court or by statute not to constitute "settlement payments" or "margin payments" as each such term is defined in the Bankruptcy Code or (iii) this Agreement or any Transaction is deemed by a court or by statute not to constitute an agreement to provide financial accommodations as described in Bankruptcy Code Section 365(c)(1); provided, however, that unless Buyer's cost of funds are materially and adversely affected by such determination and/or Buyer's source of funds requires Buyer to make immediate repayment of any funds provided to Buyer as a result thereof, Seller shall have forty-five (45) days after termination of the Agreement to pay the Repurchase Prices related to the then outstanding Transactions.

(e) Upon termination of this Agreement for any reason, and except as expressly provided for in subsections (a) and (d) above with respect to the Repurchase Prices for outstanding Transactions, all outstanding amounts due Seller under the Principal Agreements shall be immediately due and payable without notice to Seller and without presentment, demand, protest, notice of protest or dishonor, or other notice of default, and without formally placing Seller in default, all of which are hereby expressly waived by Seller. Further, any termination of this Agreement shall not affect the outstanding obligations of Seller under this Agreement and all such outstanding obligations and the rights and remedies afforded Buyer in connection therewith, including, without limitation, those rights and remedies afforded Buyer under this Agreement, shall survive any termination of this Agreement. Buyer shall not be liable to Seller for any costs, loss or damages arising from or relating to a termination by Buyer in accordance with any subsection of this Section 13.2.

13.3 **Extension of Term**. Upon mutual agreement of Seller and Buyer, the term of this Agreement may be extended. Such extension may be made subject to the terms and conditions hereunder and to any other terms and conditions as Buyer, in its sole and good faith discretion, may deem



necessary or advisable. Under no circumstances shall such an extension by Buyer be interpreted or construed as a forfeiture by Buyer of any of its rights, entitlements or interest created hereunder. Seller acknowledges and understands that Buyer is under no obligation whatsoever to extend the term of this Agreement beyond the initial term.

## ARTICLE 14
## GENERAL

14.1 **Integration**. This Agreement, together with the other Principal Agreements, and all other documents executed pursuant to the terms hereof and thereof, constitute the entire agreement between the parties with respect to the subject matter hereof and supercedes any and all prior or contemporaneous oral or written communications with respect to the subject matter hereof, all of which such communications are merged herein. All Transactions hereunder constitute a single business and contractual relationship and each Transaction has been entered into in consideration of the other Transactions.

14.2 **Amendments**. No modification, waiver, amendment, discharge or change of this Agreement shall be valid unless the same is in writing and signed by the party against whom the enforcement of such modification, waiver, amendment, discharge or change is sought.

14.3 **No Waiver**. No failure or delay on the part of Seller or Buyer in exercising any right, power or privilege hereunder and no course of dealing between Seller and Buyer shall operate as a waiver thereof nor shall any single or partial exercise of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder.

14.4 **Remedies Cumulative**. The rights and remedies herein expressly provided are cumulative and not exclusive of any rights or remedies that Seller or Buyer would otherwise have. No notice or demand on Seller in any case shall entitle Seller to any other or further notice or demand in similar or other circumstances or constitute a waiver of the rights of Buyer to any other or further action in any circumstances without notice or demand.

14.5 **Assignment**. The Principal Agreements may not be assigned by Seller. The Principal Agreements, along with Buyer's right, title and interest, including its security interest, in any or all of the Purchased Assets, may, at any time, be transferred or assigned, in whole or in part, by Buyer, and upon providing notice to Seller of such transfer or assignment, any transferee or assignee thereof may enforce the Principal Agreements and such security interest directly against Seller; provided, however, that if Buyer transfers or assigns the Principal Agreements for the purpose of a transferee or assignee assuming the obligations of Buyer hereunder with respect to entering into Transactions with Seller, any such transferee or assignee must be capable of complying with such obligations.

14.6 **Successors and Assigns**. The terms and provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

14.7 **Participations**. Buyer may from time to time sell or otherwise grant participations in this Agreement, and the holder of any such participation, if the participation agreement so provides, (i) shall, with respect to its participation, be entitled to all of the rights of Buyer and (ii) may exercise any and all rights of set-off or banker's lien with respect thereto, in each case as fully as though Seller were directly obligated to the holder of such participation in the amount of such participation; provided, however, that Seller shall not be required to send or deliver to any of the participants other than Buyer any of the materials or notices required to be sent or delivered by it under the terms of this Agreement, nor shall it have to act except in compliance with the instructions of Buyer.

14.8 **Invalidity**. In case any one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions hereof, and this Agreement shall be construed as if such invalid, illegal or unenforceable provision had not been included.

14.9 **Additional Instruments**. Seller shall execute and deliver such further instruments and shall do and perform all matters and things necessary or expedient to be done or observed for the purpose of effectively creating, maintaining and preserving the security and benefits intended to be afforded by this Agreement.

14.10 **Survival**. All representations, warranties, covenants and agreements herein contained on the part of Seller shall survive any Transaction and shall be effective so long as this Agreement is in effect or there remains any obligation of Seller hereunder to be performed.

14.11 **Notices**.

(a) All notices, demands, consents, requests and other communications required or permitted to be given or made hereunder in writing shall be mailed (first class, return receipt requested and postage prepaid) or delivered in person or by overnight delivery service or by facsimile, addressed to the respective parties hereto at their respective addresses set forth below or, as to any such party, at such other address as may be designated by it in a notice to the other:

| | |
|---|---|
| If to Seller: | That address set forth in the Transactions Terms Letter |
| If to Buyer: | Countrywide Bank, FSB<br>8511 Fallbrook Avenue Mail Stop: WH-51F<br>West Hills, CA 91304<br>Facsimile No: (818) 316-8841 |

All written notices shall be conclusively deemed to have been properly given or made when duly delivered, if delivered in person or by overnight delivery service, or on the third (3rd) Business Day after being deposited in the mail, if mailed in accordance herewith, or upon transmission by the receiving party of a facsimile confirming receipt, if delivered by facsimile. Notwithstanding the foregoing, any notice of termination shall be deemed effective upon mailing, transmission, or delivery, as the case may be.

(b) All notices, demands, consents, requests and other communications required or permitted to be given or made hereunder which are not required to be in writing may also be provided electronically either (i) as an electronic mail sent and addressed to the respective parties hereto at their respective electronic mail addresses set forth below, or as to any such party, at such other electronic mail address as may be designated by it in a notice to the other or (ii) with respect to Buyer, via a posting of such notice on Buyer's customer website(s).

| | |
|---|---|
| If to Seller: | That email address(es) specified in the Transactions Terms Letter, if any. |
| If to Buyer: | Dan_Baruch@countrywide.com |

14.12 **Personal Identification Number**. Seller shall adopt a Personal Identification Number or PIN to be entered into the computer system in connection with all documents transmitted from Seller to Buyer electronically. Further, any document required to be signed by Seller may be signed by handwritten signature or transmitted electronically in conjunction with the PIN, except any written notification designating or changing the PIN and those documents required to be delivered



pursuant to Section 7.1(a) above, which must be signed by hand. Seller shall provide Buyer with written notification of its PIN and any changes thereto; provided, however, that any change to the PIN may not become effective for twenty four (24) hours following Buyer's confirmation of receipt of such notice by Seller. Seller and Buyer agree that transmitting a document in conjunction with the PIN shall have the same force and effect as a handwritten signature and shall be sufficient to verify that Seller originated such document. Seller shall employ security procedures to ensure that all transmissions of documents accompanied by the PIN are authorized, authentic, reliable and complete and shall promptly notify Buyer if Seller discovers the PIN has been improperly disclosed to any Person. Notwithstanding the foregoing or any other breach of security, Buyer shall be entitled to rely upon the PIN of Seller until such time as (a) Seller provides Buyer with written instructions to the contrary and (b) Buyer has sufficient time to notify the appropriate employees and modify its computerized systems.

14.13 **Governing Law**. This Agreement and the rights and obligations of the parties under the Principal Agreements shall be construed in accordance with and governed by the laws of the State of California, without regard to principles of conflicts of laws. All legal actions between or among the parties regarding this Agreement, including, without limitation, legal actions to enforce this Agreement or because of a dispute, breach or default of this Agreement, shall be brought in the federal or state courts located in Los Angeles County, California, which courts shall have sole and exclusive in personam, subject matter and other jurisdiction in connection with such legal actions and the parties acknowledged and agree that venue in such courts shall be convenient and appropriate for all purposes.

14.14 **Counterparts**. This Agreement may be executed in any number of counterparts by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute one and the same Agreement.

14.15 **Headings**. The headings in this Agreement are for purposes of reference only and shall not limit or otherwise affect the meaning or interpretation of any provisions hereof.

14.16 **Joint and Several Liability of Each Seller**. To the extent there is more than one Person which is named as a Seller under this Agreement, each such Person shall be jointly and severally liable for the rights, covenants, obligations and warranties and representations of "Seller" as contained herein and the actions of any Person (including another Seller) or third party shall in no way affect such joint and several liability.

14.17 **Confidential Information**. To effectuate this Agreement, Buyer and Seller may disclose to each other certain confidential information relating to the parties' operations, computer systems, technical data, business methods, and other information designated by the disclosing party or its agent to be confidential, or that should be considered confidential in nature by a reasonable person given the nature of the information and the circumstances of its disclosure (collectively the **"Confidential Information"**). Confidential Information can consist of information that is either oral or written or both, and may include, without limitation, any of the following: (i) any reports, information or material concerning or pertaining to businesses, methods, plans, finances, accounting statements, and/or projects of either party or their affiliated or related entities; (ii) any of the foregoing related to the parties or their related or affiliated entities and/or their present or future activities and/or (iii) any term or condition of any agreement (including this Agreement) between either party and any individual or entity relating to any of their business operations. With respect to Confidential Information, the parties hereby agree:

(a) not to use the Confidential Information except in furtherance of this Agreement;

(b) to use reasonable efforts to safeguard the Confidential Information against disclosure to any unauthorized third party with the same degree of care as they exercise with their own information of similar nature; and



(c) not to disclose Confidential Information to anyone other than employees, agents or contractors with a need to have access to the Confidential Information and who are bound to the parties by like obligations of confidentiality, except that the parties shall not be prevented from using or disclosing any of the Confidential Information which: (i) is already known to the receiving party at the time it is obtained from the disclosing party; (ii) is now, or becomes in the future, public knowledge other than through wrongful acts or omissions of the party receiving the Confidential Information; (iii) is lawfully obtained by the party from sources independent of the party disclosing the Confidential Information and without confidentiality and/or non-use restrictions; or (iv) is independently developed by the receiving party without any use of the Confidential Information of the disclosing party. Notwithstanding anything contained herein to the contrary, Buyer may share any Confidential Information of Seller with an Affiliate of Buyer for any valid business purpose, such as, but not limited to, to assist an Affiliate in evaluating a current or potential business relationship with Seller.

(d) If any party or any of its successors, subsidiaries, officers, directors, employees, agents and/or representatives, including, without limitation, its insurers, sureties and/or attorneys, breaches its respective duty of confidentiality under this Agreement, the nonbreaching party(ies) shall be entitled to all remedies available at law and/or in equity, including, without limitation, injunctive relief.

14.18 **Intent**. Seller and Buyer recognize and intend that:

(a) this Agreement and each Transaction hereunder constitutes a "repurchase agreement" as that term is defined in Section 101(47) of the Bankruptcy Code, a "securities contract" as that term is defined in Section 741(7) of the Bankruptcy Code and a "master netting agreement" as that term is defined in Section 101(38A) of the Bankruptcy Code. Seller and Buyer further recognize and intend that this Agreement is an agreement to provide financial accommodations and is not subject to assumption pursuant to Bankruptcy Code Section 365(a);

(b) Buyer's right to liquidate the Purchased Mortgage Loans delivered to it in connection with the Transactions hereunder or to accelerate or terminate this Agreement or otherwise exercise any other remedies herein is a contractual right to liquidate, accelerate or terminate such Transaction as described in Bankruptcy Code Sections 555, 559 and 561; any payments or transfers of property made with respect to this Agreement or any Transaction to: (i) satisfy a Margin Deficit, (ii) comply with a Margin Call, or (iii) satisfy the provision of Guarantees an/or additional security agreements to provide enhancements to satisfy a deficiency in the Over/Under Account, shall in each case be considered a "margin payment" as such term is defined in Bankruptcy Code Section 741(5); and

(c) any payments or transfers of property by Seller (i) on account of a Haircut, (ii) in partial or full satisfaction of a repurchase obligation, or (iii) fees and costs under this Agreement or under any Transaction shall in each case constitute "settlement payments" as such term is defined in Bankruptcy Code Section 741(8).

14.19 **Right to Liquidate**. It is understood that either party's right to liquidate Purchased Mortgage Loans delivered to it in connection with Transactions hereunder or to terminate or accelerate obligations under this Agreement or any individual Transaction, are contractual rights for same as described in Sections 555 and 559 of the Bankruptcy Code.

14.20 **Insured Depository Institution**. If a party hereto is an "insured depository institution" as such term is defined in the Federal Deposit Insurance Act (as amended, the **"FDIA"**), then each Transaction hereunder is a "qualified financial contract" as that term is defined in the FDIA and any rules, orders or policy statements thereunder except insofar as the type of assets subject to such Transaction would render such definition inapplicable.



14.21 **Netting Contract**. This Agreement constitutes a "netting contract" as defined in and subject to Title IV of the Federal Deposit Insurance Corporation Improvement Act of 1991 (**"FDICIA"**) and each payment entitlement and payment obligation under any Transaction hereunder shall constitute a "covered contractual payment entitlement" or "covered contractual payment obligation", respectively, as defined in and subject to the FDICIA except insofar as one or more of the parties hereto is not a "financial institution" as that term is defined in the FDICIA.

14.22 **Reimbursement of Expenses**. If any claim, legal action or any arbitration or other proceeding is brought for the enforcement of this Agreement or because of a dispute, breach, default or misrepresentation in connection with any of the provisions of this Agreement, the prevailing party shall be entitled to recover reasonable attorneys' fees and other reasonable costs in that claim, action, arbitration or proceeding, in addition to any other relief to which such party may be entitled.

14.23 **Examination and Oversight by Regulators**. Seller agrees that the transactions with Buyer under this Agreement may be subject to regulatory examination and oversight, including, without limitation, examination and oversight by the Office of Thrift Supervision ("OTS"). Seller shall comply with all regulatory requirements of Buyer and Seller shall grant regulatory agencies, including, but not limited to, the OTS, the right to audit the books and records of Seller in order to monitor or verify Seller's performance under and compliance with the terms of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

BUYER: COUNTRYWIDE BANK, FSB

By: /s/ Richie Walia
Name: RICHIE WALIA
Title: SENIOR VICE PRESIDENT COUNTRYWIDE BANK, FSB

SELLER: HOME LOAN CENTER, INC.

By: /s/ Rian Furey
Name: Rian Furey
Title: SVP



## EXHIBIT A

GLOSSARY OF DEFINED TERMS

**Accepted Servicing Practices**: With respect to any Purchased Mortgage Loan, those mortgage servicing practices of prudent mortgage lending institutions which service mortgage loans of the same type as such Purchased Mortgage Loan in the jurisdiction where the related Mortgaged Property is located.

**Acknowledgement of Confidentiality of Password Agreement**: That certain Acknowledgement of Confidentiality of Password Agreement attached hereto as Exhibit I.

**Additional Purchased Mortgage Loans**: Those additional Mortgage Loans or cash provided by Seller to Buyer pursuant to Section 6.3 of this Agreement.

**Affiliate**: With respect to any specified entity, any other entity controlling or controlled by or under common control with such specified entity. For the purposes of this definition, "control" when used with respect to a specified entity means the power to direct the management and policies of such entity, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, and the terms "controlling" and "controlled" having meanings correlative to the foregoing.

**Agency**: Fannie Mae or Freddie Mac.

**Aggregate Transaction Limit**: The maximum aggregate principal amount of Transactions that may be outstanding at any one time, as set forth in the Transactions Terms Letter.

**Applicable Pricing Rate**: With respect to any date of determination, the daily rate per annum (rounded up to three (3) decimal places) for one-month U.S. dollar denominated deposits as offered to prime banks in the London interbank market (**"One-Month LIBOR"**) as published on Bloomberg or in the Wall Street Journal. It is understood that the Applicable Pricing Rate shall be initially set to the then current One-Month LIBOR in effect on the date the Purchase Price is paid and shall thereafter be adjusted on a daily basis to the then current One-Month LIBOR.

**Application**: The application or "Buyer Application Profile," including all supporting documentation, submitted by Seller to Buyer with respect to this Agreement.

**Approved Investor**: Fannie Mae, Freddie Mac, Ginnie Mae or a third party which is deemed acceptable by Buyer in its sole and good faith discretion, purchasing Purchased Mortgage Loans from Seller pursuant to a Purchase Commitment.

**Approved Payee**: A Closing Agent or warehouse lender approved by Buyer in accordance with Section 3.7.

**Asset Data Record**: A document, in the form required by Buyer and as may from time to time be amended by Buyer, as such form may be set forth in the Handbook, completed by Seller and submitted to Buyer with respect to each Purchased Mortgage Loan.

**Asset Value**: With respect to each Purchased Mortgage Loan for any date of determination, an amount equal to the following, as applicable, as same may be reduced in accordance with Section 4.3:

(a) if the Purchased Mortgage Loan has Standard Status, the product of the Mortgage Loan Value and the Type Purchase Price Percentage for the type of Purchased Mortgage Loan.

(b) if the Purchased Mortgage Loan is a Noncompliant Mortgage Loan, the product of the Mortgage Loan Value and the Type Purchase Price Percentage for a Noncompliant Mortgage Loan; or

(c) if the Purchased Mortgage Loan is a Defective Mortgage Loan, zero.

For purposes of the foregoing, **"Mortgage Loan Value"** shall mean the lesser of (i) the outstanding principal balance of the Purchased Mortgage Loan; (ii) the committed purchase price of the Purchased Mortgage Loan, as evidenced by the related Purchase Commitment; and (iii) the fair market value of the Purchased Mortgage Loan, as determined by Buyer in its sole and good faith discretion.

**Assignment**: A duly executed assignment to Buyer in recordable form of a Purchased Mortgage Loan, of the indebtedness secured thereby and of all documents and rights related to such Purchased Mortgage Loan.

**Assignment of Closing Protection Letter**: An assignment assigning and subrogating Buyer to all of Seller's rights in a Closing Protection Letter, substantially in the form of Exhibit F hereto.

**Assignment of Fidelity Bond and Errors and Omission Policy**: An assignment assigning and subrogating Buyer to all of Seller's rights in a Fidelity Bond and Errors and Omissions Policy, substantially in the form of Exhibit G hereto.

**Bailee Agreement**: A bailee agreement substantially in the form acceptable to Buyer.

**Bankruptcy Code**: Title 11 of the United States Code, now or hereafter in effect, as amended, or any successor thereto.

**Bond Loans – 1st Liens**: Unless defined otherwise in the Transactions Terms Letter, a first lien mortgage loan, other than a Nonperforming/Subperforming Mortgage Loan, that is eligible for sponsorship, facilitated or insured by a qualifying local or state home governmental homeownership program.

**Bond Loans – 2nd Liens**: Unless defined otherwise in the Transactions Terms Letter, a second lien mortgage loan for a fixed amount drawn at closing, that is eligible for sponsorship, facilitated or insured by a qualifying local or state governmental home homeownership program.

**Breakage Fee**: That fee, if set forth in the Transactions Terms Letter or otherwise indicated on Buyer's then-current schedule of fees, payable by Seller to Buyer if Seller fails to consummate a Transaction after Seller has submitted a Asset Data Record in connection with such requested Transaction.

**Business Day**: Any day, excluding Saturday, Sunday and any day that is a legal holiday under the laws of the State of California.

**Cash Equivalents**: Any (a) securities with maturities of ninety (90) days or less from the date of acquisition issued or fully guaranteed or insured by the United States Government or any agency thereof, (b) certificates of deposit and Eurodollar time deposits with maturities of ninety (90) days or less from the date of acquisition and overnight bank deposits of any commercial bank having capital, surplus and retained earnings in excess of $70,000,000, (c) repurchase obligations of any commercial bank satisfying the requirements of clause (b) of this definition, having a term of more than seven days with respect to securities issued or fully guaranteed or insured by the United States Government, (d) commercial paper of a domestic issuer rated at least A-1 or the equivalent thereof by S&P or p-1 or the equivalent thereof by Moody's and in either case maturing within ninety (90) days after the day of acquisition, (e) securities with maturities of ninety (90) days or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of the United States, by any political subdivision or taxing authority of any such state, commonwealth or territory or by any foreign government, the securities of which state, commonwealth, territory, political subdivision, taxing authority or foreign government (as the case may be) are rated at least A by S&P or A by Moody's, (f) securities with maturities of ninety (90) days or less from the date of acquisition backed by standby letters of credit issued by any commercial bank satisfying the



requirements of clause (b) of this definition, or (g) shares of money market, mutual or similar funds which invest exclusively in assets satisfying the requirements of clauses (a) through (f) of this definition.

**Cashiers Check Fee**: That fee, as set forth in the Transactions Terms Letter or otherwise indicated on Buyer's then-current schedule of fees, payable by Seller for each disbursement made by a cashiers check issued to Seller or its Approved Payee.

**Change of Control**: Change of Control shall mean any of the following:

(a) if Seller is a corporation, any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than a trustee or other fiduciary holding securities of Seller under an employee benefit plan of Seller, becomes the "beneficial owner" (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of Seller representing 50% or more of (A) the outstanding shares of common stock of Seller or (B) the combined voting power of Seller's then-outstanding securities;

(b) if Seller is a legal entity other than a corporation, the majority voting control of Seller, or its equivalent, under Seller's governing documents is transferred to any Person;

(c) Seller is party to a merger or consolidation, or series of related transactions, which results in the voting securities or majority voting control interest of Seller outstanding immediately prior thereto failing to continue to represent (either by remaining outstanding or by being converted into voting securities or a majority voting controlling interest of the surviving or another entity) at least fifty (50%) percent of the combined voting power of the voting securities or majority voting control interest of Seller or such surviving or other entity outstanding immediately after such merger or consolidation;

(d) the sale or disposition of all or substantially all of Seller's assets (or consummation of any transaction, or series of related transactions, having similar effect);

(e) there occurs a change in the composition of the Board of Directors or governing body of Seller within a one (1) year period, as a result of which fewer than a majority of the directors or governing body members are incumbent;

(f) the dissolution or liquidation of Seller; or

(g) any transaction or series of related transactions that has the substantial effect of any one or more of the foregoing.

**Closed-End Second Lien Mortgage Loan**: Unless defined otherwise in the Transactions Terms Letter, a second lien mortgage loan for a fixed amount drawn at closing and underwritten in accordance with Seller's underwriting guidelines for second lien mortgages, as same have been approved by Buyer.

**Closing Agent**: The Person designated by Seller and approved by Buyer in accordance with Section 3.7 to receive Purchase Prices from Buyer, for the account of Seller, for the purpose of funding a Purchased Mortgage Loan.

**Closing Protection Letter**: A document issued by a title insurance company to Seller and/or Buyer and relied upon by Buyer to provide closing protection for one or more mortgage loan closings and to insure Seller and/or Buyer, without limitation, against embezzlement by the Closing Agent and loss or damage resulting from the failure of the Closing Agent to comply with all applicable closing instructions.



**Contingent Obligations**: Any obligation of Seller arising from an existing condition or situation that involves uncertainty as to outcome and that will be resolved by the occurrence or nonoccurrence of some future event, including, without limitation, any obligation guaranteeing or intended to guarantee any Debt, leases, dividends or other obligations of any other Person in any manner, whether directly or indirectly; provided; however, that endorsements of instruments for deposit or collection in the ordinary course of business shall not be included. With respect to guarantees, the amount of the Contingent Obligation shall be equal to the stated or determinable amount of the primary obligation in respect of the guarantee or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof, as determined by Buyer.

**Control Agreement**: the agreement to perfect Buyer's security interest in the Custodial Account as described at Section 6.2(g) of this Agreement.

**Conventional Conforming Mortgage Loan**: Unless defined otherwise in the Transactions Terms Letter, a first lien mortgage loan that fully conforms to all underwriting standards, loan amount limitations and other requirements of that standard Agency mortgage loan purchase program accepting only the highest quality mortgage loans underwritten without dependence on expanded criteria provisions, or that is approved by Desktop Underwriter or Loan Prospector.

**Countrywide CLD**: The Correspondent Lending Division of Countrywide Home Loans, Inc.

**Current Assets**: Those assets set forth in the consolidated balance sheet of Seller, prepared in accordance with GAAP, as current assets, defined as those assets that are now cash or will by their terms or disposition be converted to cash within one (1) year of the date of the determination.

**Current Liabilities**: Those liabilities set forth in the consolidated balance sheet of Seller, prepared in accordance with GAAP, as current liabilities, defined as those liabilities due upon demand or within one (1) year of the date of determination.

**Custodial Account**: The account described at Section 6.2(g) of this Agreement.

**Custodian**: Countrywide Home Loans, Inc., Countrywide Bank, FSB or such other custodian selected by Buyer in its sole and good faith discretion.

**Date of Disbursement**: The date of disbursement shall mean (i) with respect to a wire transfer, the date such funds are wired, (ii) with respect to a cashiers check, the date such check is issued by the bank and (iii) with respect to a funding draft, the date that the draft is posted by the bank on which the draft is drawn.

**Debt**: The debt of Seller consisting of, without duplication: (a) indebtedness for borrowed money, including principal, interest, fees and other charges; (b) obligations evidenced by bonds, debentures, notes or other similar instruments; (c) obligations to pay the deferred purchase price of property or services; (d) obligations as lessee under leases that shall have been or should be in accordance with GAAP, recorded as capital leases; (e) obligations secured by any lien upon property or assets owned by Seller, even though Seller has not assumed or become liable for payment of such obligations; (f) obligations in connection with any letter of credit issued for the account of Seller; (g) obligations under direct or indirect guarantees in respect of and obligations, contingent or otherwise, to purchase or otherwise acquire, or otherwise assure a creditor against loss in respect of, indebtedness or obligations of others of the kinds referred to above; and (h) all Contingent Obligations. Notwithstanding the foregoing, the term "Debt" shall not include any obligations of Seller under that certain Early Purchase Program Addendum to Loan Purchase Agreement by and between Seller and Countrywide Home Loans, Inc.

**Default Rate**: The maximum nonusurious interest rate, if any, that at any time, or from time to time, may be contracted for, taken, reserved, charged or received under the laws of the United States and the State of California, not to exceed the sum of five percent (5%) plus the Applicable Rate.



**Defective Loan Fee**: A fee equal to five hundred dollars ($500) payable by Seller for each Purchased Mortgage Loan that is or becomes a Defective Mortgage Loan.

**Defective Mortgage Loan**: A Purchased Mortgage Loan:

(a) that has not been repurchased within the Maximum Dwell Time for a Noncompliant Mortgage Loan or is ineligible to be a Noncompliant Mortgage Loan because the aggregate original Asset Value of other Purchased Mortgage Loans that are deemed to be Noncompliant Mortgage Loans is equal to or greater than the Type Sublimit for Noncompliant Mortgage Loans;

(b) that is the subject of fraud by any Person involved in the origination of such Mortgage Loan and such fraud shall not have been remedied within three (3) Business Days after receipt of notice from Buyer to do so;

(c) where the related Mortgaged Property is the subject of material damage or waste and such damage or waste shall not have been remedied within three (3) Business Days after receipt of notice from Buyer to do so;

(d) in connection with which any other breach of a warranty or representation set forth in Section 8.2 occurs and remains uncured for a period of ten (10) calendar days;

(e) in connection with which a default occurs under the Purchased Mortgage Loan and remains uncured for a period of ten (10) calendar days; or

(f) where the related Mortgagor fails to make the first payment due under the Mortgage Note on or before the applicable due date, including any days of grace, and such default shall not have been remedied within three (3) Business Days after receipt of notice from Buyer to do so; provided, however, that with respect to any Nonperforming/Subperforming Mortgage Loan where specific payment conditions have been set forth in the Transactions Terms Letter, such Nonperforming/Subperforming Mortgage Loan shall only be deemed a Defective Mortgage Loan for failure of the Mortgagor to make payment if such failure constitutes a breach of the such specific payment conditions.

**Document Deposit Fee**: That fee, as set forth in the Transactions Terms Letter or otherwise indicated on Buyer's then-current schedule of fees, payable by Seller for each Mortgage Loan Document delivered to Buyer after the initial delivery date of the related Mortgage Loan File.

**Dry Mortgage Loan**: A Mortgage Loan for which Buyer or its Custodian has possession of the related Mortgage Loan Documents, in a form and condition acceptable to Buyer, prior to the payment of the Purchase Price.

**Effective Date**: That effective date set forth in the Transactions Terms Letter.

**Electronic Tracking Agreement**: An Electronic Tracking Agreement in a form acceptable to Buyer.

**Eligible Bank**: A bank selected by Seller and approved by Buyer in writing and authorized to conduct trust and other banking business in any state in which Seller conducts operations.

**ERISA**: The Employee Retirement Income Security Act of 1974, as amended from time to time and any successor statute.

**ERISA Affiliate**: Any person (as defined in section 3(9) of ERISA) that together with Seller or any of its subsidiaries would be a member of the same "controlled group" within the meaning of Section 414(b), (m), (c) and (o) of the Internal Review Code of 1986, as amended.



**Executive Management**: Chairman of the board of directors, chief executive officer, president, and chief financial officer.

**Expanded Criteria Mortgage Loan**: Unless defined otherwise in the Transactions Terms Letter, a first lien mortgage loan underwritten to the same high credit standards as a Conventional Conforming Mortgage Loan except with respect to loan programs and parameters that may have broader specifications of eligibility.

**Event of Default**: Any of the conditions or events set forth in Section 11.1.

**Expiration Date**: The Expiration Date set forth in the Transactions Terms Letter for the expiration of this Agreement.

**Facility Fee**: The non-refundable, annual commitment fee, as set forth in the Transactions Terms Letter.

**Fannie Mae**: The Federal National Mortgage Association and any successor thereto.

**FHA**: The Federal Housing Administration of the United States Department of Housing and Urban Development and any successor thereto.

**File Fee**: That fee, as set forth in the Transactions Terms Letter or otherwise indicated on Buyer's then current schedule of fees, payable by Seller upon submission of the related Asset Data Record whether or not the Transaction is actually made.

**Freddie Mac**: The Federal Home Loan Mortgage Corporation and any successor thereto.

**Funding Draft Fee**: That fee, as set forth in the Transactions Terms Letter or otherwise indicated on Buyer's then-current schedule of fees, payable by Seller for each payment of the Purchase Price by funding draft.

**GAAP**: Generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and the statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as may be approved by a significant segment of the accounting profession and that are applicable to the circumstances as of the date of determination.

**Ginnie Mae**: Government National Mortgage Association or any successor thereto.

**Government Mortgage Loan**: Unless defined otherwise in the Transactions Terms Letter, a first lien mortgage loan, other than a Nonperforming/Subperforming Mortgage Loan, that is (a) eligible for insurance by FHA and is so insured or is subject to a current binding and enforceable commitment for such insurance pursuant to the provisions of the National Housing Act, as amended, and is otherwise eligible for inclusion in a Ginnie Mae mortgage-backed security pool; or (b) eligible to be guaranteed by the VA and is so guaranteed or is subject to a current binding and enforceable commitment for such guarantee pursuant to the provisions of the Servicemen's Readjustment Act, as amended, and is otherwise eligible for inclusion in a Ginnie Mae mortgage-backed security pool.

**Guarantee**: A guarantee signed by a Guarantor, if set forth in the Transactions Terms letter, in a form acceptable to Buyer.

**Guarantors**: Those guarantors if set forth in the Transactions Terms Letter.

**Handbook**: The guide prepared by Buyer containing additional policies and procedures, as same may be amended from time to time.



**Haircut**: With respect to each Transaction, an amount equal to the difference between the Purchase Price and the Asset Value of the Purchased Mortgage Loan, which shall be considered a "settlement payment" as defined in Bankruptcy Code Section 741(8).

**HELOC 1st Mortgages**: Unless defined otherwise in the Transactions Terms Letter, a first lien mortgage loan that is a home equity line of credit underwritten in accordance with Seller's underwriting guidelines for HELOCs, as same have been approved by Buyer.

**HELOC Mortgage Loan**: Unless defined otherwise in the Transactions Terms Letter, a home equity line of credit underwritten in accordance with Seller's underwriting guidelines for HELOCs, as same have been approved by Buyer.

**HUD**: The United States Department of Housing and Urban Development or any successor thereto.

**Insolvency Event**: The occurrence of any of the following events:

(a) such Person shall become insolvent or generally fail to pay, or admit in writing its inability to pay, its debts as they become due, or shall voluntarily commence any proceeding or file any petition under any bankruptcy, insolvency or similar law or seeking dissolution, liquidation or reorganization or the appointment of a receiver, trustee, custodian, conservator or liquidator for itself or a substantial portion of its property, assets or business or to effect a plan or other arrangement with its creditors, or shall file any answer admitting the jurisdiction of the court and the material allegations of an involuntary petition filed against it in any bankruptcy, insolvency or similar proceeding, or shall be adjudicated bankrupt, or shall make a general assignment for the benefit of creditors, or such Person, or a substantial part of its property, assets or business, shall be subject to, consent to or acquiesce in the appointment of a receiver, trustee, custodian, conservator or liquidator for itself or a substantial property, assets or business;

(b) corporate action shall be taken by such Person for the purpose of effectuating any of the foregoing;

(c) an order for relief shall be entered in a case under the Bankruptcy Code in which such Person is a debtor; or

(d) involuntary proceedings or an involuntary petition shall be commenced or filed against such Person under any bankruptcy, insolvency or similar law or seeking the dissolution, liquidation or reorganization of such Person or the appointment of a receiver, trustee, custodian, conservator or liquidator for such Person or of a substantial part of the property, assets or business of such Person, or any writ, order, judgment, warrant of attachment, execution or similar process shall be issued or levied against a substantial part of the property, assets or business of such Person, and such proceeding or petition shall not be dismissed, or such execution or similar process shall not be released, vacated or fully bonded, within sixty (60) days after commencement, filing or levy, as the case may be.

**Insurer**: A private mortgage insurer, which is acceptable to Buyer in its sole and good faith discretion.

**Intercreditor Agreement**: An agreement substantially in the form acceptable to Buyer.

**Irrevocable Closing Instructions**: Closing instructions, including wire instructions, in the form of Exhibit B issued in connection with funds disbursed for the funding of a Wet Mortgage Loan.

**Jumbo Mortgage Loan**: Unless defined otherwise in the Transactions Terms Letter, a first lien mortgage loan underwritten to the same standards as a Conventional Conforming Mortgage Loan except with respect to the original principal balance, which is greater than that permitted by the Agencies but less than one million ($1,000,000) dollars.



**Key Personnel**: Any employee, officer, director, agent or representative of Seller if identified in the Transactions Terms Letter as a Key Person.

**Liquidity**: If applicable, the Cash Equivalents liquidity requirement of Seller as set forth in the Transactions Terms Letter.

**Margin**: With respect to each Transaction, the pricing rate set forth in the Transactions Terms Letter that shall be added to the Applicable Pricing Rate to determine the pricing rate for the Purchase Price.

**Margin Call**: A margin call, as defined and described in Section 6.3.

**Margin Deficit**: A margin deficit, as defined and described in Section 6.3.

**Material and Adverse Change**: A material and adverse change with respect to (i) the business, operations, properties or financial condition of Seller or (ii) general market circumstances or conditions, including, without limitation, if any law, regulation, treaty or directive or any change therein or in the interpretation or application thereof, or any circumstance affecting the London interbank market or the repurchase market for mortgage loans or mortgage-backed securities, in either case of (i) or (ii), as such material and adverse change is determined by Buyer in its sole and good faith discretion.

**Maximum Dwell Time**: The maximum number of days a Purchased Mortgage Loan can be not repurchased by Seller before such Purchased Mortgage Loan may be deemed to be a Noncompliant Mortgage Loan and with respect to a Noncompliant Mortgage Loan, the maximum number of days that a Purchased Mortgage Loan can be deemed to be a Noncompliant Mortgage Loan before such Noncompliant Mortgage Loan may be deemed to be a Defect Mortgage Loan, all as set forth in the Transactions Terms Letter.

**MERS**: Mortgage Electronic Registration Systems, Inc., a Delaware corporation, or any successor in interest thereto.

**Mortgage**: A first-lien or second-lien mortgage, deed of trust, security deed or similar instrument on improved real property.

**Mortgage-Backed Securities**: Any security, including, without limitation, a participation certificate, that is (a) guaranteed by Ginnie Mae that represents an interest in a pool of mortgages, deeds of trusts or other instruments creating a lien on real property; (b) issued by Fannie Mae or Freddie Mac that represents interests in such a pool; or (c) privately placed and represents undivided interests in or otherwise supported by such a pool.

**Mortgage Loan**: A Conventional Conforming Mortgage Loan, Government Mortgage Loan, Jumbo Mortgage Loan, Super Jumbo Mortgage Loan, Expanded Criteria Mortgage Loan, Subprime Mortgage Loan, Closed-End Second Lien Mortgage Loan, HELOC Mortgage Loan or Nonperforming/Subperforming Mortgage Loan, which Mortgage Loan may be either a Dry Mortgage Loan or a Wet Mortgage Loan.

**Mortgage Loan Documents**: With respect to each Purchased Mortgage Loan:

(a) the original Mortgage Note evidencing the Mortgage Loan, endorsed by Seller in blank, with a complete chain from the originator to Seller;

(b) an original assignment in blank, executed by Seller, for the Mortgage securing the Mortgage Note, in recordable form but unrecorded, with a complete chain of intervening assignments from the originator to Seller;

(c) a certified or true copy of the Mortgage securing the Mortgage Note bearing evidence of the recordation of such Mortgage with the appropriate governmental authority, or if such recording



information is unavailable because the document has not yet come back from the recording office, then a copy of evidence that such original Mortgage was sent out for recording by a Closing Agent; and

(d) an original or copy of the title insurance policy insuring the first lien or second lien position of the Mortgage, as applicable, in at least the original principal amount of the related Mortgage Note and containing only those exceptions permitted by the Purchase Commitment or an unconditional commitment to issue such a title insurance policy.

**Mortgage Loan File**: With respect to each Mortgage Loan, that file that contains the Mortgage Loan Documents and is delivered to Buyer or its Custodian.

**Mortgage Note**: A promissory note secured by a Mortgage and evidencing a Mortgage Loan.

**Mortgaged Property**: The real property securing repayment of the debt evidenced by a Mortgage Note.

**Mortgagor**: The obligor of a Mortgage Loan.

**Noncompliant Mortgage Loan**: As of any date of determination, a Purchased Mortgage Loan that has been:

(a) not repurchased within the Maximum Dwell Time permitted, given the type of Purchased Mortgage Loan, but less than the Maximum Dwell Time for Noncompliant Mortgage Loans;

(b) rejected by the Approved Investor set forth in the related Purchase Commitment; or

(c) determined to be ineligible for sale as a Purchased Mortgage Loan of the type originally stipulated.

**Noncompliant Mortgage Loan Fee**: A one-time fee, as set forth in the Transactions Terms Letter or otherwise indicated on Buyer’s then current schedule of fees, payable by Seller for each Purchased Mortgage Loan that is deemed to be a Noncompliant Mortgage Loan.

**Nonperforming/Subperforming Mortgage Loan**: Unless defined otherwise in the Transactions Terms Letter, a first or second lien Mortgage Loan that when originated qualified as a Conventional Conforming Mortgage Loan, Government Mortgage Loan, Expanded Criteria Mortgage Loan, Subprime Mortgage Loan, Closed-End Second Lien Mortgage Loan or HELOC Mortgage Loan, however, such Mortgage Loan has a history of late payments during the past twelve months (the exact number permitted late payment to be determined by Buyer in its sole and good faith discretion) or is currently past due more than thirty (30) days.

**One Time Close Loan**: Unless defined otherwise in the Transactions Terms Letter, a first lien mortgage loan underwritten to the same credit standards as a Conventional Conforming Mortgage Loan, Expanded Criteria Mortgage Loan, Jumbo Mortgage Loans or Super Jumbo Mortgage Loan and has the additional feature of combining a construction loan advance with a conversation provision to permanent financing in a single loan transaction.

**Other Mortgage Loan Documents**: In addition to the Mortgage Loan Documents, the following: (i) the original recorded Mortgage, if not included in the Mortgage Loan Documents; (ii) the original policy of mortgagee’s title insurance or unexpired commitment for a policy of mortgagee’s title insurance, if not included in the Mortgage Loan Documents; (iii) the original Closing Protection Letter; (iv) the original Purchase Commitment; (v) the original FHA certificate of insurance or commitment to insure, the VA certificate of guaranty or commitment to guaranty and the private mortgage insurer’s certificate or commitment to insure, as applicable; (vi) the survey, flood certificate, hazard insurance policy and flood insurance policy, as applicable; (vii) the original of any assumption, modification, written assurance or substitution of liability agreement, if any; (viii) copy of each instrument necessary to complete



identification of any exception set forth in the exception schedule in the title policy; (ix) the loan application; (x) verification of employment and income, if applicable; (xi) verification of source and amount of downpayment; (xii) credit report on Mortgagor; (xiii) appraisal of Mortgaged Property; (xiv) the original executed disclosure statement; (xv) Tax receipts, insurance premium receipts, ledger sheets, payment records, insurance claim files and correspondence, current and historical computerized data files, underwriting standards used for origination and all other related papers and records; and (xvi) all other documents relating to the Purchased Mortgage Loan.

**<u>Over/Under Account</u>**: That account maintained by Buyer, as described in <u>Section 3.5</u>.

**<u>Payment Date</u>**: The fifth ($5^{th}$) day of each month, or if such date is not a Business Day, the Business Day immediately preceding the last day of the month; provided, however, Buyer may change the Payment Date from time to time upon thirty (30) days prior notice to Seller.

**<u>Person</u>**: Includes natural persons, corporations, limited partnerships, general partnerships, limited liability companies, joint stock companies, joint ventures, associations, companies, trusts, banks, trust companies, land trusts, business trusts or other organizations, whether or not legal entities, and governments and agencies and political subdivisions thereof.

**<u>Personal Identification Number or PIN</u>**: An electronic identification number, unique to Seller, consisting of any combination of symbols, codes, letters or numerals.

**<u>Plan</u>**: Any multiemployer plan or single-employer plan as defined in section 4001 of ERISA, that is maintained and contributed to by (or to which there is an obligation to contribute of), or at any time during the five (5) calendar years preceding the date of this Agreement was maintained or contributed to by (or to which there is an obligation to contribute of), Seller or by a subsidiary of Seller or an ERISA Affiliate.

**<u>Potential Default</u>**: The occurrence of any event or existence of any condition that, but for the giving of notice, the lapse of time, or both, would constitute an Event of Default.

**<u>Power of Attorney</u>**: That certain power of attorney attached hereto as <u>Exhibit H</u>.

**<u>Principal Agreements</u>**: This Agreement, the Transactions Terms Letter, the Electronic Tracking Agreement, any Servicing Agreement, the Guarantee(s), if applicable, and all other documents and instruments evidencing the Transactions, as same may from time to time be supplemented, modified or amended, and any other agreement entered into between Buyer and Seller in connection herewith or therewith.

**<u>Proceeds</u>**: Whatever is receivable or received when Purchased Assets or proceeds is sold, collected, exchanged or otherwise disposed of, whether such disposition is voluntary or involuntary, and includes, without limitation, all rights to payment, including return premiums, with respect to any insurance relating thereto.

**<u>Property Charges</u>**: All taxes, fees, assessments, water, sewer and municipal charges (general or special) and all insurance premiums, leasehold payments or ground rents.

**<u>Purchase Advice</u>**: In connection with each wire transfer to be made to Buyer by Seller or an Approved Investor, a written or electronic notification setting forth (a) the loan number assigned by Buyer or last name of the Mortgagor for each Mortgage Loan that is related to the Transaction in connection with which a payment is being made; (b) the amount of the wire transfer to be applied in the Transaction; and (c) the total amount of the wire.

**<u>Purchase Commitment</u>**: A trade ticket or other written commitment, in form and substance satisfactory to Buyer, issued in favor of Seller by an Approved Investor pursuant to which that Approved Investor commits to purchase one or more Purchased Mortgage Loans, along with the related correspondent or



whole loan purchase agreement by and between Seller and the Approved Investor, in form and substance satisfactory to Buyer, governing the terms and conditions of any such purchases.

**<u>Purchase Date</u>**: The date on which Buyer purchases a Purchased Mortgage Loan from Seller. If the Purchase Price is made by wire transfer, the Purchase Date shall be the date such funds are wired. If the Purchase Price is made by a cashiers check, the Purchase Date shall be the date such check is issued by the bank. If the Purchase Price is paid by a funding draft, the Purchase Date shall be the date that the draft is posted by the bank on which the draft is drawn.

**<u>Purchase Price</u>**: The price at which each Purchased Mortgage Loan is sold by Seller to Buyer which shall be equal to the lesser of (A) the unpaid principal balance of the Purchased Mortgage Loan multiplied by the lesser of (i) the applicable Type Purchase Price Percentage (ii) par, (iii) the purchase price percentage set forth in the related Purchase Commitment(s), if applicable or (iv) the Market Value purchase price percentage of such Mortgage Loan on the Purchase Date or (B) ninety eight percent (98%) multiplied by the lesser of (i) the purchase price committed by the related Approved Investor, if applicable or (ii) the Market Value of such Mortgage Loan.

**<u>Purchased Assets</u>**: All now existing and hereafter arising right, title and interest of Seller in, under and to the following:

(a) all Mortgage Loans, now owned and hereafter acquired, including all Mortgage Notes and Mortgages evidencing such Mortgage Loans and the related Mortgage Loan Documents, for which a Transaction has been entered into between Buyer and Seller hereunder and for with the Repurchase Price has not been paid in full and all Mortgage Loans, including all Mortgage Notes and Mortgages evidencing such Mortgage Loans and the related Mortgage Loan Documents, which, from time to time, are delivered, or caused to be delivered, to Buyer (including delivery to a custodian or other third party on behalf of Buyer) as additional security for the performance of Seller’s obligations hereunder;

(b) all Mortgage-Backed Securities, now owned or hereafter acquired by Seller, that are supported by any Mortgage Loan constituting Purchased Assets hereunder, all right to the payment of monies in non-cash distributions on account thereof and all new, substituted and additional securities at any time issued with respect thereto;

(c) all rights of Seller under all Purchase Commitments, now existing and hereafter arising, covering any part of the Purchased Assets, all rights to deliver such Mortgage Loans and Mortgage-Backed Securities to permanent investors and other purchasers pursuant thereto and all proceeds resulting from the disposition of such Purchased Assets thereto;

(d) all now existing and hereafter established accounts maintained with broker-dealers by Seller for the purpose of carrying out transactions under Purchase Commitments relating to any part of the Purchased Assets;

(e) all now existing and hereafter arising rights of Seller to service, administer and/or collect on the Mortgage Loans included as Purchased Assets hereunder and any and all rights to the payment of monies on account thereof;

(f) all now existing and hereafter arising accounts, contract rights and general intangibles constituting or relating to any of the Purchased Assets;

(g) all mortgage insurance and all commitments issued by Insurers to insure or guaranty any Mortgage Loans included as Purchased Assets, including, without limitation, the right to receive all insurance proceeds and condemnation awards that may be payable in respect of the premises encumbered by any Mortgage; and all other documents or instruments delivered to Buyer in respect of the Mortgage Loans included as Purchased Assets;



(h) All documents, files, surveys, certificates, correspondence, appraisals, computer programs, tapes, discs, cards, accounting records and other information and data of Seller relating to Mortgage Loans included as Purchased Assets;

(i) All rights, but not any obligations or liabilities, of Seller with respect to the Approved Investors;

(j) All property of Seller, in any form or capacity now or at any time hereafter in the possession or control of Buyer, including, without limitation, all deposit accounts and any funds at any time held therein, into which Proceeds of the foregoing Purchased Assets are at any time deposited;

(k) All products and Proceeds of the foregoing Purchased Assets; and

(l) Any funds of Seller at any time deposited or held in the Over/Under Account.

**Purchased Mortgage Loan**: A Mortgage Loan that has been purchased by Buyer from Seller in connection with a Transaction and which has not been repurchased by Seller hereunder.

**Reportable Event**: An event described in Section 4043(b) of ERISA with respect to a Plan as to which the thirty (30) days notice requirement has not been waived by the Pension Benefit Guaranty Corporation.

**Repurchase Acceleration Event**: Any of the conditions or events set forth in Section 4.2.

**Repurchase Date**: The date on which Seller is to repurchase a Purchased Mortgage Loan subject to a Transaction from Buyer, as specified in the related Transaction and/or Asset Data Record, or if not so specified, the date identified to Buyer by Seller as the date that the related Purchased Mortgage Loan is to be sold pursuant to a Purchase Commitment; provided, however, that if the Repurchase Date is not a date within the Maximum Dwell Time, Buyer may, at its discretion, deem such Purchased Mortgage Loan a Noncompliant Mortgage Loan and Buyer may pursue any rights and remedies accorded Buyer hereunder as a result thereof, including, without limitation, charging Seller any applicable fees as a result thereof. The Repurchase Date for each Purchased Mortgage Loan shall in no event occur later than one year after the Purchase Date of such Purchased Mortgage Loan.

**Repurchase Price**: The price at which a Purchased Mortgage Loan is to be transferred from Buyer or its designee to Seller upon termination of a Transaction, which shall be determined as the sum of (i) the Purchase Price, (ii) any applicable fees owed by Seller in connection with the Purchased Mortgage Loan and (iii) the price differential due on such Purchase Price pursuant to Section 2.6 as of the date of such determination.

**Repurchase Transaction**: A repurchase transaction, as defined and described in Section 6.6.

**Servicer**: Countrywide Home Loans Servicing LP, or such other entity responsible for servicing of the Purchased Mortgage Loans, which is acceptable to Buyer and approved by Buyer in writing, or any successor or permitted assigns.

**Servicer Notice**: The notice acknowledged by the Servicer substantially in the form of Exhibit L hereto.

**Servicing Agreement**: If the Purchased Mortgage Loans are serviced by any third party servicer, the agreement with that third party in form and substance acceptable to Buyer.

**Servicing Fee**: With respect to a Purchased Mortgage Loan, the sum of all amounts deposited in the Custodial Account between the Purchase Date and the Repurchase Date, other than escrow payments for Property Charges.



**Shipping Fee**: That fee, as set forth in the Transactions Terms Letter or otherwise indicated on Buyer's then current schedule of fees, payable by Seller to Buyer for each Mortgage Loan File, or portion thereof, Buyer delivers to Seller, an Approved Investor or other designee.

**Specialty ARM's**: Unless defined otherwise in the Transactions Terms Letter, Non-conforming PayOption ARM's or one or six month interest only ARM's for loan amounts up to one million five hundred thousand ($1,500,000) dollars meeting the guidelines of Countrywide CLD.

**Specialty ARM's Plus**: Unless defined otherwise in the Transactions Terms Letter, Non-conforming Payment Advantage ARM's for loan amounts up to one million five hundred thousand ($1,500,000) dollars meeting the guidelines of Countrywide CLD.

**Standard Status**: As of any date of determination, the Purchased Mortgage Loan has been subject to a Transaction for less than the Maximum Dwell Time and is not a Noncompliant Mortgage Loan or a Defective Mortgage Loan.

**Subordinated Debt**: Debt of Seller that has been subordinated to Buyer as provided in this Agreement or as otherwise approved by Buyer.

**Subprime 2nd Lien**: Unless defined otherwise in the Transactions Terms Letter, a second lien mortgage loan for a fixed amount drawn at closing and underwritten in accordance with Seller's underwriting guidelines for second lien mortgages, as same have been approved by Buyer, and the credit characteristics of such loan would generally not meet the credit underwriting guidelines of Fannie Mae, Freddie Mac, FHA, VA or major non-conforming purchasers.

**Subprime Mortgage Loan**: Unless defined otherwise in the Transactions Terms Letter, a first lien mortgage loan underwritten in accordance with Seller's underwriting guidelines for subprime mortgage loans, as same have been approved by Buyer.

**Successor Servicer**: The servicer of the Purchased Mortgage Loans appointed by Buyer as described in Section 6.2(e) of this Agreement.

**Super Jumbo Mortgage Loan**: Unless defined otherwise in the Transactions Terms Letter, a first lien mortgage loan underwritten to the same standards as a Conventional Conforming Mortgage Loan except with respect to the original principal balance, which is greater than one million ($1,000,000) dollars but less than the one million five hundred thousand ($1,500,000) dollars.

**Super Jumbo Plus**: Unless defined otherwise in the Transactions Terms Letter, a first lien mortgage loan underwritten to the same standards as a Conventional Conforming Mortgage Loan except with respect to the original principal balance, which is greater that one million five hundred thousand ($1,500,000) dollars.

**Tangible Net Worth**: With respect to any Person at any date, the excess of the total assets over total liabilities of such Person on such date, each to be determined in accordance with GAAP consistent with those applied in the preparation of Seller's financial statements less the sum of the following (without duplication): (a) the book value of all investments in non-consolidated subsidiaries, and (b) any other assets of Seller and consolidated subsidiaries that would be treated as intangibles under GAAP including, without limitation, good will, research and development costs, trademarks, trade names, copyrights, patents, rights to refunds and indemnification and unamortized debt discount and expenses; provided further that, to the extent not already excluded, there shall be excluded from Tangible Net Worth, those assets of any Person which, if such Person were a HUD mortgagee, would be deemed by HUD to be non-acceptable in calculating adjusted net worth in accordance with its requirements in effect as of such date, as such requirements appear in the "Audit Guide for Use by Independent Public Accountants in Audits of HUD-Approved Nonsupervised Mortgagees, Loan Correspondents and Coinsuring Mortgagees"



or any successor or replacement audit guide published by HUD. Notwithstanding the foregoing, servicing rights shall be included in the calculation of total assets.

**Total Liabilities**: The sum of (a) the total liabilities of Seller on any given date of determination, to be determined in accordance with GAAP consistent with those applied in the preparation of Seller's financial statements, plus (b) to the extent not already included under GAAP, the total aggregate outstanding amount owed by Seller under any repurchase, refinance or other similar credit arrangements, plus (c) to the extent not already included under GAAP, any "off balance sheet" repurchase, refinance or other similar credit arrangements, less (d) the amount of the "Credit Off Feature," if any, as set forth in the Transactions Terms Letter less (e) if applicable, the aggregate unpaid principal balance of the outstanding Loans sold by Seller to Countrywide CLD under the Early Purchase Program Addendum (the "EPP Addendum") to Loan Purchase Agreement by and between Seller and Countrywide CLD for which the Review Period (as defined in the EPP Addendum) has not been completed.

**Transaction**: A transaction between Buyer and Seller as contemplated under this Agreement.

**Transaction Request Deadline**: That time, as set forth in the Transactions Terms Letter, by which Seller must submit to Buyer certain documents in order to initiate a Transaction.

**Transaction Requirements**: Those terms and conditions, as set forth in the Transactions Terms Letter, applicable to a specific type of Purchased Mortgage Loan.

**Transactions Terms Letter**: The document executed by Buyer and Seller, referencing this Agreement and setting forth certain specific terms, and any additional terms, with respect to this Agreement.

**Type Purchase Price Percentage**: With respect to each type of Purchased Mortgage Loan that corresponds to the Type, the corresponding purchase price percentage, as set forth in the Transactions Terms Letter.

**Type Margin**: With respect to each type of Purchased Mortgage Loan that corresponds to the Type, the corresponding annual rate of interest that shall be added to the Applicable Pricing Rate to determine the annual rate of interest for the related Purchase Price, as set forth in the Transactions Terms Letter.

**Type Sublimit:** Any of the applicable Type Sublimits, as set forth in the Transactions Terms Letter.

**Underwriter Approval**: Written evidence, in form and substance acceptable to Buyer, that a Purchased Mortgage Loan has been underwritten to the satisfaction of the Approved Investor issuing the applicable Purchase Commitment.

**Unused Facility Fee**: A fee, as set forth in the Transactions Terms Letter or otherwise indicated on Buyer's then current schedule of fees, payable by Seller quarterly in arrears based upon the unused portion of the Aggregate Transaction Limit; provided, however, that no fee shall be due if the average difference between the Aggregate Transaction Limit and actual outstanding principal amount of all Transactions, calculated on a daily basis, during such quarter is less than that percent of the Aggregate Transaction Limit set forth in the Transactions Terms Letter.

**VA**: The Department of Veterans Affairs and any successor thereto.

**Warehouse Credit**: The aggregate amount of credit, committed and uncommitted, available to Seller through warehouse lines of credit, repurchase facilities or similar mortgage finance arrangements.

**Wet Deficiency Fee**: That fee, as set forth in the Transactions Terms Letter or otherwise indicated on Buyer's then current schedule of fees, payable by Seller for each calendar day that Seller fails to deliver to Buyer or its Custodian the Mortgage Loan Documents relating to any Wet Mortgage Loan purchased by Buyer following expiration of the Wet Mortgage Loans Maximum Dwell Time.



**Wet Mortgage Loan**: A Mortgage Loan as to which Buyer purchases from Seller by delivering funds to the applicable Closing Agent prior to receipt by Buyer or its Custodian of the related Mortgage Loan Documents, subject to Seller's obligation to deliver the related Mortgage Loan Documents within the Wet Mortgage Loans Maximum Dwell Time.

**Wet Mortgage Loans Maximum Dwell Time**: That period of time, as set forth in the Transactions Terms Letter, by which Seller must deliver to Buyer or its designee the Mortgage Loan Documents for a Wet Mortgage Loan.

**Wet Mortgage Loans Sublimit**: The maximum aggregate principal amount of Purchased Mortgage Loans that may be Wet Mortgage Loans at any time, as set forth in the Transactions Terms Letter.

**Wire Transfer Fee**: That fee, as set forth in the Transactions Terms Letter or otherwise indicated on Buyer's then current schedule of fees, payable by Seller for each payment of the Purchase Price by wire transfer or for any payment (including the Repurchase Price) received by Buyer from Seller or its Approved Investor.



**EXHIBIT B**

IRREVOCABLE CLOSING INSTRUCTIONS

January 25, 2008

________________________ ("Closing Agent")

____________________________________

____________________________________

Dear _______________________________

**Re: Irrevocable Closing Instructions**

**Closing Protection Letter Issued By, if applicable:** ________________________________

Ladies and Gentlemen:

This letter is being sent in accordance with that Master Repurchase Agreement dated as of January 25, 2008 (the "Agreement") between Home Loan Center, Inc. ("Seller") and Countrywide Bank, FSB ("Buyer"), the terms of which do not affect Closing Agent except as set forth herein.

Pursuant to the Agreement, you have been identified as either:

- the title insurer to close and provide title insurance on certain mortgage loans made by Seller; or
- the closing agent to close and fund certain mortgage loans made by Seller and covered by the above referenced closing protection letter (the "Mortgage Loans").

From time to time, Buyer will wire to you, for the account of Seller, funds requested by Seller under the terms of the Agreement to be used by you for the purpose of funding such Mortgage Loan(s) and for no other purpose. Notwithstanding anything to the contrary contained herein, you are not to distribute any of such funds to Seller. You must immediately return the funds representing to Buyer at the following account if one of the following conditions occurs:

- You do not close any Mortgage Loan within forty-eight (48) hours of the time you receive the applicable funds; or
- You receive funds for a Mortgage Loan for which you have not been instructed by Seller to (a) obtain title insurance from the title insurance company specified in the above referenced closing protection letter or (b) underwrite the title insurance.

| | |
|---|---|
| Bank: | Bank of New York |
| ABA No.: | 021-000018 |
| Account No.: | 8900404337 |
| Credit: | Countrywide Bank, FSB – Payoff Account |
| Reference: | Home Loan Center, Inc. |

If the Mortgage Loan Documents (as described below) have not been delivered to Seller prior to the funding of the Transaction, within 48 (forty eight) hours of closing any Mortgage Loan, unless otherwise instructed by Buyer, you must deliver to Seller, the following Mortgage Loan Documents:

(a) the original mortgage note evidencing the Mortgage Loan, endorsed by Seller in blank, with a complete chain from the originator to Seller;

(b) if in your possession, an original assignment in blank executed by Seller for the mortgage or deed of trust securing the mortgage note, in recordable form but unrecorded, with a complete chain of intervening assignments from the originator to Seller;

(c) a certified copy of the executed mortgage or deed of trust securing the mortgage note; and

(d) an original or copy of the title insurance policy insuring the first lien or second lien position of the mortgage or deed of trust, as applicable, in at least the original principal amount of the related mortgage note and containing only those exceptions permitted by the purchase commitment, as set forth in the final closing instructions referred to below, or an unconditional commitment to issue such a title insurance policy, or a preliminary report and instructions received from Seller relating to the issuance of such a title insurance policy,

With respect to each Mortgage Loan for which you act as Closing Agent, Seller will deliver to you final closing instructions specific to such Mortgage Loan. In the event that the terms of the final closing instructions contradict the terms of these irrevocable closing instructions, the terms of these irrevocable closing instructions shall govern. Permission to change the scheduled closing date for any Mortgage Loan beyond the time permitted herein or permission to otherwise deviate from these irrevocable closing instructions must be furnished to you in a writing signed by Buyer and Seller.

By your participation in the closing and funding of a Mortgage Loan as Closing Agent, you agree to act as Buyer's bailee with respect to such Mortgage Loan and the Mortgage Loan Documents referenced above and you thereby acknowledge your responsibility to Buyer as holder of an interest in such Mortgage Loan and to care for and protect Buyer's interest in such Mortgage Loan. Facsimile signatures on these instructions shall be deemed valid and binding to the same extent as the original.

Sincerely,

| | | | |
|---|---|---|---|
| Countrywide Bank, FSB | | Home Loan Center, Inc. | |
| By: | /s/ Richie Walia | By: | /s/ [ILLEGIBLE] |
| Printed Name: | RICHIE WALIA | Printed Name: | |
| Title: | SENIOR VICE PRESIDENT COUNTRYWIDE BANK, FSB | Title: | |



**EXHIBIT F**

ASSIGNMENT OF CLOSING PROTECTION LETTER

Home Loan Center, Inc. ("Assignor") declares that for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, it does hereby convey, transfer, assign, deliver and give to Assignee, and hereby expressly subrogates Countrywide Bank, FSB ("Assignee") unto, all of Assignor's claims, demands, rights and causes of action, past, present or future, that Assignor has for loss or damage covered by the closing protection letter issued by (Title Company) attached hereto ("Closing Protection Letter"), Such rights being assigned by Assignor hereunder include, without limitation, the right to demand, sue, collect, receive, protect, preserve and enforce performance under the Closing Protection Letter. Assignee shall succeed to all rights of recovery of Assignor under the Closing Protection Letter and Assignor shall execute such instruments and documents necessary and proper to further secure such rights to Assignee and shall not act in any manner hereafter to prejudice or impair the rights of Assignee. Assignor hereby grants Assignee an irrevocable mandate and power of attorney coupled with an interest with full power of substitution to transact this act of assignment and subrogation.

IN WITNESS WHEREOF, the Assignor has caused this assignment to be duly executed as of January 25, 2008.

Home Loan Center, Inc.

By. /s/ [ILLEGIBLE]
Name.
Title:



**EXHIBIT G**

ASSIGNMENT OF FIDELITY BOND AND ERRORS AND OMISSION POLICY

Home Loan Center, Inc. ("Assignor") declares that for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, it does hereby convey, transfer, assign, deliver and give to Assignee, and hereby expressly subrogates Countrywide Bank, FSB ("Assignee") unto, all of Assignor's claims, demands, rights and causes of action, past, present or future, that Assignor has for loss or damage covered by Assignor's fidelity bond and errors and omission policy (collectively, the "Policy"), Such rights being assigned by Assignor hereunder include, without limitation, the right to demand, sue, collect, receive, protect, preserve and enforce performance under the Policy. Assignee shall succeed to all rights of recovery of Assignor under the Policy and Assignor shall execute such instruments and documents necessary and proper to further secure such rights to Assignee and shall not act in any manner hereafter to prejudice or impair the rights of Assignee. Assignor hereby grants Assignee an irrevocable mandate and power of attorney coupled with an interest with full power of substitution to transact this act of assignment and subrogation.

IN WITNESS WHEREOF, the Assignor has caused this assignment to be duly executed as of January 25, 2008.

Home Loan Center, Inc.

| | |
|---|---|
| By: | /s/ [ILLEGIBLE] |
| Name: | [ILLEGIBLE] |
| Title: | President |



**EXHIBIT H**

FORM OF POWER OF ATTORNEY

**KNOW ALL MEN BY THESE PRESENTS:**

WHEREAS, Countrywide Bank, FSB (“Buyer”) and Home Loan Center, Inc. (“Seller”) have entered into the Master Repurchase Agreement, dated as of January 25, 2008 (the “Agreement), pursuant to which Buyer has agreed to purchase from Seller certain mortgage loans from time to time. subject to the terms and conditions set forth therein;

WHEREAS, Seller has agreed to give to Buyer a power of attorney on the terms and conditions contained herein in order for Buyer to take any action that Buyer may deem necessary or advisable to accomplish the purposes of the Agreement;

NOW, THEREFORE, Seller hereby irrevocably constitutes and appoints Buyer its true and lawful Attorney-in-Fact, with full power and authority hereby conferred in its name, place and stead and for its use and benefit, to do and perform the following in connection with mortgage loan purchased by Buyer from Seller under the Agreement (the “Purchased Assets”) or as otherwise provided below;

(1) to receive, endorse and collect all checks made payable to the order of Seller representing any payment on account of the Purchased Assets;

(2) to assign or endorse any mortgage, deed of trust, promissory note or other instrument relating to the Purchased Assets;

(3) to correct any assignment, mortgage, deed of trust or promissory note or other instrument relating to the Purchased Assets, including, without limitation, unendorsing and re-endorsing a promissory note to another investor;

(4) to complete and execute lost note affidavits or other lost document affidavits relating to the Purchased Assets;

(5) to issue title requests and instructions relating to the Purchased Assets;

(6) to give notice to any individual or entity of its interest in the Purchased Assets under the Agreement; and

(7) to service and administer the Purchased Assets, including, without limitation, the receipt and collection of all sums payable in respect of the Purchased Assets.

Seller hereby ratifies and confirms all that said Attorney-in-Fact shall lawfully do or cause to be done by authority hereof.

Third parties without actual notice may rely upon the power granted under this Power of Attorney upon the exercise of such power by the Attorney-in-Fact.

Home Loan Center Inc.

| | | |
|---|---|---|
| By: | /s/ [ILLEGIBLE] | |
| Name: | [ILLEGIBLE] | [SEAL] |
| Title: | President | |



WITNESS my hand this 31 day of January, 2008.

STATE OF CALIFORNIA }
} SS.
County of Orange }

This instrument was acknowledged, subscribed and sworn to before me this 31 day of January 2008 , by , [ILLEGIBLE].

[SEAL]

/s/ Robert J. Kaiber
Notary Public

My Commission Expires: ______________________

Exhibit 10.15

COUNTRYWIDE WAREHOUSE LENDING
**COUNTRYWIDE BANK, FSB**
8511 FALLBROOK AVE
WH-51F
WEST HILLS, CA 91304
(800) 669-2955

June 25, 2008

Home Loan Center, Inc.
163 Technology Drive
Irvine, CA 92618
Attn: Rian Furey, Senior Vice President

**Re: Spinoff of InterActive Corporation**

Ladies and Gentlemen:

This notice is issued in reference to that certain Transactions Terms Letter dated January 25, 2008 (the "Transactions Terms Letter") and (b) that certain Master Repurchase Agreement dated January 25, 2008 (the "Agreement"), both by and between Countrywide Bank, FSB ("Buyer") and Home Loan Center, Inc. ("Seller") (the Transactions Terms Letter and the Agreement, jointly, the "Repurchase Agreement"). Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Repurchase Agreement.

Pursuant to the "Term" section of the Transactions Terms Letter, the Term of the Repurchase Agreement expires on the earlier of (a) January 24, 2009 or (b) 60 days prior to an initial public offering, reorganization, spinoff or similar transaction involving InterActive Corporation. Seller has notified Buyer of a pending spinoff involving InterActive Corporation and has requested that the Term of the Repurchase Transaction not expire as a result thereof. As an accommodation to Seller, Buyer hereby agrees that the Term of the Repurchase Agreement shall not expire upon the occurrence of the spinoff of InterActive Corporation and Buyer agrees to continue to enter into Transactions with Seller under the Repurchase Agreement pursuant to its terms and conditions; provided, however, that if Buyer determines at any time prior to January 24, 2009 that such spinoff materially and adversely affects Seller, Buyer reserves the right to deem the Repurchase Agreement expired prior to such date.

Sincerely,

/s/ Richie Walia
Richie Walia
Senior Vice President

QuickLinks -- Click here to rapidly navigate through this document

**Exhibit 99.1**

[ • ], 2008

Dear IAC/InterActiveCorp Stockholder:

I am pleased to inform you that on [ • ], 2008, the Board of Directors of IAC/InterActiveCorp approved the spin-offs of HSN, Inc., Interval Leisure Group, Inc., Ticketmaster and Tree.com, Inc. (each, a "Spinco" and collectively, the "Spincos") via the distribution of all of the outstanding shares of common stock of each Spinco to IAC's stockholders. As a result of the spin-offs, IAC will be separated into five separate, publicly traded companies.

At the time of the spin-offs, the Spincos will collectively hold all of the assets and liabilities associated with IAC's Retailing, Interval, Ticketmaster, Lending and Real Estate segments. We believe that the separation of these businesses will over time enhance their operating performance, provide each of them with a liquid equity currency linked directly to its businesses, open up strategic alternatives that may otherwise not have been readily available to them and facilitate investor understanding and better target investor demand. We expect the spin-offs of each of the Spincos to occur simultaneously, unless otherwise determined by IAC's board of directors. Immediately after each spin-off, IAC stockholders will own 100% of the common stock of the company being distributed.

The spin-offs of each of the Spincos will occur on [ • ], 2008 by way of a pro rata dividend to IAC stockholders, unless otherwise determined by IAC's board of directors. Each IAC stockholder will be entitled to receive one-fifth of a share of common stock of HSN, Inc., one-fifth of a share of common stock of Interval Leisure Group, Inc., one-fifth of a share of common stock of Ticketmaster and one-thirtieth of a share of common stock of Tree.com, Inc. for every share of IAC common stock and/or Class B common stock held by such stockholder at the close of business on [ • ], 2008, the record date for the spin-offs. IAC will not distribute any fractional shares of common stock of the Spincos to its stockholders, as more fully described in the accompanying information statement. Stockholder approval of the spin-offs is not required, nor are you required to take any action to receive your shares of common stock of the Spincos.

The enclosed information statement, which is being mailed to all IAC stockholders, describes the spin-offs of the common stock of each of the Spincos in detail and contains important information about each of the Spincos. We urge you to read this information statement carefully.

I want to thank you for your continued support of IAC, and each of the Spincos looks forward to your support in the future.

Sincerely,

Barry Diller
*Chairman of the Board and Chief Executive Officer*

**Preliminary Information Statement**

**(Subject to Completion, Dated [ • ], 2008)**

# Information Statement
## Distribution of
## HSN, Inc. Common Stock (Par Value $0.01 Per Share)
## Interval Leisure Group, Inc. Common Stock (Par Value $0.01 Per Share)
## Ticketmaster Common Stock (Par Value $0.01 Per Share)
## Tree.com, Inc. Common Stock (Par Value $0.01 Per Share)
## by
# IAC/InterActiveCorp
## to IAC/InterActiveCorp Stockholders

This information statement is being furnished to you as a stockholder of IAC in connection with the spin-off by IAC/InterActiveCorp to its stockholders of HSN, Inc. ("HSNi"), Interval Leisure Group, Inc. ("ILG"), Ticketmaster and Tree.com, Inc. ("Tree.com") (each, a "Spinco" and collectively, the "Spincos"), each a wholly-owned subsidiary of IAC that at the time of its spin-off will hold directly or indirectly the assets and liabilities associated with the following businesses:

- HSNi: HSN TV, *HSN.com*, and the Cornerstone Brands, Inc. portfolio of catalogs, websites and retail locations;
- ILG: the businesses currently comprising IAC's Interval segment;
- Ticketmaster: Ticketmaster's primary domestic and international operations, as well as certain investments in unconsolidated affiliates;
- Tree.com: the businesses currently comprising IAC's Lending and Real Estate segments.

To implement the spin-offs, IAC and the Spincos will effect a series of restructuring transactions following which IAC will distribute all of the outstanding shares of common stock of the Spincos on a pro rata basis to the holders of IAC common stock and/or Class B common stock. Each of you, as a holder of IAC common stock and/or Class B common stock, will receive one-fifth of a share of common stock of HSNi, one-fifth of a share of common stock of ILG, one-fifth of a share of common stock of Ticketmaster and one-thirtieth of a share of common stock of Tree.com for every share of IAC common stock and/or Class B common stock that you held at the close of business on [ • ], 2008, the record date for the spin-offs. The spin-offs will be effective as of [ • ], 2008, unless otherwise determined by IAC's board of directors. Immediately after the spin-offs are completed, each of the Spincos will be a separate public company. All of the outstanding shares of the common stock of each of the Spincos are currently owned by IAC. Accordingly, there currently is no public trading market for the common stock of any of the Spincos. Each of the Spincos has applied to list its common stock under the ticker symbol "HSNI," "IILG," "TKTM" and "TREE," respectively, on the NASDAQ Stock Market.

**No vote of IAC stockholders is required in connection with the spin-offs.** Neither IAC nor the Spincos are asking you for a proxy, and you are not requested to send us a proxy. IAC stockholders will not be required to pay any consideration for the shares of common stock of the Spincos they receive in the spin-offs, and they will not be required to surrender or exchange shares of their IAC common stock and/or Class B common stock or take any other action in connection with the spin-offs.

In reviewing this information statement, you should carefully consider the matters described under the caption "Risk Factors" beginning on page [ • ] of this information statement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of any of the securities of any of the Spincos or determined whether this information statement is truthful or complete. Any representation to the contrary is a criminal offense.

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This information statement does not constitute an offer to sell or the solicitation of an offer to buy any securities.

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The date of this information statement is [ • ], 2008.

This information statement was first mailed to IAC stockholders on or about [ • ], 2008.

## TABLE OF CONTENTS

This information statement describes the businesses of the Spincos as though they were the businesses of the Spincos for all historical periods described. However, HSNi, ILG and Tree.com are newly formed entities that have not conducted any operations prior to the spin-offs and instead had such businesses transferred to them prior to the spin-offs. References in this information statement to the historical assets, liabilities, products, businesses or activities of the businesses of the Spincos are intended to refer to the historical assets, liabilities, products, businesses or activities of the relevant businesses as those businesses were conducted as part of IAC prior to the spin-offs. Following the spin-offs, each of the Spincos will be a separate, publicly traded company, and IAC will have no continuing stock ownership in the Spincos. The historical combined financial information of the Spincos as part of IAC contained in this information statement are not necessarily indicative of their future financial position, future results of operations or future cash flows, nor does it reflect what the financial position, results of operations or cash flows of the Spincos would have been had they been operated as stand-alone companies during the periods presented.

This information statement is being furnished solely to provide information to IAC stockholders who will receive shares of common stock of the Spincos in connection with the spin-offs. It is not provided as an inducement or encouragement to buy or sell any securities. You should not assume that the information contained in this information statement is accurate as of any date other than the date set forth on the cover. Changes to the information contained in this information statement may occur after that date, and neither IAC nor any Spinco undertakes any obligation to update the information unless required to do so by law. **All information contained in this information statement concerning a Spinco has been provided by such Spinco and neither any of the other Spincos nor IAC takes any responsibility for the accuracy of any such information to the extent it does not relate to such entity.**

## SPINCO COMPANY INFORMATION

HSNi was incorporated in Delaware in May 2008. Its principal offices are located at 1 HSN Drive, St. Petersburg, FL 33729. Its main telephone number is 727-872-1000.

ILG was incorporated in Delaware in May 2008. Its principal offices are located at 6262 Sunset Drive, Miami, Fl 33143. Its main telephone number is 305-666-1861.

Ticketmaster was incorporated in Delaware in September 1995. Its principal offices are located at 8800 West Sunset Blvd., West Hollywood, CA 90069. Its main telephone number is 310-360-3300.

Tree.com was incorporated in Delaware in April 2008. Its principal offices are located at 11115 Rushmore Drive, Charlotte, NC 28277. Its main telephone number is 704-541-5351.

## FORWARD-LOOKING STATEMENTS

Forward-looking statements in this information statement, the public filings or other public statements of each of the Spincos are subject to known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of the Spincos to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements or other public statements. Forward-looking statements include the information regarding future financial performance, business prospects and strategy, including the completion of the spin-offs and the realization of related anticipated benefits, anticipated financial position, liquidity and capital needs and other similar matters, in each case, relating to the Spincos.

Statements preceded by, followed by or that otherwise include the words "believes," "expects," "anticipates," "intends," "projects," "estimates," "plans," "may increase," "may fluctuate," and similar expressions or future or conditional verbs such as "will," "should," "would," "may" and "could" are generally forward looking in nature and not historical facts. You should understand that the following important factors could affect future results and could cause actual results to differ materially from those expressed in such forward-looking statements:

- adverse changes in economic conditions generally or in any of the markets or industries in which the businesses of a Spinco operate;
- changes in senior management at a Spinco;
- adverse changes to, or interruptions in, relationships with third parties;
- changes affecting the ability of a Spinco to efficiently maintain and grow the market share of its various brands, as well as to extend the reach of these brands through a variety of distribution channels and to attract new (and retain existing) customers;
- consumer acceptance of new products and services offered by a Spinco;
- the rates of growth of the internet and the e-commerce industry;
- changes adversely affecting the ability of a Spinco to adequately expand the reach of its businesses into various international markets, as well as to successfully manage risks specific to international operations and acquisitions, including the successful integration of acquired businesses;
- future regulatory and legislative actions and conditions affecting a Spinco, including:
  - the promulgation of new, and/or the amendment of existing laws, rules and regulations applicable to a Spinco and its respective businesses; and
  - changes in the application or interpretation of existing laws, rules and regulations in the case of the businesses of a Spinco. In each case, laws, rules and regulations include, among others, those relating to sales, use, value-added and other taxes, software programs, consumer protection and privacy, intellectual property, the internet and e-commerce;
- competition from other companies;
- changes adversely affecting the ability of a Spinco and its businesses to adequately protect intellectual property rights, as well as to obtain licenses or other rights with respect to intellectual property in the future, which may or may not be available on favorable terms (if at all);
- third-party claims alleging infringement of intellectual property rights by a Spinco or its businesses, which could result in the expenditure of significant financial and managerial resources, injunctions or the imposition of damages, as well as the need to enter into formal

licensing or other similar arrangements with such third parties, which may or may not be available on favorable terms (if at all); and

- natural disasters, acts of terrorism, war or political instability.

Certain of these factors and other factors, risks and uncertainties are discussed in the "Risk Factors" section of this information statement. Other unknown or unpredictable factors may also cause actual results to differ materially from those projected by the forward-looking statements. Most of these factors are difficult to anticipate and are generally beyond the control of IAC and the Spincos.

You should consider the areas of risk described above, as well as those set forth under the heading "Risk Factors," in connection with considering any forward-looking statements that may be made by the Spincos generally. Except for the ongoing obligations of the Spincos to disclose material information under the federal securities laws, the Spincos do not undertake any obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events unless required to do so by law.

## SUMMARY

This summary highlights selected information from this information statement and may not contain all the information that may be important to you. Accordingly, you are encouraged to read carefully the entire information statement, its annexes and the documents filed as exhibits to each Spinco's registration statement on Form 10, of which this information statement is a part.

Except as otherwise indicated or unless the context otherwise requires, (i) "Spinco" refers to any of HSNi, ILG, Ticketmaster and Tree.com and their respective subsidiaries, (ii) "Spincos" refers to all of the foregoing collectively, (iii) "IAC/InterActiveCorp" and "IAC" refer to IAC/InterActiveCorp and its consolidated subsidiaries other than, for all periods following the spin-offs, the Spincos, (iv) "HSNi" refers to HSN, Inc., (v) "ILG" refers to Interval Leisure Group, Inc., (vi) "Tree.com" refers to Tree.com, Inc. and (vii) the "separation," "Spin-Off," "spin-off" and "distributions" or "distribution" refers to the distribution by IAC of the common stock of the Spincos, as more fully described in this information statement.

**Business of HSNi**

HSNi owns and operates HSN, a retailer and interactive lifestyle network offering a broad assortment of products through television home shopping programming on the HSN television network and HSN.com. HSN strives to transform the shopping experience by incorporating experts, entertainment, inspiration, solutions, tips and ideas in connection with the sale of products through the HSN television network and HSN.com. HSNi also owns and operates the Cornerstone Brands portfolio of catalogs and related websites, including *Frontgate*, *Ballard Designs*, *Garnet Hill*, *Smith+Noble*, *The Territory Ahead*, *TravelSmith* and *Improvements*, as well as a limited number of retail stores.

**Business of ILG**

ILG is a leading provider of membership services to the vacation ownership industry, which is a segment of the broader hospitality industry. Vacation ownership is a term used to describe the shared ownership of vacation real estate and includes those businesses which develop, manage, operate and sell vacation interests (i.e. the ownership or use of accommodations at a given property or properties, together with associated amenities and facilities for a specified period of time). ILG's principal business, Interval, makes available vacation ownership membership services to individual members of its exchange networks, which allows such members to exchange the use and occupancy of their vacation interest for comparable, alternative accommodations at the same or another resort participating in an Interval exchange network and provides such members with certain value-added products and services depending on the program and country of residence. Interval also makes available related services to developers of the resorts participating in its exchange networks worldwide. As of December 31, 2007, more than 2,400 resorts located in more than 75 countries participated in Interval's primary exchange network, the Interval Network, and nearly two million owners of vacation interests were enrolled as members of the Interval Network. ILG's other principal business, ResortQuest Hawaii, was acquired in May 2007 and is a provider of vacation rental and property management services to vacationers and vacation property owners across Hawaii. As of December 31, 2007, RQH provided property management services to 26 resorts and hotels, as well as other more limited management services to an additional 23 properties.

**Business of Ticketmaster**

As the world's leading live entertainment ticketing and marketing company, Ticketmaster connects the world to live entertainment. Ticketmaster currently operates in 20 countries worldwide, providing ticket sales, ticket resale services, marketing and distribution through *www.ticketmaster.com*, one of the largest e-commerce sites on the internet, and related proprietary internet and mobile channels, approximately 6,700 independent sales outlets and 19 call centers worldwide. Established in 1976, Ticketmaster served more than 10,000 clients in 2007 worldwide across multiple live event categories, providing exclusive ticketing services for leading arenas, stadiums, amphitheaters, music clubs, concert promoters, professional sports franchises and leagues, college sports teams, performing arts venues, museums and theaters. In 2007, Ticketmaster brands and businesses sold approximately 141 million tickets valued at over $8.3 billion.

**Business of Tree.com**

Through its various subsidiaries, Tree.com currently operates a lending business (the "Lending Business") and a real estate business (the "Real Estate Business"). The Lending Business consists of online networks, principally LendingTree.com® and GetSmart.com®, as well as call centers, which match consumers with lenders and loan brokers. In addition, the Lending Business originates, processes, approves and funds various types of residential real estate loans under two brand names, LendingTree Loans® and HomeLoanCenter.com®, and offers residential mortgage loan settlement services under the name LendingTree Settlement Services. The Real Estate Business consists primarily of an internet-enabled national residential real estate brokerage that currently operates offices in 14 markets under the brand name "RealEstate.com, REALTORS®." The Real Estate Business also consists of a brokerage that matches residential home buyers interested in newly constructed homes with builders and currently operates under the brand name "iNest."

**Overview of the Separation**

On [ • ], 2008, the Board of Directors of IAC approved a plan to separate IAC into five separate, publicly traded companies via the distribution of all of the outstanding shares of common stock of the Spincos, each a wholly-owned subsidiary of IAC. At the time of the spin-offs, the Spincos will hold directly or indirectly the assets and liabilities associated with the following businesses:

- HSNi: HSN TV, *HSN.com*, and the Cornerstone Brands, Inc. portfolio of catalogs, websites and retail locations;
- ILG: the businesses currently comprising IAC's Interval segment;
- Ticketmaster: Ticketmaster's primary domestic and international operations, as well as certain investments in unconsolidated affiliates; and
- Tree.com: the businesses currently comprising IAC's Lending and Real Estate segments.

Unless otherwise indicated or the context otherwise requires, references in this information statement to the businesses of HSNi, ILG, Ticketmaster and Tree.com respectively refer to the businesses described above.

Following the spin-offs, IAC will consist of the remaining businesses of IAC and its subsidiaries and will include all assets and liabilities primarily related to the business and operations of (i) IAC's Media & Advertising, Match, ServiceMagic and Entertainment segments, (ii) IAC's Shoebuy business, (iii) IAC's ReserveAmerica business, (iv) the businesses currently comprising the IAC's Emerging Businesses group and (v) certain investments in unconsolidated affiliates.

Prior to the spin-offs, the Spincos will enter into a Separation and Distribution Agreement and several other agreements with IAC and the other Spincos to effect the separation of the Spincos and provide a framework for the relationships of the Spincos with IAC and each other. Immediately following the spin-offs, IAC stockholders will own 100% of the outstanding common stock of each of the Spincos.

## QUESTIONS AND ANSWERS ABOUT THE SPINCOS AND THE SPIN-OFFS

| | |
|---|---|
| ***Why are the spin-offs structured as dividends?*** | IAC believes that a tax-free distribution of shares of the Spincos to IAC stockholders is a tax-efficient way to separate HSNi, ILG, Ticketmaster, and Tree.com from the rest of IAC in a manner that will create long-term value for IAC stockholders. |
| ***How will the spin-offs occur?*** | IAC will distribute to its stockholders via dividend all of the outstanding shares of common stock of HSNi, ILG, Ticketmaster and Tree.com owned by IAC, which will be 100% of the common stock of the Spincos outstanding immediately prior to the spin-offs. |
| ***How many shares of the Spincos will I receive?*** | Unless otherwise determined by the IAC Board of Directors prior to the distribution date, for every share of IAC common stock or Class B common stock held by you as of the record date, you will receive one-fifth of a share of common stock of HSNi, one-fifth of a share of common stock of ILG, one-fifth of a share of common stock of Ticketmaster and one-thirtieth of a share of common stock of Tree.com. IAC will not distribute any fractional shares of any Spinco common stock to its stockholders. Instead, the distribution agent will aggregate fractional shares into whole shares, sell the whole shares in the open market at prevailing market prices and distribute the aggregate net cash proceeds of the sales pro rata to each holder who otherwise would have been entitled to receive a fractional share in the spin-offs. Recipients of cash in lieu of fractional shares will not be entitled to any interest on the amounts of payment made in lieu of fractional shares. The number of shares that IAC will distribute to its stockholders will be reduced to the extent that cash payments are to be made in lieu of the issuance of fractional shares of Spinco common stock. |
| ***Can IAC decide not to complete the spin-offs?*** | Yes. The IAC Board of Directors has reserved the right, in its sole discretion, to amend, modify or abandon the spin-offs and related transactions at any time prior to the distribution date. This means that IAC has the right not to complete the spin-off of any or all of the Spincos if, at any time, the IAC Board of Directors determines, in its sole discretion, that the spin-off is not in the best interests of IAC or its stockholders. In addition, the spin-offs are subject to the satisfaction or waiver of a number of conditions. See "The Separation—Conditions to the Spin-offs." |
| ***What is the record date for the spin-offs?*** | The record date for determining stockholders entitled to receive the shares of the Spincos in the spin-offs is the close of business on [ • ], 2008. |

| | |
|---|---|
| ***What is the distribution date?*** | The distribution date of the shares of common stock of the Spincos under the spin-offs is [ ], 2008. |
| ***What other transactions are occurring with the spin-offs?*** | IAC currently expects that in connection with the spin-offs, HSNi will transfer to IAC approximately $390 million in cash; an entity that will become a subsidiary of ILG prior to the spin-offs will distribute to IAC approximately $390 million in cash and Ticketmaster will distribute to IAC approximately $730 million in cash. These Spincos expect to finance the amount distributed to IAC through borrowings by the applicable Spinco or its subsidiaries. Additionally, each of these companies may distribute some amount of cash on hand, but these amounts are not presently knowable and are unlikely to be material. IAC currently expects that the borrowing arrangements will consist of a combination of secured credit facilities and privately-issued debt securities for each of HSNi, ILG and Ticketmaster, the breakdown of which has yet to be determined. HSNi, ILG and Ticketmaster are each also expected to dividend to IAC prior to the spin-offs all net receivables owed them by IAC and its affiliates. IAC does not expect Tree.com to incur material indebtedness prior to, or in connection with, the spin-offs and instead expects to contribute approximately $[ ] to Tree.com prior to its spin-off.<br><br>In addition, IAC expects to effect a reverse stock split following the spin-offs, as described under "The Separation—Results of the Separation." |

| | |
|---|---|
| ***What are the U.S. federal income tax consequences of the spin-offs to IAC stockholders?*** | IAC has requested and expects to receive, prior to effecting any of the spin-offs, a private letter ruling from the Internal Revenue Service (the "IRS") and/or an opinion of counsel satisfactory to the IAC board of directors regarding the qualification of the spin-offs, together with certain related transactions, as transactions that are generally tax free for U.S. federal income tax purposes under Sections 355 and/or 368(a)(1)(D) of the Internal Revenue Code of 1986, as amended (the "Code"). If the private letter ruling is received prior to the spin-offs, IAC expects to receive an opinion of counsel regarding certain aspects of the transaction that are not covered by the private letter ruling. If the private letter ruling is not received prior to the spin-offs, IAC expects to receive an opinion of counsel regarding the qualification of the spin-offs, together with certain related transactions, as transactions that are generally tax free for U.S. federal income tax purposes under Sections 355 and/or 368(a)(1)(D) of the Code. Assuming the spin-offs qualify as transactions that are generally tax free for U.S. federal income tax purposes under Sections 355 and/or 368(a)(1)(D) of the Code, for U.S. federal income tax purposes, no gain or loss will be recognized by you, and no amount will be included in your income, upon the receipt of shares of Spinco common stock pursuant to the spin-offs, except with respect to any cash received in lieu of a fractional share of Spinco common stock. For more information, see "The Separation—Material U.S. Federal Income Tax Consequences of the Spin-Offs," included elsewhere in this information statement. |
| ***What will the relationships among IAC and each of the Spincos be following the spin-offs?*** | Prior to the spin-offs, each of the Spincos will enter into a Separation and Distribution Agreement and several other agreements with IAC and the other Spincos to effect the spin-offs and provide a framework for the relationships of each of the Spincos with IAC and the other Spincos. These agreements will govern the relationships between IAC and the Spincos subsequent to the completion of the spin-offs. See "Certain Relationships and Related Party Transactions—Relationships Among IAC and the Spincos." |

| | |
|---|---|
| ***Will I receive physical certificates representing shares of common stock of the Spincos following the separation?*** | No. Following the separation, neither IAC nor any of the Spincos will be issuing physical certificates representing shares of the common stock of the Spincos. Instead, IAC, with the assistance of The Bank of New York, the distribution agent, will electronically issue shares of common stock of the Spincos to you or to your bank or brokerage firm on your behalf by way of direct registration in book-entry form. The Bank of New York will mail you a book-entry account statement that reflects your shares of common stock of the Spincos, or your bank or brokerage firm will credit your account for the shares. |
| ***What if I want to sell my IAC common stock or my common stock in any of the Spincos?*** | You should consult with your financial advisors, such as your stockbroker or bank. Neither IAC nor any of the Spincos makes any recommendations on the purchase, retention or sale of shares of IAC common stock or the Spinco common stock to be distributed.<br><br>If you decide to sell any shares before the spin-offs, you should make sure your stockbroker, bank or other nominee understands whether you want to sell your IAC shares or Spinco shares you will receive in the spin-offs or both. |
| ***Where will I be able to trade shares of the common stock of the Spincos?*** | There is not currently a public market for the common stock of any of the Spincos. HSNi, ILG, Ticketmaster and Tree.com have applied to list their common stock on the NASDAQ Stock Market, or "NASDAQ," under the symbols "HSNI," "IILG," "TKTM," and "TREE," respectively. Each of the Spincos anticipates that trading in shares of their common stock will begin on a "when-issued" basis prior to the distribution date and will continue up to and including through the distribution date and that "regular-way" trading in shares of common stock of the Spincos will begin on the first trading day following the distribution date. If trading begins on a "when-issued" basis, you may purchase or sell your common stock of any of the Spincos up to and including through the distribution date, but your transaction will not settle until after the distribution date. You will not be required to make any payment, surrender or exchange your shares of IAC common stock and/or Class B common stock or take any other action to receive your shares of common stock of the Spincos. |
| ***Will the number of IAC shares I own change as a result of the spin-offs?*** | No. The number of shares of IAC common stock you own will not change as a result of the spin-offs. However, in connection with the spin-offs, and as described under "The Separation—Results of the Separation," IAC expects to effect a reverse stock split following the spin-offs. |

***What will happen to the listing of IAC common stock?***

Nothing. IAC common stock will continue to be traded on NASDAQ under the symbol "IACI."

***Which businesses will be retained by IAC following the spin-offs?***

Immediately following the spin-offs, IAC primarily will be engaged in the business and operations relating to (i) Ask.com, Citysearch, IAC Advertising Solutions, Evite, and Zwinky and its related Funweb Products; (ii) Match.com, ServiceMagic and Shoebuy.com; (iii) its emerging businesses, including Black Web Enterprises, BustedTees, CollegeHumor, GarageGames, Gifts.com, Green.com, InstantAction, Primal Ventures, Pronto, Very Short List, Vimeo and 23/6; and (iv) certain investments in unconsolidated entities.

***Are there risks to owning common stock in any of the Spincos?***

Yes. The business of each of the Spincos is subject to both general and specific risks relating to its business, leverage, relationship with IAC and being a separate publicly traded company. The businesses of the Spincos are also subject to risks relating to the separation. These risks are described in the "Risk Factors" section of this information statement beginning on page [ • ] and under "Certain Information With Respect to HSNi—Risk Factors Relating to the Business of HSNi Following the Spin-Offs," "Certain Information With Respect to ILG—Risk Factors Relating to the Business of ILG Following the Spin-Offs," "Certain Information With Respect to Ticketmaster—Risk Factors Relating to the Business of Ticketmaster Following the Spin-Offs" and "Certain Information With Respect to Tree.com—Risk Factors Relating to the Business of Tree.com Following the Spin-Offs." You are encouraged to read those sections carefully.

***Where can IAC stockholders get more information?***

Before the spin-offs, if you have any questions relating to the spin-offs, you should contact:

IAC
Investor Relations
555 West 18th Street
New York, NY 10011
Tel: (212) 314-7400
Fax: (212) 314-7379
*ir@iac.com*

***Is Liberty Media Corporation challenging the spin-offs?***

No. Liberty Media Corporation and IAC have agreed to a single-tiered voting structure for each of the Spincos and the Spinco governance provisions as set forth under "Certain Relationships and Related Party Transactions—Agreements with Liberty Media Corporation."

## RISK FACTORS

The following risk factors relate to all of the Spincos. For the particular risk factors relating to businesses of the individual Spincos, see "Certain Information With Respect to HSNi—Risk Factors Relating to the Business of HSNi Following the Spin-Offs," "Certain Information With Respect to ILG—Risk Factors Relating to the Business of ILG Following the Spin-Offs," "Certain Information With Respect to Ticketmaster—Risk Factors Relating to the Business of Ticketmaster Following the Spin-Offs" and "Certain Information With Respect to Tree.com—Risk Factors Relating to the Business of Tree.com Following the Spin-Offs."

***After the spin-offs, any or all of the Spincos may be unable to make the changes necessary to operate effectively as separate public entities.***

Following the spin-offs, IAC will have no obligation to provide financial, operational or organizational assistance to the Spincos, other than limited services pursuant to a transition services agreement that IAC and each of the Spincos will enter into in connection with the spin-offs. As a separate public entity, each of the Spincos will be subject to, and responsible for, regulatory compliance, including periodic public filings with the SEC and compliance with NASDAQ's continued listing requirements, as well as generally applicable tax and accounting rules. The Spincos may be unable to implement successfully the changes necessary to operate as independent public entities.

***Each of the Spincos expects to incur increased costs relating to operating as an independent company that could cause its cash flow and results of operations to decline.***

Each of the Spincos expects that the obligations of being a public company, including substantial public reporting and investor relations obligations, will require new expenditures, place new demands on its management and will require the hiring of additional personnel. The Spincos may need to implement additional systems that require new expenditures in order to adequately function as public companies. Such expenditures could adversely affect the business, financial condition and results of operations of any Spinco(s).

In addition, IAC's businesses, by virtue of being under the same corporate structure, currently share economies of scope and scale in costs, human capital, vendor relationships and customer relationships with the businesses that the Spincos will own following the spin-offs. The increased costs resulting from the loss of these benefits could have an adverse effect on the Spincos.

***If one or more spin-offs, together with certain related transactions, were to fail to qualify as a transaction that is generally tax free for U.S. federal income tax purposes under Sections 355 and/or 368(a)(1)(D) of the Code, IAC, the Spincos and IAC stockholders may be subject to significant tax liabilities.***

IAC expects to receive a private letter ruling from the IRS and/or an opinion of counsel satisfactory to the IAC Board of Directors regarding the qualification of the spin-offs, together with certain related transactions, as transactions that are generally tax free for U.S. federal income tax purposes under Sections 355 and/or 368(a)(1)(D) of the Code. The IRS private letter ruling and the opinion of counsel will be based on, among other things, certain assumptions as well as the accuracy of certain representations and statements that IAC and the Spincos make to the IRS and to counsel. If any of these representations or statements are, or become, inaccurate or incomplete, or if IAC or the Spincos breach any of their respective covenants, the IRS private letter ruling and/or the opinion of counsel may be invalid.

Moreover, the IRS private letter ruling would not address all the issues that are relevant to determining whether the spin-offs qualify as transactions that are generally tax free for U.S. federal income tax purposes. Notwithstanding the IRS private letter ruling and/or opinion of counsel, the IRS could determine that one or more of the spin-offs should be treated as a taxable distribution if it determines that any of the representations, assumptions or undertakings that were included in the request for the IRS private letter ruling is false or has been violated or if it disagrees with the conclusions in the tax opinion that are not covered by the IRS ruling.

If one or more spin-offs were to fail to qualify as a transaction that is generally tax free for U.S. federal income tax purposes under Sections 355 and/or 368(a)(1)(D) of the Code, then IAC generally would recognize gain in an amount equal to the excess of (i) the fair market value of the Spinco common stock distributed to the IAC stockholders in such taxable spin-off over (ii) IAC's tax basis in the common stock of such Spinco. In addition, each IAC stockholder who received Spinco common stock in such taxable spin-off generally would be treated as having received a taxable distribution in an amount equal to the fair market value of the Spinco common stock received (including any fractional share sold on behalf of the stockholder) in such spin-off, which would be taxable as a dividend to the extent of the stockholder's ratable share of IAC's current and accumulated earnings and profits (as increased to reflect any current income, including any gain, recognized by IAC on the taxable spin-off). The balance, if any, of the distribution would be treated as a nontaxable return of capital to the extent of the IAC stockholder's tax basis in its IAC stock, with any remaining amount being taxed as capital gain. For more information, see "The Separation—Material U.S. Federal Income Tax Consequences of the Spin-Offs," included elsewhere in this information statement.

Under the Tax Sharing Agreement among IAC and the Spincos, each Spinco generally would be required to indemnify IAC and the other Spincos for any taxes resulting from the spin-off of such Spinco (and any related interest, penalties, legal and professional fees, and all costs and damages associated with related stockholder litigation or controversies) to the extent such amounts resulted from (i) any act or failure to act by such Spinco described in the covenants in the Tax Sharing Agreement, (ii) any acquisition of equity securities or assets of such Spinco or a member of its group, or (iii) any breach by such Spinco or any member of its group of any representation or covenant contained in the separation documents or in the documents relating to the IRS private letter ruling and/or tax opinion. The ability of IAC or the other Spincos to collect under these indemnity provisions will depend on the financial position of the indemnifying party. See "Certain Relationships and Related Party Transactions—Tax Sharing Agreement."

***Certain transactions in IAC or Spinco equity securities could cause one or more of the spin-offs to be taxable to IAC and may give rise to indemnification obligations of the Spincos under the Tax Sharing Agreement.***

Current U.S. federal income tax law creates a presumption that the spin-off of a Spinco would be taxable to IAC, but not to its stockholders, if such spin-off is part of a "plan or series of related transactions" pursuant to which one or more persons acquire directly or indirectly stock representing a 50% or greater interest (by vote or value) in IAC or such Spinco. Acquisitions that occur during the four-year period that begins two years before the date of a spin-off are presumed to occur pursuant to a plan or series of related transactions, unless it is established that the acquisition is not pursuant to a plan or series of transactions that includes the spin-off. U.S. Treasury regulations currently in effect generally provide that whether an acquisition and a spin-off are part of a plan is determined based on all of the facts and circumstances, including, but not limited to, specific factors described in the Treasury regulations. In addition, the Treasury regulations provide several "safe harbors" for acquisitions that are not considered to be part of a plan.

These rules will limit the ability of IAC and each of the Spincos (other than Tree.com) during the two-year period following the spin-offs to enter into certain transactions that might be advantageous to them and their respective stockholders, particularly issuing equity securities to satisfy financing needs, repurchasing equity securities, and, under certain limited circumstances, acquiring businesses or assets with equity securities or agreeing to be acquired.

Under the Tax Sharing Agreement, there are restrictions on the ability of each Spinco (other than Tree.com) to take such actions for a period of 25 months from the day after the spin-off of such Spinco. Because IAC has an unrealized loss, for federal income tax purposes, in the stock of Tree.com, it is not necessary to subject Tree.com to the same restrictions as the other Spincos with respect to acquisitions of Spinco equity securities. Tree.com will be subject to certain other restrictions that apply to all of the Spincos during the 25 month period following the spin-off, which restrictions are designed to preserve the tax-free nature of the spin-offs to IAC shareholders.

In addition, the Tax Sharing Agreement generally provides that each Spinco will have to indemnify IAC and the other Spincos for any taxes resulting from the spin-off of such Spinco (and any related interest, penalties, legal and professional fees, and all costs and damages associated with related stockholder litigation or controversies) to the extent such amounts result from (i) any act or failure to act by such Spinco described in the covenants in the Tax Sharing Agreement, (ii) any acquisition of equity securities or assets of such Spinco or a member of its group, and (iii) any breach by such Spinco or any member of its group of any representation or covenant contained in the separation documents or in the documents relating to the IRS private letter ruling and/or tax opinion. See "The Separation—Material U.S. Federal Income Tax Consequences of the Spin-Offs" and "Certain Relationships and Related Party Transactions—Tax Sharing Agreement."

In addition to actions of IAC and the Spincos, certain transactions that are outside their control and therefore not subject to the restrictive covenants contained in the Tax Sharing Agreement, such as a sale or disposition of the stock of IAC or the stock of a Spinco by certain persons that own five percent or more of any class of stock of IAC or such Spinco, respectively, could have a similar effect on the tax-free status of the spin-offs as transactions to which IAC or a Spinco is a party. As of April 30, 2008, Liberty Media Corporation and certain of its affiliates, in the aggregate, owned IAC stock representing approximately 61.6% by vote and 29.9% by value and, assuming no acquisitions or dispositions of IAC stock by Liberty Media Corporation or its affiliates between such date and the date of the spin-offs, are expected to own stock of each Spinco representing approximately 29.9% by vote and value. Accordingly, in evaluating the ability of IAC and the Spincos to engage in certain transactions involving equity securities of IAC or the Spincos, IAC and the Spincos will need to take into account the activities of Liberty Media Corporation and its affiliates.

As a result of these rules, even if a spin-off otherwise qualifies as a transaction that is generally tax-free for U.S. federal income tax purposes, transactions involving equity securities of IAC or the Spincos (including transactions by certain significant stockholders) could cause IAC to recognize taxable gain with respect to the stock of one or more of the Spincos as described above. Although the restrictive covenants and indemnification provisions contained in the Tax Sharing Agreement are intended to minimize the likelihood that such an event will occur, one or more of the spin-offs may become taxable to IAC as a result of transactions in IAC or Spinco equity securities.

***The market price and trading volume of Spinco securities may be volatile and may face negative pressure.***

There is currently no trading market for any of the Spinco securities. Investors may decide to dispose of some or all of the Spinco securities that they receive in the spin-offs. The Spinco securities issued in the spin-offs will be trading publicly for the first time. Until, and possibly even after, orderly trading markets develop for these securities, there may be significant fluctuations in price. It is not possible to accurately predict how investors in a Spinco's securities will behave after the spin-offs. The market price for a Spinco's securities following the spin-offs may be more volatile than the market price of IAC securities before the spin-offs. The market price of a Spinco's securities could fluctuate significantly for many reasons, including the risks identified in this information statement or reasons unrelated to each company's performance. These factors may result in short- or long-term negative pressure on the value of the Spincos' securities.

***After the spin-offs, the securities of the Spincos may not qualify for placement in investment indices. In addition, Spinco securities may fail to meet the investment guidelines of institutional investors. In either case, these factors may negatively impact the price of Spinco securities and may impair the ability of a Spinco to raise capital through the sale of securities.***

Some of the holders of IAC securities are index funds tied to NASDAQ or other stock or investment indices, or are institutional investors bound by various investment guidelines. Companies are generally selected for investment indices, and in some cases selected by institutional investors, based on factors such as market capitalization, industry, trading liquidity and financial condition. As independent companies, each of the Spincos will initially have a lower market capitalization than IAC has today. As a result, Spinco securities may not qualify for those investment indices. In addition, Spinco securities that are received in the spin-offs may not meet the investment guidelines of some institutional investors. Consequently, these index funds and institutional investors may have to sell some or all of the securities they receive in the spin-offs, and the prices of Spinco securities may fall as a result. Any such decline could impair the ability of a Spinco to raise capital through future sales of securities.

***Financing—The Spincos may have future capital needs and may not be able to obtain additional financing on acceptable terms.***

In connection with the spin-offs, each of HSNi, ILG and Ticketmaster is expected to incur indebtedness of $450 million, $450 million and $750 million, respectively. In each case most or all of the proceeds from this indebtedness will be distributed to IAC. See "Transfer to IAC and Financing."

These arrangements may limit the ability of HSNi, ILG and Ticketmaster to secure significant, additional financing in the future on favorable terms. Additionally, the current uncertainties surrounding the industries in which Tree.com operates, as well as other factors, may constrain its financing abilities. The ability of each of the Spincos to secure additional financing and satisfy its financial obligations under indebtedness outstanding from time to time will depend upon its future operating performance, which is subject to then prevailing general economic and credit market conditions, including interest rate levels and the availability of credit generally, and financial, business and other factors, many of which are beyond its control. The prolonged continuation or worsening of current credit market conditions would have a material adverse affect on the ability of any Spinco to secure financing on favorable terms, if at all.

Any Spinco may be unable to secure additional financing or financing on favorable terms or its operating cash flow may be insufficient to satisfy its financial obligations under indebtedness outstanding from time to time (if any). Furthermore, if financing is not available when needed, or is available on unfavorable terms, the affected Spinco may be unable to develop new or enhance its existing services, complete acquisitions or otherwise take advantage of business opportunities or respond to competitive pressures, any of which could have a material adverse effect on its business, financial condition and results of operations. If additional funds are raised through the issuance of equity securities, Spinco stockholders may experience significant dilution. Also, the ability of any Spinco (other than Tree.com) to engage in significant equity issuances will be limited or restricted after the spin-offs in order to preserve the tax-free nature of the distribution.

***Maintenance of Systems and Infrastructure—The success of each Spinco depends, in part, on the integrity of its systems and infrastructures. System interruption and the lack of integration and redundancy in these systems and infrastructures may have an adverse impact on the business, financial conditions and results of operations of the Spincos.***

The success of each Spinco depends, in part, on its ability to maintain the integrity of its systems and infrastructures, including websites, information and related systems, call centers and distribution and fulfillment facilities. System interruption and the lack of integration and redundancy in the information systems and infrastructures of a Spinco may adversely affect the ability of such Spinco from operating websites, processing and fulfilling transactions, responding to customer inquiries and generally maintaining cost-efficient operations. Any Spinco may experience occasional system interruptions that make some or all systems or data unavailable or prevent Spinco businesses from efficiently providing services or fulfilling orders. Each Spinco also relies on affiliate and third party computer systems, broadband and other communications systems and service providers in connection with the provision of services generally, as well as to facilitate, process and fulfill transactions. Any interruptions, outages or delays in the systems and infrastructures of a Spinco, its businesses, its affiliates and/or third parties, or deterioration in the performance of these systems and infrastructures, could impair the ability of the businesses of the affected Spinco to provide services, fulfill orders and/or process transactions. Fire, flood, power loss, telecommunications failure, hurricanes, tornadoes, earthquakes, acts of war or terrorism, acts of God and similar events or disruptions may damage or interrupt computer, broadband or other communications systems and infrastructures at any time. Any of these events could cause system interruption, delays and loss of critical data, and could prevent Spinco businesses from providing services, fulfilling orders and/or processing transactions. While each of the Spinco businesses has backup systems for certain aspects of their respective operations, these systems are not fully redundant (with the exception of the Ticketmaster System) and disaster recovery planning is not sufficient for all eventualities. In addition, the Spincos may not have adequate insurance coverage to compensate for losses from a major interruption. If any of these adverse events were to occur, it could adversely affect the business, financial conditions and results of operations of the affected Spinco.

In addition, any penetration of network security or other misappropriation or misuse of personal consumer information, particularly in the case of Tree.com, could cause interruptions in the operations of Spinco businesses and subject the affected Spinco to increased costs, litigation and other liabilities. Claims could also be made against the Spincos for other misuse of personal information, such as for unauthorized purposes or identity theft, which could result in litigation and financial liabilities, as well as administrative action from governmental authorities. Security breaches could also significantly damage the reputation of the Spincos with consumers and third parties with whom they do business. It is possible that advances in computer capabilities, new discoveries, undetected fraud, inadvertent violations of company policies or procedures or other developments could result in a compromise of information or a breach of the technology and security processes that are used to protect consumer transaction data. As a result, current security measures may not prevent any or all security breaches. Any Spinco may be required to expend significant capital and other resources to protect against and remedy any potential or existing security breaches and their consequences. Each Spinco also faces risks associated with security breaches affecting third parties with which they are affiliated or otherwise conduct business online. Consumers are generally concerned with security and privacy of the internet, and any publicized security problems affecting the businesses of a Spinco and/or third parties may discourage consumers from doing business with the affected Spinco, which could have an adverse effect on the business, financial condition and results of operations of the affected Spinco.

***Privacy—The processing, storage, use and disclosure of personal data could give rise to liabilities as a result of governmental regulation, conflicting legal requirements or differing views of personal privacy rights.***

In the processing of consumer transactions, the businesses of each of the Spincos receive, transmit and store a large volume of personally identifiable information and other user data, particularly in the case of Tree.com. The sharing, use, disclosure and protection of this information are governed by the respective privacy and data security policies maintained by each Spinco and its businesses. Moreover, there are federal, state and international laws regarding privacy and the storing, sharing, use, disclosure and protection of personally identifiable information and user data. Specifically, personally identifiable information is increasingly subject to legislation and regulations in numerous jurisdictions around the world, the intent of which is to protect the privacy of personal information that is collected, processed and transmitted in or from the governing jurisdiction. Any Spinco, particularly Tree.com, could be adversely affected if legislation or regulations are expanded to require changes in business practices or privacy policies, or if governing jurisdictions interpret or implement their legislation or regulations in ways that negatively affect the business, financial condition and results of operations of such Spinco.

Spinco businesses may also become exposed to potential liabilities as a result of differing views on the privacy of consumer and other user data collected by these businesses. The failure of any Spinco, and/or the various third party vendors and service providers with which it does business, to comply with applicable privacy policies or federal, state or similar international laws and regulations or any compromise of security that results in the unauthorized release of personally identifiable information or other user data could damage the reputation of these businesses, discourage potential users from trying the products and services of the affected Spinco and/or result in fines and/or proceedings by governmental agencies and/or consumers, one or all of which could adversely affect the business, financial condition and results of operations of the affected Spinco.

***Intellectual Property—Each Spinco may fail to adequately protect their intellectual property rights or may be accused of infringing intellectual property rights of third parties.***

Each Spinco may fail to adequately protect its intellectual property rights or may be accused of infringing intellectual property rights of third parties. Each Spinco regards its intellectual property rights, including patents, service marks, trademarks and domain names, copyrights, trade secrets and similar intellectual property (as applicable), as critical to its success. Spinco businesses also rely heavily upon software codes, informational databases and other components that make up their products and services.

Each Spinco relies on a combination of laws and contractual restrictions with employees, customers, suppliers, affiliates and others to establish and protect these proprietary rights. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use trade secret or copyrighted intellectual property without authorization which, if discovered, might require legal action to correct. In addition, third parties may independently and lawfully develop substantially similar intellectual properties.

The Spincos have generally registered and continue to apply to register, or secure by contract when appropriate, their respective trademarks and service marks as they are developed and used, and reserve and register domain names as they deem appropriate. The Spincos generally consider the protection of their respective trademarks to be important for purposes of brand maintenance and reputation. While each Spinco vigorously protects its trademarks, service marks and domain names, effective trademark protection may not be available or may not be sought in every country in which products and services are made available, and contractual disputes may affect the use of marks governed by private contract. Similarly, not every variation of a domain name may be available or be registered, even if available. The failure of a Spinco to protect its intellectual property rights in a meaningful manner or challenges to related contractual rights could result in erosion of brand names and limit the ability of the affected Spinco to control marketing on or through the internet using its various domain names or otherwise, which could adversely affect the business, financial condition and results of operations of the affected Spinco.

Some Spinco businesses have been granted patents and/or have patent applications pending with the United States Patent and Trademark Office and/or various foreign patent authorities for various proprietary technologies and other inventions. The Spincos consider applying for patents or for other appropriate statutory protection when they develop valuable new or improved proprietary technologies or inventions are identified, and will continue to consider the appropriateness of filing for patents to protect future proprietary technologies and inventions as circumstances may warrant. The status of any patent involves complex legal and factual questions, and the breadth of claims allowed is uncertain. Accordingly, any patent application filed may not result in a patent being issued or existing or future patents may not be adjudicated valid by a court or be afforded adequate protection against competitors with similar technology. In addition, third parties may create new products or methods that achieve similar results without infringing upon patents owned by a Spinco. Likewise, the issuance of a patent to a Spinco does not mean that the processes or inventions of the Spinco will not be found to infringe upon patents or other rights previously issued to third parties.

From time to time, certain of the Spincos are subject to legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of the trademarks, copyrights, patents and other intellectual property rights of third parties. In addition, litigation may be necessary in the future to enforce the intellectual property rights of the affected Spinco, protect trade secrets or to determine the validity and scope of proprietary rights claimed by others. Any litigation of this nature, regardless of outcome or merit, could result in substantial costs and diversion of management and technical resources, any of which could adversely affect the business, financial condition and results of operations of the affected Spinco. Patent litigation tends to be particularly protracted and expensive.

***The spin-off agreements were not the result of arm's length negotiations.***

The agreements that the Spincos will enter into with IAC and the other Spincos in connection with the spin-offs, including the separation and distribution agreement, tax sharing agreement, employee matters agreement and transition services agreement were established by IAC, in consultation with the Spincos, with the intention of maximizing the value to current IAC's shareholders. Accordingly, the terms for any particular Spinco may not be as favorable as would have resulted from negotiations among unrelated third parties.

## THE SEPARATION

### General

On [ • ], 2008, the IAC Board of Directors approved the separation of IAC into five separate, publicly traded companies: (1) IAC, (2) HSNi, (3) ILG, (4) Ticketmaster and (5) Tree.com. The separation will be accomplished through the distribution by IAC of all of the shares of the common stock of the Spincos held by IAC to holders of IAC common stock on the record date. Immediately following the distributions, IAC stockholders will own 100% of the outstanding common stock of IAC and the Spincos. You will not be required to make any payment, surrender or exchange your shares of IAC common stock and/or Class B common stock or take any other action to receive your shares of common stock of the Spincos.

The board of directors of IAC has reserved the right to modify, delay or abandon the spin-off of any or all of the Spincos. In addition, the spin-offs are subject to the satisfaction or waiver of a number of conditions described under "—Conditions to the Spin-Offs."

### The Number of Shares You Will Receive

For every share of IAC common stock and/or Class B common stock that you owned at the close of business on [ • ], 2008, the record date, you will receive one-fifth, one-fifth, one-fifth and one-thirtieth of a share of common stock of HSNi, ILG, Ticketmaster and Tree.com, respectively, on the distribution date. As described below under "—When and How You Will Receive the Dividend," IAC will not distribute any fractional shares of common stock of any of the Spincos to its stockholders.

### When and How You Will Receive the Dividend

IAC will distribute the shares of common stock of each of the Spincos on [ • ], 2008, the distribution date. The Bank of New York, which currently serves as the transfer agent and registrar for IAC's common stock, will serve as transfer agent and registrar for the common stock of the Spincos and as distribution agent in connection with the spin-offs.

If you own IAC common stock and/or Class B common stock as of the close of business on the record date, the shares of Spinco common stock that you are entitled to receive in the spin-offs will be issued electronically, as of the distribution date, to you or to your bank or brokerage firm on your behalf by way of direct registration in book-entry form. Registration in book-entry form refers to a method of recording stock ownership when no physical share certificates are issued to stockholders, as is the case in the spin-offs.

Commencing on or shortly after the distribution date, if you hold physical stock certificates that represent your shares of IAC common stock and/or Class B common stock and you are the registered holder of the IAC shares represented by those certificates, the distribution agent will mail to you an account statement that indicates the number of shares of Spinco common stock that have been registered in book-entry form in your name. If you have any questions concerning the mechanics of having shares of common stock of the Spinco registered in book-entry form, you are encouraged to contact The Bank of New York at the address set forth on page [ • ] of this information statement.

Most IAC stockholders hold their shares of IAC common stock through a bank or brokerage firm. In such cases, the bank or brokerage firm would be said to hold the stock in "street name" and ownership would be recorded on the bank or brokerage firm's books. If you hold your IAC common stock through a bank or brokerage firm, your bank or brokerage firm will credit your account for the shares of common stock of the Spincos that you are entitled to receive in the spin-offs. If you have any questions concerning the mechanics of having shares of Spincos common stock held in "street name," you are encouraged to contact your bank or brokerage firm.

The Bank of New York, as distribution agent, will not deliver any fractional shares of common stock of a Spinco in connection with the spin-offs. Instead, for each Spinco, The Bank of New York will aggregate all fractional shares and sell them on behalf of the holders who otherwise would be entitled to receive fractional shares. If you physically hold IAC common stock certificates and are the registered holder, you will receive a check from the distribution agent in an amount equal to your pro rata share of the aggregate net cash proceeds of the sales. The Spincos estimate that it will take approximately [two weeks] from the distribution date for the distribution agent to complete the distributions of the aggregate net cash proceeds. If you hold your IAC stock through a bank or brokerage firm, your bank or brokerage firm will receive on your behalf your pro rata share of the aggregate net cash proceeds of the sales and should electronically credit your account for your share of such proceeds.

**Results of the Separation**

After the spin-offs, each of the Spincos will be a separate publicly traded company. Immediately following the spin-offs, based on the number of registered stockholders of IAC common stock and Class B common stock on [ • ], and without giving effect to "when-issued" trading, each of the Spincos expects to have [ ] stockholders of record.

The actual number of shares to be distributed will be determined on the record date and will reflect the issuance of IAC common stock in connection with any exercise of IAC options, vesting of restricted share units or conversion of other convertible IAC securities between the date the IAC Board of Directors declares the dividend for the distribution and the record date for the spin-offs.

The spin-offs will not affect the number of outstanding shares of IAC common stock and/or Class B common stock or any rights of IAC stockholders. However, in connection with the spin-offs, as more fully described in IAC's preliminary proxy statement under Schedule 14A under the Securities Exchange Act of 1934, as amended, filed on June 9, 2008, IAC has sought approval from its stockholders of a proposal to amend its Restated Certificate of Incorporation to effect a 1-for-2 reverse stock split of its common stock and Class B common stock, which may be implemented by IAC's Board of Directors in its sole discretion immediately following the completion of the spin-offs or, if not all of the spin-offs are effected substantially simultaneously, immediately following the first spin-off. If the reverse stock split is approved by IAC's stockholders and implemented by IAC's Board of Directors, each two shares of IAC common stock or Class B common stock will be combined into one share of IAC common stock or Class B common stock, respectively. The purpose of implementing the reverse stock split would be to seek to increase the per share trading price of IAC's common stock following the spin-offs relative to what the per share trading price would be if the reverse stock split were not implemented. An increased trading price could increase interest from institutional investors, investment funds and brokerage firms in IAC common stock; lower the transaction costs involved in purchasing IAC common stock and improve the trading liquidity of IAC common stock.

**Material U.S. Federal Income Tax Consequences of the Spin-Offs**

The following section describes the material U.S. federal income tax consequences of the spin-offs to "U.S. holders" (as defined below) of IAC common stock. This summary is based on current provisions of the Internal Revenue Code of 1986, as amended (the "Code"), final, temporary or proposed U.S. Treasury regulations promulgated thereunder, judicial opinions, published positions of the IRS and all other applicable authorities, all as in effect as of the date of this document and all of which are subject to change, possibly with retroactive effect. Any such change could affect the accuracy of the statements and conclusions set forth in this document.

For purposes of this discussion, the term "U.S. holder" means a beneficial owner of IAC common stock that is, for U.S. federal income tax purposes:

- An individual who is a citizen or resident of the United States;

- a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized under the laws of the United States, any state thereof, or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income tax regardless of its source; or
- a trust if (1) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) it has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If an entity or arrangement that is treated as a partnership for U.S. federal income tax purposes holds IAC common stock, the tax treatment of a partner in such entity generally will depend on the status of the partners and the activities of the partnership. If you are a partner in a partnership holding IAC common stock, please consult your tax advisor.

This discussion only addresses holders of IAC common stock that are U.S. holders and hold such stock as a capital asset within the meaning of Section 1221 of the Code. Further, this summary does not address all aspects of U.S. federal income taxation that may be relevant to a holder in light of the holder's particular circumstances or that may be applicable to holders subject to special treatment under U.S. federal income tax law (including, for example, persons that are not U.S. holders, financial institutions, dealers in securities, traders in securities that elect mark-to-market treatment, insurance companies, mutual funds, tax-exempt organizations, partnerships or other flow-through entities and their partners or members, U.S. expatriates, holders liable for the alternative minimum tax, holders whose functional currency is not the U.S. dollar, and holders who hold their IAC common stock as part of a hedge, straddle, constructive sale or conversion transaction, or holders who acquired IAC common stock pursuant to the exercise of employee stock options or otherwise as compensation). This discussion does not address the tax consequences to any person who actually or constructively owns more than 5% of IAC common stock. In addition, no information is provided herein with respect to the tax consequences of the spin-offs under applicable state, local or non-U.S. laws or federal laws other than those pertaining to the federal income tax.

**IAC STOCKHOLDERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING THE TAX CONSEQUENCES OF THE SPIN-OFFS TO THEM, INCLUDING THE EFFECTS OF U.S. FEDERAL, STATE AND LOCAL, FOREIGN AND OTHER TAX LAWS.**

IAC has requested and expects to receive, prior to effecting any of the spin-offs, a private letter ruling from the IRS and/or an opinion of counsel satisfactory to the IAC board of directors regarding the qualification of the spin-offs, together with certain related transactions, as transactions that are generally tax free for U.S. federal income tax purposes under Sections 355 and/or 368(a)(1)(D) of the Code. If the private letter ruling is received prior to the spin-offs, IAC expects to receive an opinion of counsel regarding certain aspects of the transaction that are not covered by the private letter ruling. If the private letter ruling is not received prior to the spin-offs, IAC expects to receive an opinion of counsel regarding the qualification of the spin-offs, together with certain related transactions, as transactions that are generally tax free for U.S. federal income tax purposes under Sections 355 and/or 368(a)(1)(D) of the Code.

***Certain U.S. Federal Income Tax Consequences if each of the spin-offs Qualifies as a Transaction that is generally tax free under Sections 355 and/or 368(a)(1)(D) of the Code***

Assuming that each of the spin-offs qualifies as a transaction that is generally tax free for U.S. federal income tax purposes under Sections 355 and/or 368(a)(1)(D) of the Code:

- no gain or loss will be recognized by, and no amount will be includible in the income of IAC as a result of the spin-offs, other than gain or income arising in connection with certain internal restructurings undertaken in connection with the spin-offs and with respect to any "excess loss account" or "intercompany transaction" required to be taken into account by IAC under U.S. Treasury regulations relating to consolidated federal income tax returns;

- an IAC stockholder will not recognize income, gain, or loss as a result of the receipt of Spinco common stock pursuant to the spin-offs, except with respect to any cash received in lieu of fractional shares of Spinco common stock;

- an IAC stockholder's aggregate tax basis in such stockholder's Spinco common stock received in the spin-offs (including any fractional share interests in Spinco common stock for which cash is received) will equal such stockholder's aggregate tax basis in its IAC common stock immediately before the spin-offs, allocated between the IAC common stock and the common stock of each Spinco (including any fractional share interest of Spinco common stock for which cash is received) in proportion to their relative fair market values on the date of the spin-offs;

- an IAC stockholder's holding period for Spinco common stock received in the spin-offs (including any fractional share interests of Spinco common stock for which cash is received) will include the holding period for that stockholder's IAC common stock; and

- an IAC stockholder who receives cash in lieu of a fractional share of Spinco common stock in the spin-offs will be treated as having sold such fractional share for cash, and will generally recognize capital gain or loss in an amount equal to the difference between the amount of cash received and the IAC stockholder's adjusted tax basis in the fractional share of Spinco common stock. Such gain or loss will be long-term capital gain or loss if the stockholder's holding period for its Spinco common stock exceeds one year.

If an IAC stockholder holds different blocks of IAC common stock (generally, shares of IAC common stock acquired on different dates or at different prices), such holder should consult its tax advisor regarding the determination of the basis and holding period of shares of Spinco common stock received in the spin-offs in respect of particular blocks of IAC common stock.

U.S. Treasury regulations require IAC stockholders who receive Spinco common stock in the spin-offs to attach to their U.S. federal income tax returns for the year in which the Spinco stock is received a detailed statement setting forth such data as may be appropriate to demonstrate the applicability of Section 355 of the Code to the spin-offs.

***Certain U.S. Federal Income Tax Consequences if One or More of the Spin-Offs Were Taxable***

The IRS private letter ruling and/or the opinion of counsel will be based on, among other things, certain assumptions as well as on the accuracy of certain representations and statements that IAC and the Spincos make to the IRS and to counsel. If any of these representations or statements are, or become, inaccurate or incomplete, or if IAC or the Spincos breach any of their respective covenants, the IRS private letter ruling and/or the opinion of counsel may be invalid.

Moreover, the IRS private letter ruling would not address all the issues that are relevant to determining whether the spin-offs qualify as transactions that are generally tax free for U.S. federal income tax purposes. Notwithstanding the IRS private letter ruling and/or opinion, the IRS could determine that one or more of the spin-offs should be treated as a taxable distribution if it determines that any of the representations, assumptions or undertakings that were included in the request for the private letter ruling is false or has been violated or if it disagrees with the conclusions in the tax opinion that are not covered by the IRS ruling.

If the IRS were to assert successfully that one or more of the spin-offs were taxable, the above consequences would not apply with respect to such spin-off and both IAC and holders of IAC common stock who received shares of Spinco common stock in such spin-off could be subject to tax, as described below. In addition, certain events that may or may not be within the control of IAC or a Spinco, including extraordinary purchases of IAC common stock or Spinco common stock, could cause one or more of the spin-offs not to qualify as tax free to IAC and/or holders of IAC common stock. Depending on the circumstances, a Spinco may be required to indemnify IAC and the other Spincos for some or all of the taxes and certain related losses resulting from the spin-off of such Spinco not qualifying as tax free under Sections 355 and/or 368(a)(1)(D) of the Code. See "Certain Relationships and Related Party Transactions—Tax Sharing Agreement." If a spin-off were taxable, then:

- IAC would recognize gain in an amount equal to the excess of the fair market value of Spinco common stock on the date of the spin-off distributed to IAC stockholders over IAC's adjusted tax basis in the stock of such Spinco, and IAC may also recognize income or gain with respect to certain restructuring transactions undertaken in connection with such spin-off;

- each IAC stockholder who received Spinco common stock in the taxable spin-off would be treated as having received a taxable distribution in an amount equal to the fair market value of such Spinco stock (including any fractional shares sold on behalf of the stockholder) on the spin-off date. That distribution would be taxable to the stockholder as a dividend to the extent of IAC's current and accumulated earnings and profits (as increased to reflect any current income, including any gain, recognized by IAC on the taxable spin-off). Any amount that exceeded IAC's earnings and profits would be treated first as a non-taxable return of capital to the extent of the IAC stockholder's tax basis in its IAC common stock with any remaining amounts being taxed as capital gain;

- certain stockholders could be subject to additional special rules, such as rules relating to the dividends received deduction and extraordinary dividends; and

- a stockholder's tax basis in Spinco common stock received generally would equal the fair market value of Spinco common stock on the spin-off date, and the holding period for that stock would begin the day after the spin-off date.

Even if one or more spin-offs otherwise qualify as transactions that are generally tax free for U.S. federal income tax purposes under Sections 355 and/or 368(a)(1)(D) of the Code, they could be taxable to IAC under Section 355(e) of the Code if one or more persons were to acquire directly or indirectly stock representing a 50% or greater interest, by vote or value, in IAC or one of the Spincos during the four-year period beginning on the date which is two years before the date of the spin-off, as part of a plan or series of related transactions that includes the spin-off. If such an acquisition of IAC stock or Spinco stock were to trigger the application of Section 355(e), IAC would recognize taxable gain as described above, but the spin-offs would be tax free to IAC stockholders.

In connection with the spin-offs, IAC and the Spincos will enter into a Tax Sharing Agreement. Under the Tax Sharing Agreement, each Spinco will have to indemnify IAC and the other Spincos for any taxes resulting from the spin-off of such Spinco (and any related interest, penalties, legal and professional fees, and all costs and damages associated with related stockholder litigation or controversies) to the extent such amounts result from (i) any act or failure to act by such Spinco described in the covenants in the Tax Sharing Agreement, (ii) any acquisition of equity securities or assets of such Spinco or a member of its group, or (iii) any breach by such Spinco or any member of its group of any representation or covenant contained in the separation documents or in the documents relating to the IRS private letter ruling and/or tax opinion. The ability of IAC or any of the Spincos to collect under these indemnity provisions will depend on the financial position of the indemnifying party. See "Certain Relationships and Related Party Transactions—Tax Sharing Agreement."

**THE FOREGOING IS A SUMMARY OF CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE SPIN-OFFS UNDER CURRENT LAW AND IS FOR GENERAL INFORMATION ONLY. THE FOREGOING DOES NOT PURPORT TO ADDRESS ALL U.S.**

**FEDERAL INCOME TAX CONSEQUENCES OR TAX CONSEQUENCES THAT MAY ARISE UNDER THE TAX LAWS OF OTHER JURISDICTIONS OR THAT MAY APPLY TO PARTICULAR CATEGORIES OF STOCKHOLDERS. EACH IAC STOCKHOLDER SHOULD CONSULT ITS TAX ADVISOR AS TO THE PARTICULAR TAX CONSEQUENCES OF THE SPIN-OFFS TO SUCH STOCKHOLDER, INCLUDING THE APPLICATION OF U.S. FEDERAL, STATE, LOCAL AND FOREIGN TAX LAWS, AND THE EFFECT OF POSSIBLE CHANGES IN TAX LAWS THAT MAY AFFECT THE TAX CONSEQUENCES DESCRIBED ABOVE.**

**Market for Common Stock of the Spincos**

There is currently no public market for the common stock of any of the Spincos. HSNi has applied to list its common stock on NASDAQ under the symbol "HSNI." ILG has applied to list its common stock on NASDAQ under the symbol "IILG." Ticketmaster has applied to list its common stock on NASDAQ under the symbol "TKTM." Tree.com has applied to list its common stock on NASDAQ under the symbol "TREE." Each of HSNi, ILG, Ticketmaster and Tree.com has been approved for inclusion in [ ], [ ], [ ] and [ ] market tier of the Nasdaq Stock Market, respectively.

**Trading Before the Distribution Date**

Beginning on or shortly before the record date and continuing through the distribution date, it is expected that there will be two markets in IAC common stock: a "regular-way" market and an "ex-distribution" market. Shares of IAC common stock that trade on the regular way market will trade with an entitlement to shares of the common stock of the Spincos distributed pursuant to the spin-offs. Shares that trade on the ex-distribution market will trade without an entitlement to shares of the common stock of the Spincos distributed pursuant to the spin-offs. Therefore, if you sell shares of IAC common stock in the "regular-way" market up to and including through the distribution date, you will be selling your right to receive shares of the common stock of the Spincos in the spin-offs. If you own shares of IAC common stock at the close of business on the record date and sell those shares on the "ex-distribution" market, up to and including through the distribution date, you will still receive the shares of the common stock of the Spincos that you would be entitled to receive pursuant to your ownership of the shares of IAC common stock.

Furthermore, beginning shortly before the distribution date and continuing up to and including through the distribution date, it is expected that there will be a "when-issued" market in the common stock of each of the Spincos. "When-issued" trading refers to a sale or purchase made conditionally because the security has been authorized but not yet issued. The "when-issued" trading market will be a market for shares of Spinco common stock that will be distributed to IAC stockholders on the distribution date. If you owned shares of IAC common stock at the close of business on the record date, you would be entitled to shares of Spincos' common stock distributed pursuant to the spin-offs. You may trade this entitlement to shares of common stock of all or any of the Spincos, without the shares of IAC common stock you own, on the "when-issued" market. On the first trading day following the distribution date, "when-issued" trading with respect to Spinco common stock will end and "regular-way" trading will begin.

**Conditions to the Spin-Offs**

The IAC Board of Directors has reserved the right, in its sole discretion, to amend, modify or abandon the spin-offs and the related transactions at any time prior to the distribution date. This means IAC may cancel or delay the planned distribution of common stock of all or any of the Spincos if at any time the Board of Directors of IAC determines that the distribution of such common stock is not in the best interests of IAC and its stockholders. If IAC's Board of Directors determines to cancel the spin-off of a Spinco, stockholders of IAC will not receive any dividend of common stock of such Spinco and IAC will be under no obligation whatsoever to its stockholders to distribute such shares.

Absent a determination of IAC's Board of Directors to the contrary, the Spincos expect that the spin-offs will be effective on [ • ], 2008, the distribution date. In addition, the spin-offs and related transactions are subject to the satisfaction or waiver (by IAC's Board of Directors in its sole discretion) of the following conditions:

- the registration statement on Form 10 filed by each of the Spincos with respect to its common shares shall have been declared effective by the SEC or become effective under the Exchange Act, no stop order suspending the effectiveness of such registration statement shall have been issued and no proceedings for that purpose shall have been instituted or threatened by the SEC;
- the listing of common stock of each of the Spincos shall have been accepted for listing on NASDAQ, subject to compliance with applicable listing requirements;
- no order or other legal restraint or prohibition preventing the consummation of any of the spin-offs or related transactions shall be threatened, pending or in effect;
- any material consents and governmental authorizations necessary to complete the spin-offs shall have been obtained and be in full force and effect;
- the stockholders of IAC shall have approved, in accordance with the Delaware General Corporation Law (the "DGCL"), a merger agreement providing for the merger of a wholly-owned subsidiary of IAC with and into IAC pursuant to which all of the outstanding shares of preferred stock of IAC shall be converted into the right to receive cash;
- the IAC Board of Directors shall have received a written solvency opinion, in form and substance acceptable to the IAC Board of Directors, from Duff & Phelps regarding the spin-offs and related transactions, which opinion shall not have been withdrawn or modified;
- IAC shall have received an opinion of Wachtell, Lipton, Rosen & Katz, in form and substance satisfactory to the IAC Board of Directors, regarding the qualification of the spin-offs, together with certain related transactions, as transactions that are generally tax free for U.S. federal income tax purposes under Sections 355 and/or 368(a)(1)(D) of the Code (to the extent such qualification is not addressed by an Internal Revenue Service private letter ruling (the "IRS Ruling") received by IAC), which opinion (and, in the event IAC shall have received the IRS Ruling, the IRS Ruling) shall not have been withdrawn or modified; and
- IAC shall have received an opinion of Delaware counsel to IAC, in form and substance satisfactory to the IAC Board of Directors, to the effect that the spin-offs do not constitute a sale, lease or exchange of "all or substantially all" of the assets of IAC requiring approval of the stockholders of IAC under Section 271 of the DGCL.

**Reasons for the Separation**

During the fall of 2007, IAC's management, in reviewing the strategic agendas and prospects of its various businesses, concluded that a separation of IAC into five separately traded public companies would best facilitate growth of the businesses. After discussion with the IAC Board of Directors, the Board agreed. Among the factors considered in arriving at this determination were:

- While the Spincos share common attributes, both with each other and with IAC, they generally face different strategic and competitive challenges. As a result, IAC management and the IAC Board determined that, in IAC's current configuration, when facing strategic and operating issues for a particular business, whether having to do with transactional alternatives, capital investment, new business initiatives, compensation or otherwise, considerations of the other businesses and of the company as a whole had the potential to lead to different decisions than might be made by standalone companies. IAC concluded, therefore, that the current structure may not be the most responsive to the exigencies of each business and that the spin-offs will enhance the success of each business by enabling IAC and the Spincos to resolve the problems that arise from the operation of different businesses within the IAC group.

- The lack of a liquid equity currency linked directly to the individual businesses constrained each business' ability to transact in its own industry and to provide equity-based incentive programs for employees that were entirely dependent on the performance of the specific business.

- While efforts were underway to increase the benefits to each business resulting from being a part of IAC, including through cost savings, better talent development and deployment, increased business opportunities, and other initiatives, the common attributes of the Spincos were more limited than initially believed, and there was therefore a limit to the benefits to be realized from such integration and the time horizon for realizing such benefits was substantially longer than IAC had initially believed.

- IAC believed that its stock performance during recent years did not reflect its operating performance or the true value of its businesses. IAC believed that this was in part because of the complexity involved in understanding a variety of businesses represented by a single equity investment, and that increased transparency and clarity into the different businesses of IAC would allow investors to more appropriately value the merits, performance and future prospects of the companies.

Because IAC concluded that the separation of these businesses would over time enhance their operating performance, open up strategic alternatives that may otherwise not have been readily available to them, and facilitate investor understanding and better target investor demand, IAC believes that following the spin-offs, the common stock of the five publicly traded companies will have a higher aggregate market value than would IAC if it were to remain in its current configuration. No assurances, however, can be given that such higher aggregate market value will be achieved. The IAC Board of Directors believes that such value increase would further facilitate growth of the separated businesses by reducing the costs of equity compensation and acquisitions undertaken with equity consideration, in each case resulting in a real and substantial benefit for the companies.

The IAC Board of Directors considered a number of other potentially negative factors in evaluating the separation, including loss of synergies from operating as one company, potential disruptions to the businesses as a result of the separation, the potential impact of the separation on the anticipated credit ratings of the Spincos, risks of being unable to achieve the benefits expected to be achieved by the separation and the reaction of IAC stockholders to the separation, the risk that the plan of execution might not be completed and the one-time and ongoing costs of the separation. The IAC Board of Directors concluded that the anticipated benefits of the spin-offs outweighed these factors.

In view of the wide variety of factors considered in connection with the evaluation of the separation and the complexity of these matters, the IAC Board of Directors did not find it useful to, and did not attempt to, quantify, rank or otherwise assign relative weights to the factors considered. The individual members of the IAC Board of Directors likely may have given different weights to different factors.

**Litigation with Liberty Media Corporation**

In January 2008, IAC, Barry Diller and Liberty Media Corporation ("Liberty") commenced actions in the Delaware Chancery Court in which Liberty asserted, among other things, that Mr. Diller, the Chairman and CEO of IAC, had breached an agreement between Liberty and him and that therefore

Liberty had assumed the right to exercise voting control over IAC. The basis for this claim was that IAC did not have the right to consummate the spin-offs with a single class voting structure and therefore acts in furtherance of the transaction had breached the agreement. After a chancery court decision in IAC and Mr. Diller's favor on March 28, 2008, the parties agreed, on May 13, 2008, to settle that litigation pursuant to the "Spinco Agreement." As described in more detail below under "Certain Relationships and Related Party Transactions—Agreements with Liberty Media Corporation," the Spinco Agreement also contains, among other things, provisions that will become effective at the time of the spin-off of each Spinco with a single class of common stock, including provisions providing Liberty the right to nominate directors to the Spinco's Board of Directors so long as Liberty maintains specified ownership levels, restrictions on acquisitions and transfers of the securities of the Spinco by Liberty and its affiliates, certain standstill restrictions on Liberty and its affiliates and registration rights to be granted to Liberty.

**Financial Advisor**

Allen & Company LLC provided financial advice in connection with the spin-offs. Allen & Company was retained in connection with the transaction because of the firm's familiarity with the businesses and assets of IAC and the Spincos and the firm's qualifications and reputation.

## TREATMENT OF OUTSTANDING IAC COMPENSATORY EQUITY-BASED AWARDS

In November of 2007, IAC's Compensation and Human Resources Committee (the "Committee") made determinations regarding the treatment in the spin-offs of IAC's compensatory equity-based awards granted on or prior to December 31, 2007. The various adjustments the Committee has determined to make are described below:

(1) All unvested IAC restricted stock units ("RSUs") granted prior to August 2005 will vest immediately prior to the spin-offs, with awards thereafter settled, in accordance with applicable law, in shares of common stock of IAC, HSNi, ILG, Ticketmaster and Tree.com, in each case as though the equity holder owned the number of shares of IAC common stock underlying the IAC RSU award immediately prior to the spin-offs. Based on the most recent available information, it is expected that at the time of the spin-offs HSNi employees, ILG employees, Ticketmaster employees and Tree.com employees will hold 225,233 RSUs, 116,008 RSUs, 328,887 RSUs and 394,110 RSUs, respectively, subject to this treatment.

(2) All unvested IAC RSUs scheduled to vest through February 2009 will vest immediately prior to the spin-offs, with awards thereafter settled, in accordance with applicable law, in shares of common stock of IAC, HSNi, ILG, Ticketmaster and Tree.com, in each case as though the equity holder owned the number of shares of IAC common stock underlying the IAC RSU award immediately prior to the spin-offs. Based on the most recent available information, it is expected that at the time of the spin-offs HSNi employees, ILG employees, Ticketmaster employees and Tree.com employees will hold 78,772 RSUs, 39,685 RSUs, 98,306 RSUs and 32,816 RSUs, respectively, subject to this treatment.

(3) Performance-based IAC RSUs granted in 2007, or Growth Shares, will be converted into non-performance-based IAC RSUs based on "target" value with the same vesting schedule and will thereafter be subject to the other adjustment and conversion provisions described below. Based on the most recent available information, it is expected that at the time of the spin-offs HSNi employees, ILG employees, Ticketmaster employees and Tree.com employees will hold 153,464 RSUs, 113,859 RSUs, 192,754 RSUs and 157,948 RSUs, respectively, subject to this treatment.

(4) With respect to each IAC RSU award that provides for vesting of 100% of the award following passage of a multi-year period (cliff vesting awards), the portion of the unvested

IAC RSU award that would have vested through February 2009 if the award had vested on an annual basis will convert into five separate RSU awards with respect to IAC and each of the Spincos, with appropriate adjustments to the number of shares of common stock underlying each such award to maintain pre- and post spin-off values, but otherwise preserving the same vesting terms and other applicable terms and conditions. Based on the most recent available information, it is expected that at the time of the spin-offs HSNi employees, ILG employees, Ticketmaster employees and Tree.com employees will hold 164,907 RSUs, 118,035 RSUs, 193,104 RSUs and 110,203 RSUs, respectively, subject to this treatment (inclusive of converted Growth Shares).

(5) With respect to all other IAC RSUs that do not vest or convert pursuant to paragraphs (1), (2) or (4) above, the IAC RSUs will convert into an RSU award with respect to shares of common stock of the company that continues to employ the equity holder following the spin-offs, with appropriate adjustments to the number of shares of common stock underlying each such award to maintain pre- and post spin-off values, but otherwise preserving the same vesting terms and other applicable terms and conditions. Based on the most recent available information, it is expected that at the time of the spin-offs HSNi employees, ILG employees, Ticketmaster employees and Tree.com employees will hold 365,071 RSUs, 324,639 RSUs, 373,482 RSUs and 161,424 RSUs, respectively, subject to this treatment (inclusive of converted Growth Shares); and

(6) All unexercised option awards, whether vested or unvested, will be split among IAC and each of the Spincos based on relative value at the time of the spin-offs, with appropriate adjustments to the number of shares of common stock underlying each such award and the per share exercise price of each such award to maintain pre- and post spin-off values, but otherwise preserving the same vesting terms and other applicable terms and conditions. Based on the most recent available information, it is expected that at the time of the spin-offs HSNi employees, ILG employees, Ticketmaster employees and Tree.com employees will hold 734,633 options, 0 options, 816,784 options and 451,885 options, respectively, subject to this treatment.

With respect to any IAC compensatory equity-based awards granted after December 31, 2007, those awards will convert into awards with respect to shares of common stock of the company that continues to employ the equity holder following the spin-offs, with appropriate adjustments to the number of shares underlying each such award and the per share exercise price of each such award (with respect to options) to maintain pre- and post spin-off values, but otherwise preserving the same vesting terms and other applicable terms and conditions. Based on the most recent available information, it is expected that at the time of the spin-offs HSNi employees, ILG employees, Ticketmaster employees and Tree.com employees will hold 154,643 RSUs and 1,365,500 options, 199,899 RSUs and 0 options, 99,158 RSUs and 1,326,000 options and 6,451 RSUs and 0 options, respectively, subject to this treatment.

With respect to stock options, the number of shares of common stock subject to any adjusted stock option will be rounded down to the nearest whole share. With respect to restricted stock units that do not vest in connection with the spin-offs, the number of shares of common stock subject to any adjusted restricted stock unit will be rounded to the nearest whole share. With respect to restricted stock units that vest in connection with the spin-offs, at IAC's election, the number of shares of common stock that an individual will be entitled to receive in connection with the spin-offs will either be rounded to the nearest whole share or fractional shares will be aggregated into whole shares, sold in the open market at prevailing market prices and the aggregate net cash proceeds will be distributed to each holder who otherwise would have been entitled to receive a fractional share in the spin-offs.

The treatment of IAC compensatory equity-based awards held by persons who will be employed by IAC immediately following the spin-offs is generally similar to that described above, with certain adjustments intended to provide retention incentives for IAC corporate employees.

The principal objective of the Committee in making these adjustments was one of fairness, with some of the particular considerations being:

- A desire to reward service prior to the spin-offs with stock of the companies that made up IAC before the spin-offs, and reward service after the spin-offs with stock of the company for which an employee will work after the spin-offs;

- A recognition that the primary motivation for the Growth Share grants, which was to provide increased incentives for employees to focus on the total performance of the entire IAC conglomerate as opposed to the individual businesses for which they worked through increased volatility of potential rewards, no longer was present given the determination to do the spin-offs;

- An interest in eliminating the complexities that would be associated with adjusting the 2007 performance conditions among five separate public companies and the possibility that such adjustments would not be equitable to all holders of the awards; and

- Compliance with the terms of the applicable equity plans, tax laws and accounting requirements.

## DIVIDEND POLICY

None of the Spincos currently expects to pay a regular cash dividend. The declaration and payment of future dividends to holders of common stock of a Spinco will be at the discretion of the board of directors of that Spinco and will depend upon many factors, including its financial condition, earnings, capital requirements of its businesses, covenants associated with certain debt obligations, legal requirements, regulatory constraints, industry practice and other factors that its board of directors deems relevant.

## TRANSFERS TO IAC AND FINANCING

IAC currently expects that in connection with the spin-offs, HSNi will transfer to IAC approximately $390 million in cash; an entity that will become a subsidiary of ILG prior to the spin-offs will distribute to IAC approximately $390 million in cash and Ticketmaster will distribute to IAC approximately $730 million in cash. These Spincos expect to finance the amount distributed to IAC through borrowings by the applicable Spinco or its subsidiaries. Additionally, each of these companies may distribute some amount of cash on hand, but these amounts are not presently knowable and are unlikely to be material. IAC currently expects that the borrowing arrangements will consist of a combination of secured credit facilities and privately-issued debt securities for each of HSNi, ILG and Ticketmaster, the breakdown of which has yet to be determined. HSNi, ILG and Ticketmaster are each also expected to dividend to IAC prior to the spin-offs all net receivables owed them by IAC and its affiliates. IAC does not expect Tree.com to incur material indebtedness prior to, or in connection with, the spin-offs and instead expects to contribute approximately $[        ] to Tree.com prior to its spin-off. These dividends and cash contributions were determined by IAC after an assessment of the optimal capital structure for each Spinco and for IAC, taking into account each company's cash flow prospects, working capital and other cash needs, potential acquisition agenda and other relevant factors. In the event the financings do not occur, or less capital is raised than is currently anticipated, IAC expects to reduce the size of the cash dividends commensurately.

## CERTAIN INFORMATION WITH RESPECT TO HSNi

## BUSINESS OF HSNi

When used with respect to any periods following the spin-offs and unless otherwise indicated, the term "HSNi" refers to HSN, Inc., a Delaware corporation, which was incorporated in connection with the spin-offs in May 2008 to hold IAC's retailing businesses, subsidiaries and investments (excluding Shoebuy and Jupiter Shop Channel and certain other equity investments). The following disclosure regarding HSNi's business assumes completion of the spin-offs.

For information regarding the results of operations of HSNi and its segments on a historical basis, see the Combined Financial Statements of HSNi and the disclosure set forth under the caption "—Management's Discussion and Analysis of Financial Condition and Results of Operations of HSNi." For information regarding the results of operations of HSNi on a pro forma basis to give effect to the completion of the spin-offs, see the Unaudited Pro Forma Condensed Combined Financial Statements for HSNi.

### Who We Are

HSNi owns and operates HSN, a retailer and interactive lifestyle network offering a broad assortment of products through television home shopping programming on the HSN television network and *HSN.com* ("HSN"). HSN strives to transform the shopping experience by incorporating experts, entertainment, inspiration, solutions, tips and ideas in connection with the sale of products through the HSN television network and *HSN.com*. HSNi also owns and operates the Cornerstone Brands portfolio of catalogs and related websites, including *Frontgate*, *Ballard Designs*, *Garnet Hill*, *Smith+Noble*, *The Territory Ahead*, *TravelSmith* and *Improvements*, as well as a limited number of retail stores ("Cornerstone").

HSNi has two operating segments, HSN and Cornerstone. For the fiscal year ended December 31, 2007, HSN and Cornerstone represented approximately 65% and 35%, respectively, of HSNi's combined revenue.

### History

HSNi's predecessor company began broadcasting television home shopping programming from its studios in St. Petersburg in 1981, and by 1985, was broadcasting this programming through a national network of cable and local television stations 24 hours a day, seven days a week. The company continued to broaden its national distribution network through a combination of cable, satellite and broadcast systems, and as of December 31, 2007, the HSN television network reached approximately 90.6 million homes in the United States.

The company acquired Improvements, a catalog featuring thousands of innovative home, patio and outdoor products, in June 2001, and significantly grew its catalogs business through the acquisition of the Cornerstone Brands portfolio of leading print catalogs and related websites in April 2005.

The company began conducting business online in 1994 and formally launched *HSN.com*, the online shopping portal for the HSN television network, in 1999. In connection with the spin-offs, the company, together with certain other of IAC's Retailing businesses, subsidiaries and investments, were contributed to HSNi.

**What We Do**

HSNi markets and sells a wide range of third party and private label merchandise directly to consumers through HSN, which includes the HSN television network and its related website, *HSN.com,* as well as through Cornerstone.

HSNi is committed to providing an evolving variety and mix of quality products at reasonable prices and brands that resonate with its customers. See "—Marketing and Merchandising." Products offered through HSN include electronics and housewares, jewelry, beauty, apparel, health, home fashions, accessories, vitamins and other products. Featured products include HSN-branded (or private label) products and third party-branded products, some of which are produced exclusively for HSN, as well as merchandise generally available through other retailers. Generally, the HSN television network and *HSN.com* offer the broadest range of products, while the brands and businesses within Cornerstone primarily offer home furnishings, products and accessories, and casual and leisure apparel.

**HSN**

***Overview***

HSN includes the HSN television network and its related website, *HSN.com*. The HSN television network broadcasts live, customer interactive television home shopping programming 24 hours a day, seven days a week. This programming is intended to promote sales and customer loyalty through a combination of product quality, value and selection, coupled with product information and entertainment. Programming is divided into separately televised segments, each of which has a host who presents and conveys information regarding featured products, sometimes with the assistance of a representative from the product vendor.

***Reach***

HSN produces live programming for the HSN television network from its studios in St. Petersburg, Florida and distributes this programming by means of satellite uplink facilities, which it owns and operates, to a satellite transponder leased by HSN on a full-time basis through May 2019. HSN has entered into a long-term satellite transponder lease to provide for continued carriage of the HSN television network on a replacement transponder and/or replacement satellite, as applicable, in the event of a failure of the transponder and/or satellite currently carrying the HSN television network. HSN has also designed business continuity and disaster recovery plans to ensure its continued satellite transmission capability on a temporary basis in the event of inclement weather or a natural or other disaster.

As of December 31, 2006 and 2007, the HSN television network reached approximately 89.0 million and 90.6 million, respectively, of the approximately 111.3 million and 112.8 million homes in the United States with a television set, respectively. Television households reached by the HSN television network as of December 31, 2006 and 2007 primarily include approximately 62.4 million and 62.7 million households capable of receiving cable and/or broadcast transmissions and approximately 26.4 million and 27.8 million direct broadcast satellite system, or DBS, households, respectively.

***Pay Television Distribution***

HSN has entered into multi-year distribution and affiliation agreements with cable television and DBS operators, collectively referred to in this document as pay television operators, in the United States to carry the HSN television network, as well as to promote the network by carrying related commercials and distributing related marketing materials to their respective subscriber bases. In exchange for this carriage and related promotional and other efforts, HSN generally pays these pay television operators a fee, which consists of a per subscriber fee plus commissions, which are based on a percentage of the net merchandise sales to their subscriber bases. In some cases, pay television operators receive additional compensation in the form of advertising insertion time on the HSN television network and commission guarantees in exchange for their commitments to deliver a specified number of subscribers. The average overall length of the terms of the multi-year distribution and affiliation agreements in effect as of June 2008 is 4.6 years. Over time, HSN has moved away from entering into distribution agreements that require the entire distribution fee to be paid at the outset of the contract. Instead, HSN typically negotiates agreements that require HSN to pay monthly or annual fees, which has led to distribution agreements with shorter terms. Distribution and affiliation agreements with major and other pay television operators expire from time to time and renewal and negotiation processes with major pay television operators are typically lengthy. At any given time in the ordinary course of business HSN is likely to be engaged in renewal and/or negotiation processes with one or more pay television operators. HSN is currently engaged in such a process with a major cable pay television operator regarding an agreement that expired in 2005 and, as has typically been the case in similar situations in the past, carriage of the HSN television network has continued (and is expected to continue) under rolling short-term extensions (in this case, month-to-month) pending the conclusion of this process. The ongoing extension of this agreement is on economic terms that are substantially similar to the agreement that expired in 2005. HSN expects that, as in the past, any long-term extension of the agreement will be on terms that, when taken as a whole, are commercially reasonable to HSN and competitive with the economics of other major cable pay television operators.

***Broadcast Television Distribution***

As of December 31, 2007, HSN also had affiliation agreements with 71 low power broadcast television stations for leased carriage of the HSN television network with terms ranging from several weeks to several years. In exchange for this carriage, HSN pays the broadcast television stations hourly or monthly fixed rates. IAC's subsidiary, Ventana Television, Inc. ("Ventana") owns 27 of the 71 low power broadcast television stations that carry the HSN network on a full-time basis. IAC intends to file and receive the appropriate authorization from the Federal Communications Commission ("FCC") before transferring Ventana and its broadcast television licenses to HSNi, as the transfer is subject to FCC approval.

***HSN.com***

HSN also includes *HSN.com*, a transactional e-commerce site that sells merchandise offered on the HSN television network, as well as select merchandise sold exclusively on *HSN.com*. *HSN.com* provides customers with additional content to support and enhance HSN television programming. For example, *HSN.com* provides users with an online program guide, value-added video of product demonstrations, live streaming video of the HSN television network, customer-generated product reviews and additional information about HSN show hosts and guest personalities.

**Cornerstone**

Cornerstone consists of a number of branded catalogs and related websites, the primary of which are *Frontgate*, *Ballard Designs*, *Garnet Hill*, *Smith+Noble*, *The Territory Ahead*, *TravelSmith* and *Improvements*, and 25 retail stores.

Frontgate features premium, high quality bed, bath and kitchen accessories, as well as outdoor, patio, garden and pool furnishings and accessories. Ballard Designs features European-inspired bed, bath, dining and office furnishings and accessories, as well as rugs, shelving and architectural accents for the home. Garnet Hill offers bed and bath furnishings and soft goods, as well as apparel and accessories for women and children, and Smith+Noble offers custom home furnishings and window treatments. The Territory Ahead offers casual apparel for men and women and TravelSmith offers travel wear for men and women and related accessories. Improvements features thousands of innovative home, patio and outdoor products.

The various brands within Cornerstone generally incorporate on-site photography and real-life settings, coupled with related editorial content describing the merchandise and depicting situations in which it may be used. Branded catalogs are designed and produced in house, which enables each individual brand to control the production process and reduces the amount of lead time required to produce a given catalog.

New editions of full-color catalogs are mailed to customers several times each year, with a total annual circulation in 2007 of approximately 400 million catalogs. The timing and frequency of catalog circulation varies by brand and depends upon a number of factors, including the timing of the introduction of new products, marketing campaigns and promotions and inventory levels, among other factors.

Cornerstone also operates *Frontgate.com*, *BallardDesigns.com*, *GarnetHill.com*, *SmithandNoble.com*, *TheTerritoryAhead.com*, *TravelSmith.com* and *Improvements.com*, among other branded websites. These websites serve as additional, alternative storefronts for products featured in corresponding print catalogs, as well as provide customers with additional content to support and enhance their shopping experience. Additional content provided by these websites, which differs across the various websites, includes decorating tips and measuring and installation information, a feature that allows customers to browse the corresponding catalog on line and online design centers, gift registries and travel centers.

**Supply**

HSN and Cornerstone purchase products by way of short- and long-term contracts and purchase orders, including products made to their respective specifications, as well as name brand merchandise and lines from third party vendors, typically under certain exclusive rights. The terms of these contracts and purchase orders vary depending upon the underlying products, the retail channel in which the products will ultimately be sold and the method of sale. In some cases, these contracts provide for the payment of additional amounts to vendors in the form of commissions, the amount of which is based upon the achievement of agreed upon sales targets, among other milestones. In addition, in the case of some purchases, HSNi businesses may have certain return, extended payment and/or termination rights. The mix and source of products generally depends upon a variety of factors, including price and availability, and HSNi manages inventory levels through periodic, ongoing analyses of anticipated and current sales. No single vendor accounted for more than 5% of HSNi's combined net sales in 2007, 2006 or 2005.

**Marketing and Merchandising**

HSN continuously works to bring customers a broad assortment of new and existing products in a compelling, informative and entertaining format. For example, HSN frequently collaborates with experts in a variety of fields to present special events on the HSN television network featuring HSN products and relevant expert content. In most cases, these events are staged at HSN's television studios, and to a lesser extent, staged at venues associated with featured products. Online versions of certain special events are also featured on *HSN.com* for a limited time period following their broadcast on the HSN television network.

In an effort to promote its own differentiated brand, HSN seeks to provide its customers with unique products that can only be purchased through HSN. HSN frequently partners with leading personalities and brands to develop product lines exclusive to HSN and believes that these affiliations enhance the awareness of the HSN brand among consumers generally, as well as increase the extent to which HSN and/or products sold through HSN are featured in the media. In some cases, vendors have agreed to market their HSN affiliation to their existing customers (*i.e.*, by way of e-mail notifying customers when their products will be featured on the HSN television network).

HSN also engages in co-promotional partnerships with major media companies to secure print advertising in national fashion, style and/or lifestyle publications to market HSN to prospective customers in its target demographic, as well as search engine marketing and targeted offline advertising around the holidays and other key promotional periods.

The Cornerstone brands differentiate themselves by offering customers an assortment of innovative proprietary and branded apparel and home products. In many cases, Cornerstone, seeks to secure exclusive distribution rights for certain products. In addition, Cornerstone employs in-house designers or partners with leading manufacturers to develop exclusive new technology, such as wrinkle free fabrications. The various Cornerstone brands use their respective websites to promote special sales events and e-mail marketing to promote special offers, including cross-promotions for other Cornerstone brands. In addition, Cornerstone partners with third parties to offer promotional events such as sweepstakes and/or other advertising agreements. HSNi believes that these affiliations enhance the awareness of the Cornerstone brands among consumers as well as strengthen its various brands overall.

**Order Entry, Fulfillment and Customer Service**

HSNi provides customers with convenient options in connection with the purchase, payment and shipment of merchandise, some of which vary by brand, business or product. Products may be purchased online or through sales and service centers, and, in the case of Cornerstone only, by way of traditional catalog sales order form submissions. In addition, in the case of HSN only, products may be purchased by phone through an automated attendant system or, in limited markets, by remote control through pay television set-top boxes.

In addition to traditional payment options, such as credit and debit cards, payment options include private label credit cards and, in the case of HSN only, Flexpay, pursuant to which customers may pay for select merchandise in two to six interest-free, monthly credit or debit card payments. See "Risk Factors Relating to the Business of HSNi Following the Spin-Offs—Flexpay Program." HSN also offers its customers the convenience of ordering products under the Autoship program, pursuant to which customers may arrange to have products automatically shipped and billed at scheduled intervals. Standard and express shipping options are available and customers may generally return most merchandise for a full refund or exchange in accordance with applicable return policies (which vary by brand and business), subject to restocking fees for custom merchandise in the case of products sold through Cornerstone. Returns generally must be received within specified time periods after purchase, ranging from a minimum of thirty days to a maximum of one year, depending upon the applicable policy.

HSNi seeks to fulfill customer orders and process returns quickly and accurately from a network of fulfillment centers located, for HSN, in Tennessee, California and Virginia, and for Cornerstone, in Ohio. HSNi contracts with several third party carriers and other fulfillment partners to ensure the reliable and timely delivery of products to its customers and processing of returns.

Customers can also generally track the status of their orders through *HSN.com* and the various websites operated by Cornerstone, confirm information regarding shipping and, in some cases, confirm the availability of inventory and establish and manage personal accounts. Customers may communicate directly with customer service via e-mail or by telephone, with call center representatives available seven days a week.

**Competition**

HSNi brands and businesses operate in a highly competitive environment. These brands and businesses are in direct competition for consumers with traditional offline and online retailers (both television and internet retailers), ranging from large department stores to specialty shops, electronic retailers, direct marketing retailers, mail order and catalog companies, infomercial retailers, wholesale clubs and discount retailers. In addition, the HSN television network competes for access to customers and audience share with other conventional forms of entertainment and content. The price and availability of programming for pay television systems affect the availability of distribution for HSN television programming and the compensation that must be paid to pay television operators for related carriage and competition for channel capacity and placement continues to increase. Principal competitive factors for HSNi brands and businesses include (i) brand recognition, (ii) value, quality and selection of merchandise, (iii) customer experience, including customer service and reliability of fulfillment and delivery services and (iv) convenience and accessibility of sales channels.

**Employees**

As of December 31, 2007, HSNi employed approximately 5,500 full-time employees and approximately 1,100 part-time employees. No HSNi employees are represented by unions or other similar organizations and HSNi considers its relations with its employees to be good.

**Properties**

HSNi owns its corporate headquarters in St. Petersburg, Florida, which consist of approximately 600,000 square feet of office space and include television studios, showrooms, broadcast facilities and administrative offices for HSN, as well as an HSN fulfillment center in Piney Flats, Tennessee. HSNi leases two additional HSN fulfillment centers in Fontana, California and Roanoke, Virginia pursuant to long-term leases that expire in 2011 and 2015, as well as other properties in various locations in the United States for executive and administrative offices and data centers. Cornerstone leases substantially all of its properties, consisting of administrative offices, retail outlets and fulfillment centers in West Chester, Ohio, as well as 25 retail stores and outlets in various locations throughout the United States, all pursuant to long-term leases with expiration date ranging from 2008 to 2018.

All leases with HSNi brands and businesses are at prevailing market rates. HSNi believes that the duration of each lease is adequate and does not anticipate any future problems renewing or obtaining suitable leases for its principal properties. HSNi believes that its principal properties, whether owned or leased, are currently adequate for the purposes for which they are used and are suitably maintained for these purposes. From time to time HSNi considers various alternatives related to its long term facilities needs. While HSNi management believes existing facilities are adequate to meet its short term needs, it may become necessary to lease or acquire additional or alternative space to accommodate future growth.

**HSNi Legal Proceedings**

In the ordinary course of business, HSNi and its subsidiaries are parties to litigation involving property, personal injury, contract, intellectual property and other claims. The amounts that may be recovered in such matters may be subject to insurance coverage or, where the claim arises from a product sold by HSNi's businesses, indemnity from the manufacturer. HSNi does not believe that such ordinary course litigation will have a material effect on its business, financial condition or results of operations.

Rules of the Securities and Exchange Commission require the description of material pending legal proceedings, other than ordinary, routine litigation incident to the registrant's business, and advise that proceedings ordinarily need not be described if they primarily involve damage claims for amounts (exclusive of interest and costs) not exceeding 10% of the current assets of the registrant and its subsidiaries on a consolidated basis. In the judgment of management, none of the pending litigation matters which HSNi and its subsidiaries are defending, including those described below, involves or is likely to involve amounts of that magnitude.

**RISK FACTORS RELATING TO THE BUSINESS OF HSNi FOLLOWING THE SPIN-OFFS**

HSNi's business, financial condition and results of operations are subject to certain risks that are described below and in the section "Risk Factors" beginning on page [    ]. You should carefully consider these risks and uncertainties. While HSNi believes that the risks and uncertainties described below and elsewhere in this information statement include the most significant risk factors that should be considered by HSNi's investors, these risks and uncertainties are not the only ones facing HSNi and its businesses.

***Third Party Pay Television Relationships—HSNi depends on relationships with pay television operators and any adverse changes in these relationships could adversely affect its business, financial condition and results of operations.***

HSNi is dependent upon the pay television operators with whom it enters into distribution and affiliation agreements to carry the HSN television network. Distribution and affiliation agreements with major pay television operators expire from time to time and in some cases, renewals are not agreed upon prior to the expiration of a given agreement and the HSN television network continues to be carried by the relevant pay television operator without an effective affiliation agreement in place. Renewal and negotiation processes with pay television operators are typically lengthy and HSNi is currently engaged in the renewal and/or negotiation processes with certain major cable pay television operators regarding agreements that expired as early as 2005, with carriage of the HSN network continuing under short-term extensions pending the conclusion of these processes. However, HSNi may be unable to successfully pursue the renewal, or negotiate new, distribution and affiliation agreements with these or other providers to carry the HSN television network on acceptable terms, if at all.

The cessation of carriage of the HSN television network by a major pay television operator or a significant number of smaller pay television operators for a prolonged period of time could adversely affect HSNi's business, financial condition and results of operations. While HSNi believes that it will be able to continue to successfully manage the distribution process in the future, certain changes in distribution levels, as well as increases in commission rates and/or other fees payable for carriage, could occur notwithstanding these efforts.

***Third Party Vendor and Other Relationships—HSNi depends on relationships with vendors, manufacturers and other third parties, and any adverse changes in these relationships could adversely affect its business, financial condition and results of operations.***

HSNi businesses purchase merchandise from a wide variety of third party vendors, manufacturers and other sources pursuant to short- and long-term contracts and purchase orders. The ability of HSNi businesses to indentify and establish relationships with these parties, as well as access quality merchandise in a timely and efficient manner on acceptable terms and cost, can be challenging. In particular, HSNi businesses purchase a significant amount of merchandise from vendors and manufacturers abroad, and have experienced (and expect to continue to experience) increased costs for goods sourced in these markets, particularly in China. HSNi depends on the ability of vendors and manufacturers in the U.S. and abroad to produce and deliver goods that meet applicable quality standards, which is impacted by a number of factors not within the control of these parties, such as political or financial instability, trade restrictions, tariffs, currency exchange rates and transport capacity and costs, among others. In particular, Cornerstone is dependent, in significant part, upon independent, third party manufacturers to produce private label merchandise.

Late delivery of merchandise or delivery of merchandise that does not meet applicable quality standards could cause HSNi businesses to miss customer delivery dates or delay scheduled promotions, which would result in the failure to meet customer expectations and could cause customers to cancel orders or cause HSNi businesses to be unable to source merchandise in sufficient quantities, which could result in lost sales. The failure of HSNi businesses to identify new vendors and manufacturers, maintain relationships with a significant number of existing vendors and manufacturers and/or access quality merchandise in a timely and efficient manner on acceptable terms and cost, could adversely affect HSNi's business, financial condition and results of operations.

***Channel Capacity and Placement for the HSN Television Network—The failure to secure suitable placement for the HSN television network would adversely affect HSNi's business, financial condition and results of operations.***

HSNi is dependent upon the continued ability of HSN to compete for television viewers. Effectively competing for television viewers is dependent, in substantial part, on the ability of HSN to secure suitable placement, in other words, the placement of the HSN television network within a suitable programming tier at a low channel position placement. The advent of digital compression technologies and the adoption of digital cable has resulted in increased channel capacity, which together with other changing laws, rules and regulations regarding cable television ownership, impacts the ability of HSN to secure suitable channel placement. While increased channel capacity could provide a means through which the HSN television network could be more widely distributed, it could also adversely affect the ability to attract television viewers to the HSN television network to the extent it results in:

- higher channel position placement for the HSN television network;
- placement of the HSN television network in digital programming tiers, which generally have lower levels of television viewer penetration than basic or expanded basic programming tiers;
- competitors entering the marketplace; or
- more programming options being available to the viewing public in the form of new television networks and time-shifted viewing (*e.g.*, personal video recorders, video-on-demand, interactive television and streaming video over broadband internet connections).

If the HSN television network is carried exclusively in a system on a digital programming tier, HSN will experience a reduction in revenue to the extent that the digital programming tier has less television viewer penetration than the basic or expanded basic programming tier. In addition, HSN may experience a further reduction in revenue due to increased television viewing audience fragmentation and to the extent that not all televisions sets within a digital cable home are equipped to receive television programming in a digital format. HSNi's future success will also depend, in part, on the ability of HSN to anticipate and adapt to technological changes and to offer elements of the HSN television network via new technologies in a cost-effective manner that meet customer demands and evolving industry standards.

***Marketing—HSNi may not attract and retain customers in a cost-effective manner, which could adversely affect its business, financial condition and results of operations.***

HSNi's long-term success, in large part, depends on the continued ability of HSNi businesses to attract new and retain existing customers. In an effort to do so, HSNi and its businesses engage in various marketing and merchandising initiatives, which involve the expenditure of considerable money and resources, particularly in the case of the production and distribution of HSN television programming and catalogs, and to a lesser but increasing extent, online advertising. HSNi and its businesses have spent, and expect to continue to spend, increasing amounts of money on, and devote greater resources to, certain of these initiatives, particularly in connection with the growth and maintenance of HSNi brands generally, as well as in the continuing efforts of HSNi businesses to increasingly engage customers through online channels. These initiatives, however, may not resonate with existing customers or consumers generally or may not be cost-effective. In addition, HSNi believes that costs associated with the production and distribution of HSN television programming, paper and printing costs for catalogs and costs associated with online marketing, including search engine marketing (primarily the purchase of relevant keywords) are likely to increase in the foreseeable future, and if significant, could have an adverse effect on HSNi's business, financial condition and results of operations to the extent that they do not result in corresponding increases in sales.

***Customer Preferences and Trends—HSNi businesses may not be able to accurately predict and/or respond in a timely manner to evolving customer preferences and trends and industry standards, which could adversely affect HSNi's business, financial condition and results of operations.***

HSNi's success depends, in significant part, on the ability of HSNi businesses to accurately predict, and respond in a timely manner to, changes in customer preferences and fashion, lifestyle and other trends and industry standards. While product mix and price points are continuously monitored and adjusted in an attempt to satisfy consumer demand and respond to changing economic and business conditions, HSNi businesses may not be successful in these efforts, and any sustained failure could result in excess inventory and related markdowns, which, if significant, would have a material adverse affect on HSNi's business, financial conditions and results of operations.

In addition, sales by HSNi businesses through online channels are continuing to increase and these businesses continue to increasingly attempt to engage customers through online channels. The e-commerce industry is characterized by evolving industry standards, frequent new service and product introductions and enhancements, as well as changing customer demands, to which HSNi businesses may not be able to adapt quickly enough and/or in a cost-effective manner, and the failure to do so could have an adverse effect on HSNi's business, financial condition and results of operations.

***Adverse Events and Trends—Adverse economic and business conditions could adversely affect HSNi's business, financial condition and results of operations.***

Retailers generally are particularly sensitive to adverse global economic and business conditions, which could result in a loss of consumer confidence and related decreases in consumer expenditures, particularly discretionary expenditures. These and any other adverse economic and business conditions could result in a decrease in sales, which would have an adverse impact on HSNi's business, financial condition and result of operations, which could be material to the extent that any such conditions were to continue on a prolonged basis.

***Flexpay Program—Unplanned losses experienced in connection with the Flexpay program could adversely affect HSNi's business, financial condition and results of operations.***

HSN offers Flexpay, pursuant to which customers may pay for certain merchandise in two to six interest-free, monthly credit or debit card payments. HSNi maintains allowances for doubtful accounts of estimated losses resulting from the inability of customers to make required payments. While actual losses due to the inability of customers to make required payments have historically been within estimates, HSNi may not continue to experience these losses at the same rate as it has historically or its actual losses in any given period may exceed related estimates. HSN has continued to offer more products through Flexpay and customers have increasingly used Flexpay to pay for purchases. As Flexpay balances grow, HSNi expects that it will continue to experience these losses at greater rates, which will require HSNi to maintain greater allowances for doubtful accounts of estimated losses than it has historically. A significant increase in losses of this nature could adversely affect HSNi's business, financial condition and results of operations.

***Delivery Costs—Increased delivery costs could adversely affect HSNi's business, financial condition and results of operations.***

HSNi businesses are impacted by increases in shipping rates charged by various shipping vendors relating to the procurement of merchandise from vendors and manufacturers, the shipment of merchandise to customers and the mailing of catalogs, which over the past few years have increased significantly in comparison to historical levels. HSNi currently expects that shipping and postal rates will continue to increase. In the case of deliveries to customers, HSNi has negotiated favorable shipping rates, which increase at agreed upon levels over time, with one independent, third party shipping company pursuant to a long-term contract. If this relationship were to terminate or if the shipping company was unable to fulfill its obligations under the contract for any reason, HSNi would have to work with other shipping companies to deliver merchandise to customers, which would most likely be at less favorable rates. Any increase in shipping rates and related fuel and other surcharges passed on to HSNi by this or any other shipping company would adversely impact profits, given that HSNi may not be able to pass these increased costs directly to customers or offset them by increasing prices without a detrimental effect on customer demand.

***Ability to Broadcast the HSN Television Network—The continued or permanent inability to broadcast the HSN television network would adversely affect HSNi's business, financial condition and results of operations.***

HSNi's success is dependent upon the continued ability of HSN to transmit the HSN television network to broadcast and pay television operators from its satellite uplink facilities, which transmission is subject to FCC compliance. HSN has entered into a long-term satellite transponder lease to provide for continued carriage of the HSN television network on a replacement transponder and/or replacement satellite, as applicable, in the event of a failure of the transponder and/or satellite currently carrying the HSN television network. Although HSNi believes that every reasonable measure is being taken to ensure continued satellite transmission capability, termination or interruption of satellite transmissions may occur. HSNi has designed business continuity and disaster recovery plans to ensure continued satellite transmission capability on a temporary basis in the event of inclement weather or a natural or other disaster.

HSN is affiliated with a number of low power broadcast television station licensees (including Ventana and certain third party low power broadcast television station licensees collectively, the "Low Power Licensees") that broadcast programming pursuant to licenses from the FCC. These Low Power Licensees are subject to regulation by the FCC under the Communications Act of 1934, as amended, which prohibits the operation of broadcast television stations except in accordance with a license issued by the FCC and empowers the FCC to issue, revoke, modify and renew broadcast television licenses, approve the transfer of control of any entity holding such licenses, determine the location of stations, regulate the equipment used by stations, adopt necessary regulations and impose penalties for related violations. All of the Ventana-owned broadcast stations carry the HSN television network and Ventana is fully responsible for such stations' compliance. The failure of the Low Power Licensees to comply with the terms of the broadcast licenses could result in the inability to broadcast the HSN television network on over-the-air facilities, as well as penalties. The prolonged or permanent interruption of satellite transmission capability or other inability to transmit the HSN television network for any reason, as well as related costs incurred, would have a material adverse effect on HSNi's business, financial condition and results of operations.

***Potential Product Liability Claims—HSNi businesses may be subject to claims for representations made in connection with the sale and promotion of merchandise or for harm experienced by customers who purchase merchandise from HSNi businesses.***

The manner in which HSNi businesses sell and promote merchandise and related claims and representations made in connection with these efforts is regulated by federal and state law. Since

October 1996, HSN has been subject to a consent order issued by the Federal Trade Commission (the "FTC"), which terminates on the later of April 15, 2019, or twenty years from the most recent date that the United States or the FTC files a complaint in federal court alleging any violation thereunder. Pursuant to this consent order, HSN is prohibited from making claims for specified categories of products, including claims that a given product can cure, treat or prevent any disease or have an effect on the structure or function of the human body, unless it has competent and reliable scientific evidence to substantiate such claims. Violation of this consent order may result in the imposition of significant civil penalties for non-compliance and related redress to consumers and/or the issuance of an injunction enjoining HSN from engaging in prohibited activities. The FTC periodically investigates the business and operation of HSN on an ongoing basis for purposes of determining its compliance with the consent order. Other regulations may also affect the claims and manner in which HSNi can market its products through its businesses. For example, the Food and Drug Administration has specific regulations regarding claims that can be made about food products, and regulates marketing claims that can be made for cosmetic beauty products and over-the-counter drugs, which include acne products, all of which are sold through HSN. Also, the Environmental Protection Agency requires products that make certain types of claims, such as "anti-bacterial," to be registered with them prior to making such claims, which products are also sold through HSN.

HSNi businesses may be exposed to potential liability from claims by purchasers or from federal, state and local regulators and law enforcement agencies, including, but not limited to, for personal injury, wrongful death and damage to personal property relating to merchandise sold and misrepresentation of merchandise features and benefits. In certain instances, HSNi businesses have the right to seek indemnification for related liabilities from its vendors and may require such vendors to carry minimum levels of product liability and errors and omissions insurance. These vendors, however, may be unable to obtain suitable coverage or maintain this coverage on acceptable terms, or this insurance may provide inadequate coverage against all potential claims or even be available with respect to any particular claim.

While HSNi believes that its businesses have structured their operations and vendor and manufacturer relationships in a manner to ensure compliance with federal, state and local laws with respect to the sale and promotion of merchandise, HSNi or its businesses may be held liable for product liability claims or for representations made in connection with the sale and promotion of merchandise. If significant, any such liability could adversely affect HSNi's business, financial conditions and results of operations.

***Compliance and Changing Laws, Rules and Regulations—Failure to comply with existing laws, rules and regulations, or to obtain and maintain required licenses and rights, could adversely affect HSNi's business, financial condition and results of operations.***

The failure of HSNi businesses to comply with existing laws, rules and regulations, or to obtain required licenses and rights, could adversely affect HSNi's business, financial condition and results of operations. HSNi businesses market and provide a broad range of merchandise through online and offline channels. As a result, they are subject to a wide variety of statutes, rules, regulations, policies and procedures in various jurisdictions which are subject to change at any time, including laws regarding consumer protection, privacy, the regulation of retailers generally, the importation, sale and promotion of merchandise and the operation of retail stores and warehouse facilities, as well as laws and regulations applicable to the internet and businesses engaged in online commerce, such as those regulating the sending of unsolicited, commercial electronic mail. In addition, unfavorable changes in the laws, rules and regulations applicable to HSNi and its businesses could decrease demand for merchandise offered by HSNi businesses, increase costs and/or subject HSNi to additional liabilities, which could have an adverse effect on its business, financial condition and results of operations.

Various regulations impact the marketing efforts of HSNi brands and businesses. For example, both the FTC's Telemarketing Sales Rule, the FCC's Telephone Consumer Protection Act and similar state rules outline procedures that must be followed when telemarketing to customers and many states also have laws regulating telemarketing. Online sales and e-mail marketing efforts of HSNi brands and businesses are subject to general commercial law, as well as to specific laws governing electronic commerce. For instance, laws administered by the FTC place restrictions on the manner and content of e-mail marketing campaigns.

Online sales must comply with a variety of existing and new federal and state laws dealing with privacy, intellectual property, taxation, the provision of online payment services and electronic contracts. While U.S. Supreme Court decisions currently restrict the imposition of obligations to collect state and local sales and use taxes with respect to sales made over the internet, a number of states, as well as the U.S. Congress, have been considering initiatives that could limit or supersede this position, and New York State laws regarding the imposition of tax collection obligations are expected to be amended in June 2008 to require online vendors and service providers with $10,000 or more per year in affiliate sales (sales sourced through affiliated websites, agents or representatives based in New York State) to collect sales tax. If any of these initiatives are successful, HSNi businesses could be required to collect sales and use taxes. The imposition by the federal or state and local governments of various taxes and related obligations upon internet commerce and online vendors and service providers could create administrative burdens for HSNi businesses, put HSNi businesses at a competitive disadvantage to the extent that similar obligations are not imposed upon their competitors and could decrease future sales.

While HSNi believes that the practices of its businesses have been structured in a manner to ensure compliance with these laws and regulations, federal or state regulatory authorities may take a contrary position. The failure of HSNi and/or any of its businesses to comply with these laws and regulations could result in fines and/or proceedings against HSNi and/or its businesses by governmental agencies and/or consumers, which could adversely affect HSNi's business, financial condition and results of operations.

## CAPITALIZATION

The following table presents HSNi's cash and cash equivalents and capitalization as of March 31, 2008 on an historical basis and on an unaudited pro forma basis for the separation and the financing. Pro forma for the separation and the financing includes the $450 million in indebtedness that HSNi expects to hold at separation. In connection with the separation, HSNi is expected to distribute the net proceeds of the financing to IAC except for $50 million which it will retain. The separation of HSNi and the related financing transactions are described in the notes to the Unaudited Pro Forma Condensed Combined Balance Sheet under the Unaudited Pro Forma Condensed Combined Financial Statements as if the separation and the related transactions and events had been consummated on March 31, 2008.

The assumptions used and pro forma adjustments derived from such assumptions are based on currently available information and HSNi believes such assumptions are reasonable under the circumstances. Such adjustments are subject to change based upon the finalization of the terms of the separation and financing.

This table should be read in conjunction with "Selected Historical Financial Data," "Transfers to IAC and Financing," "Description of Capital Stock of the Spincos," "Management's Discussion and Analysis of Financial Condition and Results of Operations of HSNi," the combined financial statements of HSNi and the "Unaudited Pro Forma Condensed Combined Financial Statements" and accompanying notes included in this information statement.

The table below is not necessarily indicative of HSNi's cash and cash equivalents and capitalization had the separation and the related financing transactions been completed on the date assumed. The capitalization table below may not reflect the capitalization or financial condition which would have resulted had HSNi been operating as an independent, publicly-traded company at that date and is not necessarily indicative of HSNi's future capitalization or financial condition.

| | As of March 31, 2008 | |
|---|---|---|
| | Historical | Unaudited Pro Forma for the Separation and Financing |
| | (In millions) | |
| Cash and cash equivalents | $ 8 | $ 50 |
| Long-term debt: | | |
| Bank credit facility and notes | $ — | $ 450 |
| Total long-term debt | — | 450 |
| Invested equity | 2,986 | 2,590 |
| Total capitalization | $ 2,986 | $ 3,040 |

## SELECTED HISTORICAL FINANCIAL DATA

The following table presents summary selected historical combined financial information for HSN, Inc. ("HSNi"). This data was derived, in part, from the historical combined financial statements of HSNi included elsewhere in this document and reflects the operations and financial position of HSNi at the dates and for the periods indicated. The information in this table should be read in conjunction with the combined financial statements and accompanying notes and other financial data pertaining to HSNi included herein. However, this financial information does not necessarily reflect what the historical financial position and results of operations of HSNi would have been had HSNi been a stand-alone company during the periods presented.

| | Year Ended December 31, | | | | | Three Months Ended March 31, | |
|---|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2005[1] | 2004 (unaudited) | 2003 (unaudited) | 2008 (unaudited) | 2007 (unaudited) |
| | (In thousands) | | | | | | |
| **Statement of Operations Data:** | | | | | | | |
| Revenue | $ 2,908,242 | $ 2,877,954 | $ 2,670,951 | $ 1,905,903 | $ 1,763,689 | $ 676,886 | $ 666,705 |
| Operating income | 169,791 | 213,196 | 195,152 | 127,748 | 104,223 | 15,078 | 30,147 |
| Earnings from continuing operations | 105,233 | 133,532 | 127,077 | 84,235 | 62,047 | 9,406 | 18,652 |
| Net income | 164,804 | 122,817 | 223,221 | 79,048 | 77,344 | 8,346 | 17,086 |

| | December 31, | | | | | March 31, |
|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2005[1] | 2004 (unaudited) | 2003 (unaudited) | 2008 (unaudited) |
| | (In thousands) | | | | | |
| **Balance Sheet Data (end of period):** | | | | | | |
| Working capital | $ 147,185 | $ 340,592 | $ 320,991 | $ 241,871 | $ 189,194 | $ 200,235 |
| Total assets | 4,220,631 | 4,458,167 | 4,527,376 | 3,988,728 | 3,935,580 | 4,200,329 |
| Invested equity | 2,942,886 | 3,123,716 | 3,158,360 | 2,464,651 | 2,501,750 | 2,986,371 |

(1) Includes the results of Cornerstone Brands, Inc. since its acquisition on April 1, 2005.

## UNAUDITED PRO FORMA
## CONDENSED COMBINED FINANCIAL STATEMENTS

The following Unaudited Pro Forma Condensed Combined Financial Statements of HSN, Inc. and subsidiaries ("HSNi") reflect adjustments to the historical combined financial statements of HSNi to give effect to the separation and related financing transactions described in the notes to the Unaudited Pro Forma Condensed Combined Financial Statements as of March 31, 2008 for the Unaudited Pro Forma Condensed Combined Balance Sheet and as of January 1, 2007 and January 1, 2008 for the Unaudited Pro Forma Condensed Combined Statement of Operations for the year ended December 31, 2007 and the three months ended March 31, 2008, respectively.

The assumptions used and pro forma adjustments derived from such assumptions are based on currently available information and HSNi believes such assumptions are reasonable under the circumstances. While at this time HSNi does not expect material changes to the terms of the separation, the finalization of the financing described in the notes hereto is still subject to credit market conditions at the time that the financing actually occurs. Given the volatility in the credit markets, it is possible that material changes may occur with respect to the financing.

The following Unaudited Pro Forma Condensed Combined Financial Statements should be read in conjunction with the historical combined financial statements of HSNi and "Management's Discussion and Analysis of Financial Condition and Results of Operations" of HSNi included in this information statement.

These Unaudited Pro Forma Condensed Combined Financial Statements are not necessarily indicative of HSNi's results of operations or financial condition had the separation and related transactions been completed on the dates assumed. Also, they may not reflect the results of operations or financial condition which would have resulted had HSNi been operating as an independent publicly traded company during such periods. In addition, they are not necessarily indicative of HSNi's future results of operations or financial condition.

These Unaudited Pro Forma Condensed Combined Financial Statements are forward looking information within the meaning of "Forward-Looking Statements" as described on pages 2-3 of this Information Statement.

**HSN, INC. AND SUBSIDIARIES**

**UNAUDITED PRO FORMA**
**CONDENSED COMBINED BALANCE SHEET**

**MARCH 31, 2008**

| | Historical | Pro Forma Adjustments | Notes | Pro Forma |
|---|---|---|---|---|
| | | (In thousands, except per share data) | | |
| **ASSETS** | | | | |
| Cash and cash equivalents | $ 8,017 | $ 438,819 | (a) | $ 50,000 |
| | | (396,836) | (b) | |
| Other current assets | 574,788 | — | | 574,788 |
| Total current assets | 582,805 | 41,983 | | 624,788 |
| Non-current assets | 3,617,524 | 11,181 | (a) | 3,628,705 |
| **TOTAL ASSETS** | $ 4,200,329 | $ 53,164 | | $ 4,253,493 |
| **LIABILITIES AND INVESTED EQUITY** | | | | |
| **LIABILITIES:** | | | | |
| Current liabilities | $ 382,570 | $ — | | $ 382,570 |
| Long-term debt | — | 450,000 | (a) | 450,000 |
| Other long-term liabilities | 831,388 | — | | 831,388 |
| **INVESTED EQUITY:** | | | | |
| Common shares, $0.01 par value;—authorized; 55,747,109 issued and outstanding on a pro forma basis | — | 557 | (b) | 557 |
| Additional paid-in capital | — | 2,587,736 | (b) | 2,587,736 |
| Invested capital | 4,530,799 | (4,530,799) | (b) | — |
| Receivables from IAC and subsidiaries | (1,545,670) | 1,545,670 | (b) | — |
| Accumulated other comprehensive income | 1,242 | — | | 1,242 |
| Total invested equity | 2,986,371 | (396,836) | | 2,589,535 |
| **TOTAL LIABILITIES AND INVESTED EQUITY** | $ 4,200,329 | $ 53,164 | | $ 4,253,493 |

The accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements are an integral part of these statements.

HSN, INC. AND SUBSIDIARIES

UNAUDITED PRO FORMA
CONDENSED COMBINED STATEMENT OF OPERATIONS

MARCH 31, 2008

| | Historical | Pro Forma Separation Adjustments | Notes | Pro Forma for the Separation | Pro Forma Financing Adjustments | Notes | Final Pro Forma for the Separation and Financing |
|---|---|---|---|---|---|---|---|
| | (In thousands, except per share data) | | | | | | |
| Revenue | $ 676,886 | $ — | | $ 676,886 | $ | | $ |
| Operating expenses | 661,808 | 529 | (c) | 662,613 | | | |
| | | 276 | (d) | | | | |
| Operating income | 15,078 | (805) | | 14,273 | | | |
| Other income (expense): | | | | | | | |
| Interest income | 15 | — | | 15 | | | |
| Interest expense | — | — | | — | | (e) | |
| Total other income, net | 15 | — | | 15 | | | |
| Earnings from continuing operations before income taxes | 15,093 | (805) | | 14,288 | | | |
| Income tax provision | (5,687) | 299 | (f) | (5,388) | | (f) | |
| Earnings from continuing operations | $ 9,406 | $ (506) | | $ 8,900 | $ | | $ |
| Pro forma earnings per share:(g) | | | | | | | |
| Basic earnings per share from continuing operations | | | | | | | $ |
| Diluted earnings per share from continuing operations | | | | | | | $ |

The accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements are an integral part of these statements.

HSN, INC. AND SUBSIDIARIES

UNAUDITED PRO FORMA
CONDENSED COMBINED STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 2007

| | Historical | Pro Forma Separation Adjustments | Notes | Pro Forma for the Separation | Pro Forma Financing Adjustments | Notes | Final Pro Forma for the Separation and Financing |
|---|---|---|---|---|---|---|---|
| | (In thousands, except per share data) | | | | | | |
| Revenue | $ 2,908,242 | $ — | | $ 2,908,242 | $ | | $ |
| Operating expenses | 2,738,451 | 1,633 | (c) | 2,741,187 | | | |
| | | 1,103 | (d) | | | | |
| Operating income | 169,791 | (2,736) | | 167,055 | | | |
| Other income (expense): | | | | | | | |
| Interest income | 252 | — | | 252 | | | |
| Interest expense | — | — | | — | | (e) | |
| Other expense | (256) | — | | (256) | | | |
| Total other expense, net | (4) | — | | (4) | | | |
| Earnings from continuing operations before income taxes | 169,787 | (2,736) | | 167,051 | | | |
| Income tax provision | (64,554) | 1,017 | (f) | (63,537) | | (f) | |
| Earnings from continuing operations | $ 105,233 | $ (1,719) | | $ 103,514 | $ | | $ |
| Pro forma earnings per share:(g) | | | | | | | |
| Basic earnings per share from continuing operations | | | | | | | $ |
| Diluted earnings per share from continuing operations | | | | | | | $ |

The accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements are an integral part of these statements.

**NOTES TO UNAUDITED PRO FORMA
CONDENSED COMBINED FINANCIAL STATEMENTS**

(a) In connection with the separation, HSNi expects to raise $450 million through a combination of privately issued debt securities (the "Bonds") and secured credit facilities (the "Term Loan"). In addition, HSNi expects to negotiate a $ million revolving credit facility (the "RCF"). The total costs expected to be incurred in connection with the issuance of the Bonds and borrowings under the Term Loan and establishing the RCF are $11.2 million. The net proceeds are expected to be approximately $438.8 million. The Bonds are expected to have a maturity of years from the date of issuance and the Term Loan is expected to have a term of years. The RCF is expected to have a term of years. The interest rate on the Bonds is estimated to be % and LIBOR plus % for the Term Loan. The RCF is expected to have a fee of % for the unused portion.

(b) To effect the terms of the separation as follows:

(i) The transfer of approximately $396.8 million in cash to IAC prior to HSNi's separation from IAC which was raised from the financing referred to in note (a) above, HSNi will retain $50 million in cash upon the separation;

(ii) The extinguishment of the receivable from IAC and subsidiaries; and

(iii) The issuance of 55.7 million shares to effect the transfer of the ownership of HSNi from IAC to IAC's shareholders based upon an expected exchange ratio of $^{1}/_{5}$th a share of HSNi for each share of IAC and the number of IAC common shares outstanding as of March 31, 2008 before giving effect to the 1 for 2 reverse stock split of IAC shares that is expected to be effected in connection with the separation.

To the extent that the net proceeds from the Bonds and Term Loan are less than $438.8 million, as described in note (a) above, there would be a corresponding reduction in the transfer of cash to IAC.

(c) HSNi expects to incur additional costs related to being a stand-alone, public company. These costs have been estimated to be $9.7 million on an annual basis. These costs relate to the following:

- additional personnel including accounting, tax, treasury, internal audit and legal personnel;
- professional fees associated with audits, tax and other services;
- increased insurance premiums;
- increased health and welfare benefit costs;
- costs associated with a board of directors;
- increased franchise taxes, stock exchange listing fees, fees for preparing and distributing periodic filings with the Securities and Exchange Commission; and
- other administrative costs and fees.

**NOTES TO UNAUDITED PRO FORMA**
**CONDENSED COMBINED FINANCIAL STATEMENTS (Continued)**

The total costs referred to above were compared to the corporate allocations from IAC for the three months ended March 31, 2008 and for the year ended December 31, 2007 in order to determine the incremental costs expected to be incurred for each period as follows:

| | Three Months Ended March 31, 2008 | Year Ended December 31, 2007 |
|---|---|---|
| | (In thousands) | |
| Estimated stand-alone, public company costs | $ 2,366 | $ 9,745 |
| Less: corporate allocations | (1,837) | (8,112) |
| Incremental costs of being a stand-alone, public company | $ 529 | $ 1,633 |

The significant assumptions involved in arriving at these estimates include:

- the number of additional personnel required to operate as a public company and the compensation level with respect to each position;
- the level of additional assistance HSNi will require from professional service providers;
- the increase in insurance premiums as a stand-alone public company;
- the increase in health and welfare costs as a stand-alone entity; and
- the type and level of other costs expected to be incurred in connection with being a stand-alone public company.

This amount excludes the $1.4 million of estimated one-time recruiting fees; professional fees for legal and tax services (e.g. initial benefit plan design); and other costs (e.g. initial stock exchange listing fees) expected to be incurred in initially establishing HSNi as a stand-alone public company. These costs are therefore not expected to recur.

(d) To reflect the additional compensation expense associated with equity-based awards that will be granted only upon consummation of the separation.

The awards related to the consummation of the separation are expected to be granted to the Chief Executive Officer of HSNi in the form of stock options. The issuance of these awards is contingent upon the consummation of the separation. The expense related to these awards is included as a pro forma adjustment because they will vest over four years and will therefore have an impact on the ongoing operations of HSNi. The amount of the award was determined using a Black Scholes calculation. The aggregate estimated value of the award is being amortized to expense on a straight-line basis over the four year vesting period of the awards. This does not reflect non-recurring compensation expense related to modifications of existing vested stock options and restricted stock units that will be made in connection with the separation described below.

Vested stock options and unvested stock options to purchase shares of IAC common stock will be modified as follows in connection with the separation:

Each option will convert into an option to purchase shares of common stock of all five companies, with adjustments to the number of shares subject to each option and the option exercise prices based on the relative values of IAC and the other four companies following the separation, with the intent to generally maintain equivalent value immediately pre and post the transaction.

**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS (Continued)**

A calculation of the estimated value of the vested options immediately prior to the separation and immediately after the separation was performed using the Black Scholes model. The incremental charge of $35 thousand resulted from the higher estimated value of the vested stock options after the separation. This higher value is due to higher estimated weighted average expected volatility of the stock price of the five companies after the separation than the expected volatility of IAC's stock price. The expense is a one-time charge because the options are fully vested and there is no future service requirement.

The modification related to IAC issued restricted stock units ("RSUs") relates to the accelerated vesting, upon the consummation of the separation, of all RSUs granted prior to August 8, 2005 and all awards that were scheduled to vest prior to February 28, 2009. The estimated expense of $6.5 million is the previously unrecognized expense associated with these awards. The expense is treated as non-recurring because after the separation no future service is required with respect to these awards.

There may be additional stock-based awards granted in connection with the separation but the amount of such awards, if any, has not yet been determined and no expense with respect thereto has been reflected herein.

(e) This reflects the incremental interest expense related to the financing referred to in note (a) above. It includes interest expense at an assumed rate of % on the Bonds and LIBOR plus % on the Term Loan, LIBOR is assumed to be %, the aggregate assumed rate is therefore %. It also reflects expense at % on the RCF which is assumed to be unused. The interest expense calculation includes the amortization of debt issuance costs over the applicable term of each portion of the financing. An assumed 25 basis point change in the interest rate would result in an increase or decrease to interest expense by $ million for the Bonds and $ million for the Term Loan.

(f) To reflect the tax effect of the pro forma adjustments at an assumed effective tax rate of 37.2% which represents a federal statutory rate of 35% and a state effective statutory rate of 2.2%.

(g) Earnings per share and weighted average shares outstanding reflect the historical number of common shares used to calculate IAC's earnings per share, adjusted based on an expected exchange ratio of $^{1}/_{5}$th of a share of HSNi for each share of IAC. These amounts reflect the portion of outstanding equity-based awards that were included in IAC's dilutive earnings per share calculation. Pro forma earnings per share is calculated using the following:

| | Three Months Ended March 31, 2008 | Year Ended December 31, 2007 |
|---|---|---|
| | (In thousands) | |
| Earnings from continuing operations | $ | $ |
| Basic shares outstanding—weighted average shares | 55,753 | 57,137 |
| Other dilutive securities including stock options, warrants and restricted stock and share units | 1,496 | 2,729 |
| Diluted shares outstanding—weighted average shares | 57,249 | 59,866 |

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF HSNi

*The following discussion describes the financial condition and results of operations of HSN, Inc. ("HSNi") as though HSNi were a separate company as of the dates and for the periods presented and includes the businesses, assets and liabilities that will comprise HSNi following the spin-off.*

**Spin-Off**

On November 5, 2007, IAC/InterActiveCorp ("IAC") announced that its Board of Directors approved a plan to separate IAC into five publicly traded companies, identifying HSNi as one of those five companies. We refer to the separation transaction herein as the "spin-off." In connection with the spin-off, HSNi was incorporated as a Delaware corporation in May 2008. HSNi currently does not have any material assets or liabilities, nor does it engage in any business or other activities and, other than in connection with the spin-off, will not acquire or incur any material assets or liabilities, nor will it engage in any business or other activities. Upon completion of the spin-off, HSNi will primarily consist of HSN and Cornerstone, the businesses that formerly comprised IAC's Retailing segment. HSN consists of the HSN television network and *HSN.com*, and Cornerstone includes the Cornerstone Brands portfolio of leading print catalogs and related websites, as well as a limited number of retail stores. HSNi will not include the equity investment in Jupiter Shop Channel, the investment in Arcandor AG and the related contingent value right. The businesses to be operated by HSNi following the spin-off are referred to herein as the "HSNi Businesses." HSNi will also include the entities described below in the Management Overview under the heading "Discontinued Operations."

**Basis of Presentation**

The historical combined financial statements of HSNi and its subsidiaries and the disclosure set forth in this Management's Discussion and Analysis of Financial Condition and Results of Operations of HSNi reflect the contribution or other transfer to HSNi of all of the subsidiaries and assets and the assumption by HSNi of all of the liabilities relating to the HSNi Businesses in connection with the spin-off and the allocation to HSNi of certain IAC corporate expenses relating to the HSNi Businesses. Accordingly, the historical combined financial statements of HSNi reflect the historical financial position, results of operations and cash flows of the HSNi Businesses since their respective dates of acquisition by IAC, based on the historical consolidated financial statements and accounting records of IAC and using the historical results of operations and historical bases of the assets and liabilities of the HSNi Businesses with the exception of accounting for income taxes. For purposes of these financial statements, income taxes have been computed for HSNi on an as if stand-alone, separate tax return basis. These financial statements are prepared on a combined, rather than a consolidated, basis because they exclude certain investments and assets that were owned, either directly or indirectly, by legal entities that comprise the HSNi Businesses. The ownership of these investments and assets will be retained by IAC after the spin-off. These combined financial statements present IAC's and its subsidiaries net investment in the HSNi Businesses as invested equity in lieu of shareholders' equity. Intercompany transactions and accounts have been eliminated.

In the opinion of HSNi's management, the assumptions underlying the historical combined financial statements of HSNi are reasonable. However, this financial information does not necessarily reflect what the historical financial position, results of operations and cash flows of HSNi would have been had HSNi been a stand-alone company during the periods presented.

## MANAGEMENT'S OVERVIEW

HSNi markets and sells a wide range of third party and private label merchandise directly to consumers through (i) television home shopping programming broadcast on the HSN television network, (ii) catalogs, which consist primarily of the Cornerstone Brands portfolio of leading print catalogs and (iii) websites, which consist primarily of *HSN.com* and branded websites operated by Cornerstone Brands.

HSNi's television home shopping business and related internet commerce is referred to herein as "HSN" and all catalog operations and related internet commerce are collectively referred to herein as "Cornerstone."

**Sources of Revenue**

HSN revenue includes merchandise sales originating from the live television broadcast of its programming 24 hours per day, seven days a week and the *HSN.com* website. HSN also sells merchandise through its "Autoship" program under which customers receive scheduled merchandise shipments according to a pre-determined calendar.

Cornerstone sells private label and third party merchandise. The primary brands within the Cornerstone business portfolio include Frontgate, Ballard Designs, Garnet Hill, Smith+Noble, The Territory Ahead, TravelSmith and Improvements.

**Products and Customers**

HSNi sells a wide array of merchandise across its various channels of distribution. HSN merchandise categories primarily consist of jewelry, apparel & accessories, health & beauty and home & other. Cornerstone merchandise categories generally consist of home furnishings (including indoor/outdoor furniture, window treatments and other home-related goods) and apparel & accessories.

HSNi management believes that, combined with a multi-channel distribution strategy, merchandise diversification appeals to a broader segment of potential customers and is an important part of its overall business strategy. HSNi is continually developing new merchandise offerings from existing, potential and future suppliers, to supplement its existing product lines.

**Channels of Distribution; Marketing Costs**

HSNi markets and offers products directly to customers through television programming, catalogs and branded websites, allowing customers to conveniently and directly transact with HSNi. HSN's live television programming is distributed primarily through cable and satellite distribution agreements. HSN reached approximately 90.6 million, 89.0 million and 89.0 million households as of December 31, 2007, 2006 and 2005, respectively, and believes its television network reaches approximately 80% of the available households in the United States. Catalog circulation was 400.8 million and 421.2 million in 2007 and 2006, respectively, and 336.1 million from its date of acquisition in April 2005. Catalog circulation fluctuates by brand, generally driven by seasonal considerations and customer demand trends. Although the majority of HSNi's marketing costs are incurred in the distribution of its television programming and catalog circulation, HSNi has and expects to continue to invest in online and offline advertising to build its brands and drive traffic to its websites.

In addition, some of the HSNi Businesses manage affiliate programs, pursuant to which they pay commissions and fees to third parties based on revenue earned. These distribution channels might also offer their own products, as well as those of other third parties, that compete with those made available and offered by the HSNi Businesses.

Sales and marketing expense as a percentage of revenue increased to approximately 20% in both 2007 and 2006 from approximately 19% in 2005.

**Access to Supply**

The HSNi Businesses purchase merchandise from a wide variety of third party vendors, manufacturers and other sources pursuant to short- and long-term contracts and purchase orders. In particular, the HSNi Businesses purchase a significant amount of merchandise from vendors and manufacturers abroad, particularly China. HSNi depends on the ability of vendors and manufacturers in the U.S. and abroad to produce and deliver goods that meet applicable quality standards. Cornerstone, in particular, is dependent, in significant part, upon independent, third party manufacturers to produce private label merchandise. In addition, HSNi provides certain supplier partners with important customer acquisition channels through its multiple brands and businesses.

**Discontinued Operations**

Discontinued operations consist of HSNi Businesses that engaged in television retailing and other forms of television-based commerce in Europe, primarily in Germany and the United Kingdom. Discontinued operations in Germany consist of EUVÍA, a group of companies that were primarily engaged in television game-based entertainment and commerce; and Home Shopping Europe GmbH & Co. KG, and its affiliated station HSE24 ("HSE"), a television and internet retailer. Discontinued operations in the United Kingdom consist of Quiz TV Limited a television game-based entertainment network and iBuy, a television and internet auction-formatted retailer.

During the second quarter of 2005, HSNi sold its 48.6% ownership interest in EUVÍA. During the second quarter of 2006, Quiz TV Limited ceased operations and during the fourth quarter of 2006, iBuy was classified as held for sale. Additionally, in the second quarter of 2007, both iBuy's assets and HSE were sold. Accordingly, discontinued operations in the accompanying combined statements of operations and cash flows include EUVÍA and HSE through June 2, 2005 and June 19, 2007, respectively. Quiz TV Limited and iBuy are presented as discontinued operations in the accompanying combined balance sheets and combined statements of operations and cash flows for all periods presented.

**2006/2007 and Recent Developments**

HSNi made a significant leadership change in April 2006 with the appointment of a new Chief Executive Officer. Executive and key personnel changes ensued, continuing into 2007. These changes were motivated by a desire to improve HSNi's operating performance and better position HSNi for future growth. These new executive leaders aligned their staffs, repositioned merchandise, evaluated supplier relationships and redefined business processes in support of new company strategies primarily focused on defining a clear and differentiated brand. As part of these strategies, HSNi re-launched the HSN.com website with, among other improvements, streaming video and enhanced navigation capabilities; improved its television programming through the use of new and upgraded sets, on-air talent and overall presentation; improved quality of service with the focus of driving retention and repeat customers; and the elimination of non-core businesses.

While these actions gave rise to increased operating expenses, primarily in the form of employee acquisition and transition costs, they were undertaken as discrete parts of HSNi's strategy to create an identity for itself as a lifestyle, editorial, programmed commerce network that provides great products with innovative and engaging presentation.

In April 2007, largely as a result of increasing cable and satellite distribution costs, HSN ceased operating America's Store, a home shopping network that reached an average of 14.3 million and

15.0 million households during 2006 and 2005, respectively. America's Store sales were $15.9 million, $88.6 million and $86.7 million in 2007, 2006, and 2005, respectively.

As a part of executing its strategies, HSNi disposed of certain merchandise lines and discontinued vendor relationships not aligned with its evolving brand identity. In addition, while seeking merchandise that aligned with its brand identity, it acquired certain merchandise that did not perform to expectations with its customers, resulting in excess on-hand inventory. Much of this excess merchandise inventory was discounted and sold at clearance-level prices on TV, over the internet, through promotional catalogs, in outlet stores, or liquidated through wholesalers.

With the changes noted above and its more diversified product assortment, HSNi believes HSN will continue to show year over year sales and profitability growth in 2008 assuming a reasonably stable retail environment. HSN will continue to refine its product assortment in support of its improved brand identity.

In connection with the preparation of its consolidated financial statements as of and for the six months ended June 30, 2008, HSNi performed a test of the goodwill of its reporting units, HSN and Cornerstone, during June 2008. The timing of the second quarter goodwill impairment test was accelerated, in part, due to the filing of an amendment, on June 26, 2008, to the Form 10 of HSNi which was initially filed in connection with the planned separation.

HSNi prepared discounted cash flow analyses and reviewed the resulting valuations in the context of implied valuations based upon market multiples of EBITDA and the expected trading range of value of HSNi after the separation. Based upon these analyses, HSNi believes that the goodwill of its HSN reporting unit is not impaired.

However, HSNi believes that the goodwill of Cornerstone is impaired. This impairment is due, in part, to the significant deterioration in the macro economic environment for retailers, particularly in the home and apparel categories (which are Cornerstone's primary markets), and the negative impact of these markets on Cornerstone's performance and the related reduction in market valuations for retailers. The effect of these market conditions has been exacerbated by execution issues and turnover of management of certain catalogs within Cornerstone. Cornerstone is expected to incur an operating loss for the first six months of 2008 compared to operating income of $13.7 million in the comparable year ago period. While we expect full year profitability for Cornerstone, its results are expected to be significantly lower than 2007.

HSNi has estimated the goodwill impairment to be approximately $300 million. In accordance with SFAS 142, "Goodwill and Other Intangible Assets," HSNi is currently performing a step-two impairment analysis and expects to complete this process in connection with its close process for the second quarter of 2008. While the aforementioned charge is an estimate, HSNi does not expect the final analysis to be materially different.

HSN, as a multi category retailer, has been able to adjust its product assortment more easily to react to consumer demand. HSN expects improved operating results over the comparable period in the prior year for the second quarter of 2008.

***Results of Operations for the Years Ended December 31, 2007, 2006 and 2005***

***Revenue***

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | (Dollars in thousands) | | | | |
| HSN | $ 1,892,582 | 0% | $ 1,884,650 | 0% | $ 1,887,661 |
| Cornerstone | 1,016,091 | 2% | 994,621 | 27% | 783,743 |
| Inter-segment elimination | (431) | 67% | (1,317) | (191)% | (453) |
| Total revenue | $ 2,908,242 | 1% | $ 2,877,954 | 8% | $ 2,670,951 |

Revenue primarily relates to the sale of merchandise and is reduced by incentive discounts and sales returns. In accordance with Staff Accounting Bulletin 104, revenue is recorded when delivery to the customer has occurred. Delivery is considered to have occurred when the customer takes title and assumes the risks and rewards of ownership, which is generally on the date of shipment. HSNi's sales policy allows customers to return merchandise for a full refund or exchange, subject in some cases to restocking fees and exceptions to certain merchandise.

Revenue in 2007 increased $30.3 million from 2006 primarily due to slight growth from Cornerstone, while revenue from HSN remained relatively flat. Online sales continued to grow at a double digit rate in 2007. Revenue from HSN grew 4%, excluding America's Store which ceased operations on April 3, 2007. HSNi's revenue reflects a 2% increase in average price point, partially offset by a 1% decrease in units shipped. Average price point was $60.09 in 2007, up from $58.70 in 2006. Overall units shipped in 2007 were negatively impacted by reduced revenue associated with the shutdown of America's Store. Revenue from America's Store in 2007 was approximately $15.9 million compared to $88.6 million in 2006.

Revenue in 2006 increased $207.0 million from 2005 principally reflecting the inclusion of Cornerstone Brands since its acquisition in April 2005 and subsequent growth of Cornerstone in 2006. Revenue benefited from a 7% increase in units shipped, a 2% increase in average price point, partially offset by a 110 basis point increase in return rates. Average price point and units shipped were $58.70 and 54.3 million, respectively, in 2006, up from $57.72 and 50.7 million, respectively, in 2005.

***HSN***

Revenue from HSN in 2007 increased $7.9 million. Excluding America's Store, revenue reflect a 2% increase in average price point and a 3% increase in units shipped, partially offset by a 70 basis point increase in average return rates. The increase in average price point in 2007 was primarily due to a shift in product mix to the electronics/housewares category (included in home & other) from the health & beauty category. Electronics/housewares merchandise generally carry a higher average price point than health & beauty merchandise offerings. HSN manages its product mix to provide a balance between satisfying existing customer demand, generating interest from potential viewers and customers, providing new merchandise or values to its viewership and maximizing airtime and internet efficiency. Return rates at HSN in 2007 were 19.6%, up from 18.7% in 2006, primarily driven by overall higher return rates in several product categories.

Product mix from HSN is provided in the table below:

| | Years Ended December 31, | | |
| --- | --- | --- | --- |
| | 2007 | 2006 | 2005 |
| Jewelry | 18% | 18% | 18% |
| Apparel & accessories | 13% | 13% | 12% |
| Health & beauty | 19% | 20% | 20% |
| Home & other | 50% | 49% | 50% |
| Total | 100% | 100% | 100% |

Revenue from HSN in 2006 decreased $3.0 million from 2005, primarily due to a 3% increase in units shipped, offset by a 160 basis point increase in return rates and a 2% decrease in average price point. Overall, HSN experienced a decrease in TV sales of products in the electronic/housewares and health & beauty categories, which contributed to flat revenue, despite double digit online sales growth. In addition, revenue from HSN was also adversely impacted by higher overall return rates in several product categories, as well as product mix shifts into categories with generally higher average return rates. Return rates at HSN in 2006 were 18.7%, up from 17.1% in 2005.

***Cornerstone***

Revenue from Cornerstone in 2007 increased $21.5 million from 2006 primarily due to a 5% increase in average price point, partially offset by a 2% decrease in units shipped resulting principally from a planned decrease in circulation at certain catalog brands.

Revenue from Cornerstone in 2006 increased $210.9 million from 2006 reflecting the inclusion of Cornerstone Brands since its acquisition in April 2005 and subsequent growth of Cornerstone in 2006. On a pro forma basis, assuming Cornerstone Brands had been acquired on January 1, 2005, revenue growth in 2006 would have been $29.3 million, or 3%, benefiting primarily from increased units shipped, due, in part, to higher catalog circulation and increased average price point.

***Cost of Sales***

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | (Dollars in thousands) | | | | |
| HSN | $ 1,252,098 | 3% | $ 1,218,606 | 1% | $ 1,208,364 |
| Cornerstone | 568,381 | 4% | 547,914 | 25% | 439,946 |
| Inter-segment elimination | (431) | 67% | (1,317) | (191)% | (453) |
| Cost of sales | $ 1,820,048 | 3% | $ 1,765,203 | 7% | $ 1,647,857 |
| As a percentage of total revenue | 63% | 125 bp | 61% | (36) bp | 62% |
| Gross margins | 37% | (125) bp | 39% | 36 bp | 38% |

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | (Dollars in thousands) | | | | |
| Cost of sales—HSN | $1,252,098 | 3% | $1,218,606 | 1% | $1,208,364 |
| As a percentage of HSN revenue | 66% | 150 bp | 65% | 65 bp | 64% |
| HSN gross margins | 34% | (150) bp | 35% | (65) bp | 36% |
| Cost of sales—Cornerstone | $568,381 | 4% | $547,914 | 25% | $439,946 |
| As a percentage of Cornerstone revenue | 56% | 85 bp | 55% | (105) bp | 56% |
| Cornerstone gross margins | 44% | (85) bp | 45% | 105 bp | 44% |

Cost of sales consists primarily of the cost of products sold, as well as shipping and handling costs and compensation and other employee-related costs (including stock-based compensation) for personnel engaged in warehouse functions. Cost of products sold includes merchandise cost, inbound freight and duties and in the case of HSN, certain allocable general and administrative costs, including certain warehouse costs.

Cost of sales in 2007 increased $54.8 million from 2006, primarily due to an increase of $44.2 million in the cost of products sold, $4.4 million of which relates to an increase in inventory reserves, a shift in mix to lower gross margin products, an increase of $8.2 million in shipping and handling costs and the effect of merchandise liquidation and markdowns, all of which contributed to a decrease in overall gross margins of 125 basis points to 37.4%. Higher return rates negatively impact both revenue and gross margins as higher returns result in higher warehouse processing costs and higher inventory markdowns for goods that are not resalable at full retail price. The impact of the increase in overall return rates on gross margins is $10.8 million in 2007.

Cost of sales in 2006 increased $117.3 million from 2005, primarily due to an increase of $74.2 million in cost of products sold and $38.8 million in shipping and handling costs. Included in these increases is the impact of the acquisition of Cornerstone Brands on April 1, 2005. On a pro forma basis, assuming Cornerstone Brands had been acquired on January 1, 2005, cost of sales in 2006 would have increased $14.9 million, or 1%. Overall gross margins increased 36 basis points to 38.7% driven primarily by a shift in sales mix to higher full price items, and lower fulfillment costs as a percentage of merchandise cost at Cornerstone. Although HSNi benefited from higher gross margins at Cornerstone, gross margins at HSN declined 60 basis points due to higher return rates and increased shipping and handling costs. Gross margins in 2005 were impacted by a $5.8 million favorable adjustment to certain accrued liabilities. The impact of the increase in overall return rates on gross margins was $16.4 million in 2006.

***Selling and marketing expense***

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | (Dollars in thousands) | | | | |
| HSN | $ 272,896 | 5% | $ 260,794 | 4% | $ 249,912 |
| Cornerstone | 323,015 | (0)% | 324,203 | 29% | 250,965 |
| Selling and marketing expense | $ 595,911 | 2% | $ 584,997 | 17% | $ 500,877 |
| As a percentage of total revenue | 20% | 16 bp | 20% | 157 bp | 19% |

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | (Dollars in thousands) | | | | |
| Selling and marketing expense—HSN | $272,896 | 5% | $260,794 | 4% | $249,912 |
| As a percentage of HSN revenue | 14% | 58 bp | 14% | 60 bp | 13% |
| Selling and marketing expense—Cornerstone | $323,015 | (0)% | $324,203 | 29% | $250,965 |
| As a percentage of Cornerstone revenue | 32% | (81) bp | 33% | 57 bp | 32% |

Selling and marketing expense consists primarily of advertising and promotional expenditures, compensation and other employee-related costs (including stock-based compensation) for personnel engaged in customer service and sales functions and on-air distribution costs. Advertising and promotional expenditures primarily include catalog production and distribution costs ("catalog circulation costs") and online marketing, including fees paid to search engines and third party distribution partners.

Selling and marketing expense in 2007 increased $10.9 million from 2006, primarily due to increases of $6.7 million in on-air distribution costs at HSN, $6.2 million in compensation and other employee-related costs and $4.2 million in advertising and promotional expenditures, which is net of a decrease of $6.6 million in catalog circulation costs. The increase in on-air distribution costs is primarily related to newly executed contracts with cable and satellite distribution partners. Compensation and other employee-related costs increased in the current year period due in part to a 15% increase in headcount as well as increased management transition costs.

Selling and marketing expense in 2006 increased $84.1 million from 2005, primarily due to the full year inclusion of Cornerstone Brands and subsequent growth of Cornerstone in 2006, as well as an increase of $9.4 million in on-air distribution costs at HSN. Excluding the impact of Cornerstone, selling and marketing expense increased $10.9 million from 2005 primarily driven by a $9.4 million increase in on-air distribution costs and an increase in compensation and other employee-related costs.

***General and administrative expense***

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | (Dollars in thousands) | | | | |
| HSN | $ 141,379 | 7% | $ 131,538 | 3% | $ 127,417 |
| Cornerstone | 70,576 | 29% | 54,723 | 25% | 43,763 |
| General and administrative expense | $ 211,955 | 14% | $ 186,261 | 9% | $ 171,180 |
| As a percentage of total revenue | 7% | 82 bp | 6% | 6 bp | 6% |

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | (Dollars in thousands) | | | | |
| General and administrative expense—HSN | $141,379 | 7% | $131,538 | 3% | $127,417 |
| As a percentage of HSN revenue | 7% | 49 bp | 7% | 23 bp | 7% |
| General and administrative expense—Cornerstone | $70,576 | 29% | $54,723 | 25% | $43,763 |
| As a percentage of Cornerstone revenue | 7% | 144 bp | 6% | (8) bp | 6% |

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

General and administrative expense in 2007 increased $25.7 million from 2006, primarily due to higher compensation and other employee-related costs of $14.3 million and increases of $3.9 million in bad debt expense and $3.4 million in professional fees. Between 2006 and 2007, HSNi invested in leadership by increasing compensation and expanding its management team. General and administrative expense was further impacted by increases in compensation and other employee-related costs associated with retail store expansion and internet development at Cornerstone. The increase in bad debt expense is primarily due to increased Flexpay sales. Flexpay, which is offered exclusively through HSN, allows customers to pay for merchandise in interest free monthly payments over a 2-6 month period. Flexpay sales were 54% and 48% of HSN's net merchandise sales for 2007 and 2006, respectively. HSNi expects to incur increased costs related to the additional financial and legal requirements associated with being a separate public company, as well as increased non-cash compensation associated with the modification of existing stock-based compensation awards in connection with the spin-off and the grant of new awards post spin-off.

General and administrative expense in 2006 increased $15.1 million from 2005, primarily due to the acquisition of Cornerstone Brands on April 1, 2005 and an increase in compensation and other employee-related costs principally related to management transition.

Effective January 1, 2006, HSNi adopted Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), using the modified prospective transition method. There was no impact to the amount of stock-based compensation recorded in the combined statements of operations for the years ended December 31, 2006 and 2005 as a result of adopting SFAS 123R. HSNi has been recognizing expense for all stock-based grants since August 9, 2005, in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") due to the modification resulting from the Expedia spin-off. The majority of stock-based compensation expense is reflected in general and administrative expense. As of December 31, 2007, there was approximately $23.0 million of unrecognized compensation cost, net of estimated forfeitures, related to all equity-based awards, which is expected to be recognized over a weighted average period of approximately 2.7 years.

***Production and programming expense***

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | (Dollars in thousands) | | | | |
| HSN | $ 58,913 | 5% | $ 56,224 | 3% | $ 54,849 |
| Cornerstone | 138 | (76)% | 576 | (11)% | 645 |
| Production and programming expense | $ 59,051 | 4% | $ 56,800 | 2% | $ 55,494 |
| As a percentage of total revenue | 2% | 6 bp | 2% | (10) bp | 2% |

Production and programming expense consists primarily of compensation and other employee-related costs (including stock-based compensation) for personnel engaged in production and programming at HSN.

Production and programming expense in 2007 increased $2.3 million from 2006, primarily due to an increase of $2.9 million in compensation and other employee-related costs and a charge of $2.0 million in connection with the termination of a contract for a satellite no longer in use. These increases were partially offset by lower broadcast fees related to the shut down of America's Store in April 2007.

Production and programming expense in 2006 increased $1.3 million from 2005, primarily due to increased expenses related to compensation and other employee-related costs.

***Depreciation***

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | (Dollars in thousands) | | | | |
| HSN | $ 25,404 | (13)% | $ 29,082 | (17)% | $ 35,216 |
| Cornerstone | 8,959 | 9% | 8,191 | 43% | 5,731 |
| Depreciation | $ 34,363 | (8)% | $ 37,273 | (9)% | $ 40,947 |
| As a percentage of total revenue | 1% | (11) bp | 1% | (24) bp | 2% |

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | (Dollars in thousands) | | | | |
| Depreciation—HSN | $25,404 | (13)% | $29,082 | (17)% | $35,216 |
| As a percentage of HSN revenue | 1% | (20) bp | 2% | (32) bp | 2% |
| Depreciation—Cornerstone | $8,959 | 9% | $8,191 | 43% | $5,731 |
| As a percentage of Cornerstone revenue | 1% | 6 bp | 1% | 9 bp | 1% |

Depreciation in 2007 and 2006 decreased $2.9 million and $3.7 million, respectively, primarily due to certain fixed assets becoming fully depreciated at HSNi, partially offset by the incremental depreciation associated with capital expenditures made throughout 2006 and 2007. The increase in capital expenditures relates primarily to Cornerstone's distribution, call center and retail store expansion, and internet related initiatives.

***Operating Income Before Amortization***

Operating Income Before Amortization is a Non-GAAP measure and is defined in "HSNi's Principles of Financial Reporting".

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | (Dollars in thousands) | | | | |
| HSN | $ 148,303 | (23)% | $ 193,139 | (12)% | $ 220,013 |
| Cornerstone | 50,771 | (23)% | 66,027 | 37% | 48,308 |
| Operating Income Before Amortization | $ 199,074 | (23)% | $ 259,166 | (3)% | $ 268,321 |
| As a percentage of total revenue | 7% | (216) bp | 9% | (104) bp | 10% |

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | (Dollars in thousands) | | | | |
| Operating Income Before Amortization—HSN | $148,303 | (23)% | $193,139 | (12)% | $220,013 |
| As a percentage of HSN revenue | 8% | (241) bp | 10% | (141) bp | 12% |
| Operating Income Before Amortization—Cornerstone | $50,771 | (23)% | $66,027 | 37% | $48,308 |
| As a percentage of Cornerstone revenue | 5% | (164) bp | 7% | 47 bp | 6% |

Operating Income Before Amortization in 2007 decreased $60.1 million from 2006, primarily due to a 125 basis point decrease in gross margins, increased general and administrative expense of $25.7 million and increased selling and marketing expense of $10.9 million.

Operating Income Before Amortization in 2006 decreased $9.2 million from 2005, primarily due to higher operating costs associated with increased catalog circulation and a $9.4 million increase in on-air distribution costs at HSN, partially offset by higher revenue noted above and a 36 basis point increase in gross margins.

***Operating income***

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | (Dollars in thousands) | | | | |
| HSN | $ 134,866 | (18)% | $ 163,904 | 3% | $ 159,794 |
| Cornerstone | 34,925 | (29)% | 49,292 | 39% | 35,358 |
| Operating income | $ 169,791 | (20)% | $ 213,196 | 9% | $ 195,152 |
| As a percentage of total revenue | 6% | (157) bp | 7% | 10 bp | 7% |

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | (Dollars in thousands) | | | | |
| Operating Income—HSN | $134,866 | (18)% | $163,904 | 3% | $159,794 |
| As a percentage of HSN revenue | 7% | (157) bp | 9% | 23 bp | 8% |
| Operating Income—Cornerstone | $34,925 | (29)% | $49,292 | 39% | $35,358 |
| As a percentage of Cornerstone revenue | 3% | (152) bp | 5% | 44 bp | 5% |

Operating income in 2007 decreased $43.4 million from 2006, primarily due to the decrease in Operating Income Before Amortization described above, a $4.4 million increase in amortization of non-cash marketing and a $0.4 million increase in non-cash compensation expense, partially offset by a $21.5 million decrease in amortization of intangibles resulting from certain intangible assets being fully amortized in 2006 and 2007. The amortization of non-cash marketing referred to in this report consists of non-cash marketing and advertising secured by IAC from Universal Television as part of the IAC transaction pursuant to which Vivendi Universal Entertainment, LLLP ("VUE") was created, and the subsequent transaction by which IAC sold its partnership interests in VUE.

Operating income in 2006 increased $18.0 million from 2005, despite the decrease in Operating Income Before Amortization described above primarily due to a $25.2 million decrease in the amortization of intangibles resulting from certain intangible assets being fully amortized in 2006 and a $2.0 million decrease in non-cash compensation expense.

***Income tax provision***

In 2007 and 2006, HSNi recorded an income tax provision for continuing operations of $64.6 million and $79.2 million, respectively, which represents effective tax rates of 38% and 37%, respectively. These tax rates are higher than the federal statutory rate of 35% due principally to state and local income taxes. In 2005, HSNi recorded a tax provision for continuing operations of $66.3 million which represents an effective tax rate of 34%. The 2005 tax rate is lower than the federal statutory rate of 35% due principally to a decrease in net deferred tax liabilities due to a change in HSNi's state effective tax rate partially offset by state and local income taxes.

HSNi adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" effective January 1, 2007. The cumulative effect of the adoption resulted in a decrease of $0.2 million to retained earnings. As of January 1, 2007 and December 31, 2007, HSNi had unrecognized tax benefits of approximately $5.2 million and $11.7 million, respectively, which included accrued interest of $0.9 million and $2.8 million, respectively.

By virtue of previously filed separate company and consolidated tax returns with IAC, HSNi is routinely under audit by federal, state, local and foreign authorities in the area of income tax. These audits include questioning the timing and the amount of deductions and the allocation of income among various tax jurisdictions. Income taxes payable include amounts considered sufficient to pay assessments that may result from examination of prior year returns; however, the amount paid upon resolution of issues raised may differ from the amount provided. Differences between the reserves for tax contingencies and the amounts owed by HSNi are recorded in the period they become known.

The Internal Revenue Service ("IRS") is currently examining the IAC consolidated tax returns for the years ended December 31, 2001 through 2003, which includes the operations of HSN. The statute of limitations for these years has been extended to December 31, 2008. Tax filings in various state, local and foreign jurisdictions are currently under examinations, the most significant of which are Florida, New York state and New York City, for various tax years after December 31, 2001. These examinations are expected to be completed by late 2008. HSNi believes that it is reasonably possible that its unrecognized tax benefits could decrease by approximately $2.3 million within twelve months of the current reporting date due to the reversal of deductible temporary differences which will result in a corresponding increase in net deferred tax liabilities. An estimate of other changes in unrecognized benefits cannot be made, but are not expected to be significant.

Under the terms of the tax sharing agreement, which will be executed in connection with the spin-off, IAC will generally retain the liability related to federal and state returns filed on a consolidated or unitary basis for all periods prior to the spin-off.

***Discontinued operations***

Discontinued operations in the accompanying combined statements of operations include EUVÍA and HSE through June 2, 2005 and June 19, 2007, respectively. Quiz TV Limited and iBuy are presented as discontinued operations in the accompanying combined financial statements for all periods presented. Income (loss) from these discontinued operations in 2007, 2006 and 2005 was income of $29.0 million, losses of $10.7 million and income of $22.8 million, respectively, net of tax. Income from discontinued operations, net of tax, in 2007 primarily includes the income of HSE. Losses from discontinued operations, net of tax, in 2006 primarily includes the losses of iBuy and Quiz TV Limited, partially offset by the income of HSE. Income from discontinued operations, net of tax, in 2005 primarily includes the income of HSE and EUVÍA.

Additionally, HSNi recognized after-tax gains in 2007 and 2005 of $30.6 million and $73.3 million on the sales of HSE and EUVÍA, respectively.

## FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2007, HSNi had $6.2 million of cash and cash equivalents.

Net cash provided by operating activities attributable to continuing operations was $137.6 million and $167.7 million in 2007 and 2006, respectively. The decrease of $30.1 million in net cash provided by operating activities reflects a decrease in income from continuing operations of $28.3 million combined with a decrease in depreciation and amortization of intangibles of $24.5 million and a decrease of cable and satellite distribution fees and amortization of $7.8 million. The decrease in depreciation and amortization of intangibles reflects a higher percentage of HSNi's depreciable/amortizable assets reaching the end of their estimated useful lives in 2007 as compared to the prior year, while the reduction in cable and satellite distribution fees reflects the trend of HSNi negotiating shorter-term agreements with its cable and satellite distribution partners. Also affecting cash provided by operating activities in 2007 were increases in accounts receivable, primarily due to an increase in Flexpay sales, inventories and accounts payable and other current liabilities. During 2007, inventory increased by $3.5 million to $317.4 million from $313.9 million at December 31, 2006, primarily due to increased merchandise purchases as well as lower than anticipated sales at Cornerstone.

Net cash used in investing activities attributable to continuing operations in 2007 of $140.2 million resulted primarily from cash transfers of $91.6 million to IAC and capital expenditures of $48.7 million. The cash transfers to IAC relate primarily to the transfer of HSNi's excess cash to IAC in connection with IAC's centrally managed U.S. treasury function. Net cash used in investing activities attributable to continuing operations in 2006 of $224.4 million resulted primarily from cash transfers of $188.3 million to IAC and capital expenditures of $36.0 million.

Net cash provided by financing activities attributable to continuing operations in 2007 and 2006 of $2.4 million and $2.3 million, respectively, was primarily due to excess tax benefits from stock-based awards.

Net cash used in discontinued operations in 2007 and 2006 of $48.5 million and $38.2 million, respectively, relates primarily to the operations of HSE and iBuy. HSNi does not expect future cash flows associated with existing discontinued operations to be material.

## CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

| Contractual Obligations | Payments Due by Period<br>Total | Less Than 1 Year | 1-3 Years | 3-5 Years | More Than 5 Years |
|---|---|---|---|---|---|
| | (In thousands) | | | | |
| Purchase obligations(a) | $ 135,023 | $ 43,871 | $ 80,698 | $ 10,454 | $ — |
| Operating leases | 131,171 | 29,832 | 48,704 | 32,520 | 20,115 |
| Total contractual cash obligations | $ 266,194 | $ 73,703 | $ 129,402 | $ 42,974 | $ 20,115 |

(a) The purchase obligations primarily relate to cable contracts and include obligations for future cable distribution and commission guarantees.

| Other Commercial Commitments* | Amount of Commitment Expiration Per Period<br>Total Amounts Committed | Less Than 1 Year | 1-3 Years | 3-5 Years | More Than 5 Years |
|---|---|---|---|---|---|
| | (In thousands) | | | | |
| Letters of credit and surety bonds | $ 25,390 | $ 25,078 | $ — | $ 312 | $ — |

* The letters of credit ("LOCs") primarily consist of trade LOCs, which are used for inventory purchases. Trade LOCs are guarantees of payment based upon the delivery of goods. The surety bonds primarily consist of customs bonds, which relate to the import of merchandise into the United States.

***Off-Balance Sheet Arrangements***

Other than the items described above, HSNi does not have any off-balance sheet arrangements as of December 31, 2007.

***Results of Operations for the Three Months Ended March 31, 2008 Compared to the Three Months Ended March 31, 2007***

***Revenue***

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | (Dollars in thousands) | | |
| HSN | $ 478,973 | 5% | $ 454,053 |
| Cornerstone | 197,954 | (7)% | 212,775 |
| Inter-segment elimination | (41) | 67% | (123) |
| Total revenue | $ 676,886 | 2% | $ 666,705 |

Revenue primarily relates to the sale of merchandise and is reduced by incentive discounts and sales returns. In accordance with Staff Accounting Bulletin 104, revenue is recorded when delivery to the customer has occurred. Delivery is considered to have occurred when the customer takes title and assumes the risks and rewards of ownership, which is generally on the date of shipment. HSNi's sales policy allows customers to return merchandise for a full refund or exchange, subject in some cases to restocking fees and exceptions to certain merchandise.

Revenue in 2008 increased $10.2 million from 2007 primarily due to 9% growth at HSN, excluding America's Store which ceased operations on April 3, 2007, partially offset by a decline of 7% at Cornerstone. Revenue from America's Store in 2007 was approximately $15.9 million. Online sales continued to grow at a double digit rate in the first quarter of 2008. HSNi's revenue reflects a 3% increase in average price point on comparable units shipped. Average price point is $61.20 in 2008, up from $59.49 in 2007.

***HSN***

Revenue from HSN in 2008 increased $24.9 million, reflecting a 5% increase in average price point on comparable units shipped, partially offset by a 90 basis point increase in average return rates. The increase in average price point in 2008 is primarily due to a shift in product mix from the health & beauty category to the home division (including electronics and cookware). Electronics merchandise generally carries a higher average price point than health & beauty merchandise offerings. During the first quarter of 2008, HSN continued to improve sales efficiency and increased the number and spend of active customers. Return rates at HSN in 2008 were 20.0%, up from 19.1% in 2007, primarily driven by overall higher return rates in several product categories.

Product mix from HSN is provided in the table below:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2008 | 2007 |
| Jewelry | 16% | 17% |
| Apparel & accessories | 13% | 12% |
| Health & beauty | 18% | 21% |
| Home & other | 53% | 50% |
| Total | 100% | 100% |

***Cornerstone***

Revenue from Cornerstone in 2008 decreased $14.8 million from 2007 primarily due to a 4% decrease in units shipped and a 2% decrease in average price point. Cornerstone, which operates in the home and apparel merchandise categories, was negatively affected by lower consumer demand and aggressive competitive action in this difficult retail environment. Revenue was also negatively impacted by a 15% decrease in catalog circulation.

***Cost of sales***

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | (Dollars in thousands) | | |
| HSN | $ 324,092 | 8% | $ 300,988 |
| Cornerstone | 117,351 | (0)% | 117,841 |
| Inter-segment elimination | (41) | 67% | (123) |
| Cost of sales | $ 441,402 | 5% | $ 418,706 |
| As a percentage of total revenue | 65% | 241 bp | 63% |
| Gross margins | 35% | (241) bp | 37% |

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | (Dollars in thousands) | | |
| Cost of sales—HSN | $ 324,092 | 8% | $ 300,988 |
| As a percentage of HSN revenue | 68% | 137 bp | 66% |
| HSN gross margins | 32% | (137) bp | 34% |
| Cost of sales—Cornerstone | $ 117,351 | (0)% | $ 117,841 |
| As a percentage of Cornerstone revenue | 59% | 390 bp | 55% |
| Cornerstone gross margins | 41% | (390) bp | 45% |

Cost of sales consists primarily of the cost of products sold, shipping and handling costs and compensation and other employee-related costs (including stock-based compensation) for personnel engaged in warehouse functions. Cost of products sold includes merchandise cost, inbound freight and duties and in the case of HSN, certain allocable general and administrative costs, including certain warehouse costs.

Cost of sales in 2008 increased $22.7 million from 2007, primarily due to an increase of $18.9 million in the cost of products sold and an increase of $3.1 million in shipping and handling costs. The increase in cost of sales as a percentage of revenue was due to a decrease in gross margins of 390 basis points and 137 basis points at Cornerstone and HSN, respectively. The decrease in gross margins at Cornerstone was principally due to an aggressive increase in promotional pricing and clearance activity, a higher return rate and an increase in fulfillment costs. The decrease in gross margins at HSN was due to a shift in product mix to lower gross margin products, primarily electronics and cookware, the effect of merchandise clearance sales and higher shipping and handling costs, partially offset by lower inventory reserves. Higher return rates negatively impact gross margins as higher returns result in higher warehouse processing costs and higher inventory markdowns for goods that are not resalable at full retail price. The year over year impact of the increase in overall return rates on gross margins is $2.6 million.

***Selling and marketing expense***

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | (Dollars in thousands) | | |
| HSN | $ 67,698 | (1)% | $ 68,511 |
| Cornerstone | 69,052 | 2% | 67,942 |
| Selling and marketing expense | $ 136,750 | 0% | $ 136,453 |
| As a percentage of total revenue | 20% | (26) bp | 20% |

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | (Dollars in thousands) | | |
| Selling and marketing expense—HSN | $ 67,698 | (1)% | $ 68,511 |
| As a percentage of HSN revenue | 14% | (95) bp | 15% |
| Selling and marketing expense—Cornerstone | $ 69,052 | 2% | $ 67,942 |
| As a percentage of Cornerstone revenue | 35% | 295 bp | 32% |

Selling and marketing expense consists primarily of advertising and promotional expenditures, compensation and other employee-related costs (including stock-based compensation) for personnel engaged in customer service and sales functions and on-air distribution costs. Advertising and promotional expenditures primarily include catalog production and distribution costs and online marketing, including fees paid to search engines and third party distribution partners.

Selling and marketing expense in 2008 increased $0.3 million from 2007, primarily due to an increase of $3.7 million in compensation and other employee-related costs, partially offset by decreases of $2.5 million in on-air distribution costs at HSN and $0.8 million in advertising and promotional expenditures. Compensation and other employee-related costs increased in the current year period due in part to a 7% increase in headcount as well as increased management transition costs as the prior year period was favorably impacted by the reversal of accrued severance expense. The decrease in on-air distribution costs is primarily due to lower broadcast fees related to the shut down of America's Store in April 2007.

***General and administrative expense***

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | (Dollars in thousands) | | |
| HSN | $ 37,943 | 11% | $ 34,171 |
| Cornerstone | 16,431 | (17)% | 19,795 |
| General and administrative expense | $ 54,374 | 1% | $ 53,966 |
| As a percentage of total revenue | 8% | (6) bp | 8% |

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | (Dollars in thousands) | | |
| General and administrative expense—HSN | $ 37,943 | 11% | $ 34,171 |
| As a percentage of HSN revenue | 8% | 40 bp | 8% |
| General and administrative expense—Cornerstone | $ 16,431 | (17)% | $ 19,795 |
| As a percentage of Cornerstone revenue | 8% | (100) bp | 9% |

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

General and administrative expense in 2008 increased $0.4 million from 2007, primarily due to an increase of $2.6 million in bad debt expense, partially offset by a decrease of $2.0 million in professional fees. The increase in bad debt expense is primarily due to increased Flexpay sales. Flexpay, which is offered exclusively through HSN, allows customers to pay for merchandise in interest free monthly payments over a 2-6 month period. Flexpay sales were 54% and 48% of HSN's net merchandise sales for 2008 and 2007, respectively. The decrease in professional fees is primarily due to lower legal fees at Cornerstone. HSNi expects to incur increased costs related to the additional financial and legal requirements associated with being a separate public company, as well as increased non-cash compensation associated with the modification of existing stock-based compensation awards in connection with the spin-off and the grant of new awards in connection with and subsequent to the spin-off.

General and administrative expense includes non-cash compensation expense of $2.5 million in both 2008 and 2007. As of March 31, 2008, there was approximately $29.2 million of unrecognized compensation cost, net of estimated forfeitures, related to all equity-based awards, which is currently expected to be recognized over a weighted average period of approximately 3.0 years (exclusive of the impact of the modification related to the spin-off, which consists of the accelerated vesting of certain unvested restricted stock units and the modification of all unvested and vested stock options).

***Production and programming expense***

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | (Dollars in thousands) | | |
| HSN | $ 14,341 | (4)% | $ 14,867 |
| Cornerstone | 2 | (84)% | 13 |
| Production and programming expense | $ 14,343 | (4)% | $ 14,880 |
| As a percentage of total revenue | 2% | (11) bp | 2% |

Production and programming expense consists primarily of compensation and other employee-related costs (including stock-based compensation) for personnel engaged in production and programming at HSN.

Production and programming expense in 2008 decreased $0.5 million from 2007, primarily due to lower broadcast fees related to the shut down of America's Store in April 2007, partially offset by an increase of $0.6 million in compensation and other employee-related costs.

*Depreciation*

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | (Dollars in thousands) | | |
| HSN | $ 6,550 | 2% | $ 6,414 |
| Cornerstone | 2,476 | 21% | 2,054 |
| Depreciation | $ 9,026 | 7% | $ 8,468 |
| As a percentage of total revenue | 1% | 6 bp | 1% |

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | (Dollars in thousands) | | |
| Depreciation—HSN | $ 6,550 | 2% | $ 6,414 |
| As a percentage of HSN revenue | 1% | (5) bp | 1% |
| Depreciation—Cornerstone | $ 2,476 | 21% | $ 2,054 |
| As a percentage of Cornerstone revenue | 1% | 29 bp | 1% |

Depreciation in 2008 increased $0.6 million from 2007, primarily due to the incremental depreciation associated with capital expenditures made throughout 2007 and 2008, partially offset by certain fixed assets becoming fully depreciated during the period.

***Operating Income Before Amortization***

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | (Dollars in thousands) | | |
| HSN | $ 29,935 | (1)% | $ 30,271 |
| Cornerstone | (5,904) | NM | 6,996 |
| Operating Income Before Amortization | $ 24,031 | (36)% | $ 37,267 |
| As a percentage of total revenue | 4% | (204) bp | 6% |

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | (Dollars in thousands) | | |
| Operating Income Before Amortization—HSN | $ 29,935 | (1)% | $ 30,271 |
| As a percentage of HSN revenue | 6% | (42) bp | 7% |
| Operating Income Before Amortization—Cornerstone | $ (5,904) | NM | $ 6,996 |
| As a percentage of Cornerstone revenue | (3)% | NM | 3% |

Operating Income Before Amortization in 2008 decreased $13.2 million from 2007, primarily due to a 241 basis point decrease in gross margins and an increase of $2.6 million in bad debt expense. Operating Income Before Amortization at HSN declined 1% to $29.9 million, primarily driven by a decrease in gross margins of 137 basis points. Gross margins were adversely impacted by a shift in mix to lower gross margin products, primarily electronics and cookware, an increase of $4.3 million in shipping and handling costs and the effect of merchandise clearance and promotional pricing, partially offset by lower inventory reserves. Operating Income Before Amortization at Cornerstone declined from $7.0 million in 2007 to a loss of $5.9 million in 2008, primarily driven by a decrease in gross margins of 390 basis points reflecting the impact of promotional pricing in response to the current retail environment.

*Operating income (loss)*

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | (Dollars in thousands) | | |
| HSN | $ 24,491 | (11)% | $ 27,448 |
| Cornerstone | (9,413) | NM | 2,699 |
| Operating income | $ 15,078 | (50)% | $ 30,147 |
| As a percentage of total revenue | 2% | (229) bp | 5% |

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | (Dollars in thousands) | | |
| Operating income—HSN | $ 24,491 | (11)% | $ 27,448 |
| As a percentage of HSN revenue | 5% | (93) bp | 6% |
| Operating (loss) income—Cornerstone | $ (9,413) | NM | $ 2,699 |
| As a percentage of Cornerstone revenue | (5)% | NM | 1% |

Operating income in 2008 decreased $15.1 million from 2007, primarily due to the decrease in Operating Income Before Amortization described above.

Operating income of $24.5 million at HSN for 2008 reflects $3.7 million in amortization of non-cash marketing, non-cash compensation expense of $1.6 million, an increase of $0.4 million and amortization of intangibles of $0.1 million, a decrease of $1.5 million.

Operating loss of $9.4 million at Cornerstone for 2008 reflects amortization of intangibles of $2.1 million, a decrease of $0.4 million and non-cash compensation expense of $1.5 million, a decrease of $0.4 million.

The decrease in amortization of intangibles at both HSN and Cornerstone resulted from certain intangible assets being fully amortized in 2007. The amortization of non-cash marketing referred to in this report consists of non-cash marketing and advertising secured by IAC from Universal Television as part of the IAC transaction pursuant to which Vivendi Universal Entertainment, LLLP ("VUE") was created, and the subsequent transaction by which IAC sold its partnership interests in VUE.

The disappointing results for the first quarter at Cornerstone were due, in large part, to the continuing difficult macro environment for retailers, particularly in the home and apparel categories. HSNi is taking actions in response to this environment, including reducing inventory purchases and capital and operating expenditures and revisiting merchandising and marketing, including catalog circulation, strategies. While HSNi expects full year profitability at Cornerstone, HSNi expects the remainder of 2008 to be challenging, with near term profit growth unlikely.

*Income tax provision*

For the three months ended March 31, 2008 and 2007, HSNi recorded tax provisions for continuing operations of $5.7 million and $11.5 million, respectively, which represent effective tax rates of 38%. The tax rates for the three months ended March 31, 2008 and 2007 are higher than the federal statutory rate of 35% due principally to state taxes.

As of December 31, 2007 and March 31, 2008, HSNi had unrecognized tax benefits of approximately $8.9 million. Included in unrecognized tax benefits at March 31, 2008 is approximately $8.8 million for tax positions included in IAC's consolidated tax return filings that will remain a liability of IAC after the spin-off. HSNi recognizes interest and, if applicable, penalties related to unrecognized tax benefits in income tax expense. Included in income tax expense for 2008 is $0.1 million, net of related deferred taxes, for interest on unrecognized tax benefits. At March 31, 2008, HSNi has accrued $3.0 million for the payment of interest. There are no material accruals for penalties.

By virtue of previously filed separate company and consolidated tax returns with IAC, HSNi is routinely under audit by federal, state, local and foreign authorities in the area of income tax. These audits include questioning the timing and the amount of deductions and the allocation of income among various tax jurisdictions. Income taxes payable include amounts considered sufficient to pay assessments that may result from examination of prior year returns; however, the amount paid upon resolution of issues raised may differ from the amount provided. Differences between the reserves for tax contingencies and the amounts owed by HSNi are recorded in the period they become known. HSNi believes that it is reasonably possible that its unrecognized tax benefits could decrease by approximately $2.5 million within twelve months of the current reporting date due to the reversal of deductible temporary differences which will result in a corresponding increase in net deferred tax liabilities. An estimate of other changes in unrecognized tax benefits cannot be made, but are not expected to be significant.

Under the terms of the tax sharing agreement, which will be executed in connection with the spin-off, IAC will generally retain the liability related to federal and state returns filed on a consolidated or unitary basis for all periods prior to the spin-off.

***Discontinued operations***

Discontinued operations in the accompanying combined statements of operations include Home Shopping Europe GMbH & Co. KG, and its affiliated station HSE24 ("HSE") through March 31, 2007. Quiz TV Limited and iBuy are presented as discontinued operations in the accompanying combined financial statements for all periods presented. Losses from these discontinued operations in 2008 and 2007 were $1.1 million and $1.6 million, respectively, net of tax. Loss from discontinued operations, net of tax, in 2008 primarily includes the losses of iBuy. Loss from discontinued operations, net of tax, in 2007 primarily includes the losses of iBuy, partially offset by the income of HSE.

## FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2008, HSNi had $8.0 million of cash and cash equivalents.

Net cash used in operating activities attributable to continuing operations was $20.8 million in 2008 compared to $39.2 million in 2007, an improvement of $18.4 million, despite a decrease of $9.2 million in earnings from continuing operations. This improvement was due to a $16.0 million decrease in inventories reflecting better inventory management at HSN, a significantly smaller increase in prepaid expenses and other current assets due to timing and a larger decrease in accounts receivable.

Net cash provided by investing activities attributable to continuing operations in 2008 of $21.7 million resulted primarily from cash transfers of $28.3 million from IAC, partially offset by capital expenditures of $6.6 million. The cash transfers from IAC relate to IAC's centrally managed U.S. treasury function. Net cash provided by investing activities attributable to continuing operations in 2007 of $35.0 million resulted primarily from cash transfers of $43.1 million from IAC, partially offset by capital expenditures of $8.2 million.

Net cash used in financing activities attributable to continuing operations in 2008 was less than $0.1 million. Net cash provided by financing activities attributable to continuing operations in 2007 of $1.2 million was due to excess tax benefits from stock-based awards.

Net cash provided by discontinued operations in 2008 and 2007 of $1.7 million and $10.7 million, respectively, relates primarily to the operations of HSN International and HSE, respectively. HSNi does not expect future cash flows associated with existing discontinued operations to be material.

HSNi anticipates that it will need to make capital and other expenditures in connection with the development and expansion of its operations.

In connection with the separation, HSNi expects to raise $450 million through a combination of privately issued debt securities (the "Bonds") and secured credit facilities (the "Term Loan"). In addition, HSNi expects to negotiate a revolving credit facility (the "RCF"). The total costs expected to be incurred in connection with the issuance of the Bonds and borrowings under the Term Loan and establishing the RCF are $11.2 million. The net proceeds are expected to be approximately $438.8 million. In connection with the separation, HSNi is expected to distribute the net proceeds of the financing to IAC except for $50 million which it will retain. To the extent that the net proceeds from the Bonds and Term Loans are less than $438.8 million there would be a corresponding reduction in the transfer of cash to IAC. HSNi will describe the terms of these new credit facilities and other indebtedness once HSNi has negotiated such terms. Upon completion of the spin-off, intercompany receivable balances will be extinguished.

HSNi's ability to fund its cash and capital needs will be affected by its ongoing ability to generate cash from operations, the overall capacity and terms of its financing arrangements as discussed above, and access to the equity markets. Given the volatility in the financial markets, IAC and HSNi continue to monitor the markets closely and will take steps to maintain financial flexibility and an appropriate capital structure.

## CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| **Contractual Obligations** | **Total** | **Less Than 1 Year** | **1-3 Years** | **3-5 Years** | **More Than 5 Years** |
| | | | (In thousands) | | |
| Purchase obligations(a) | $ 133,953 | $ 47,096 | $ 81,162 | $ 5,695 | $ — |
| Operating leases | 129,802 | 31,369 | 41,859 | 33,664 | 22,910 |
| Total contractual cash obligations | $ 263,755 | $ 78,465 | $ 123,021 | $ 39,359 | $ 22,910 |

(a) The purchase obligations primarily relate to cable contracts and include obligations for future cable distribution and commission guarantees.

## HSNi'S PRINCIPLES OF FINANCIAL REPORTING

HSNi reports Operating Income Before Amortization as a supplemental measure to generally accepted accounting principles ("GAAP"). This measure is one of the primary metrics by which HSNi evaluates the performance of its businesses, on which its internal budgets are based and by which management is compensated. HSNi believes that investors should have access to the same set of tools that it uses in analyzing its 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. HSNi provides and encourages investors to examine the reconciling adjustments between the GAAP and non-GAAP measure which are discussed below.

**Definition of HSNi's Non-GAAP Measure**

*Operating Income Before Amortization* is defined as operating income excluding, if applicable: (1) non-cash compensation expense and amortization of non-cash marketing, (2) amortization of intangibles and goodwill impairment, (3) pro forma adjustments for significant acquisitions, and (4) one-time items. HSNi believes this measure is useful to investors because it represents the operating results from the HSNi Businesses, taking into account depreciation, which HSNi believes is an ongoing cost of doing business, but excluding the effects of any other non-cash expenses. Operating Income Before Amortization has certain limitations in that it does not take into account the impact to HSNi's statement of operations of certain expenses, including non-cash compensation, non-cash marketing and acquisition-related accounting. HSNi endeavors to compensate for the limitations of the non-GAAP measure presented by also providing the comparable GAAP measure with equal or greater prominence and descriptions of the reconciling items, including quantifying such items, to derive the non-GAAP measure.

**Pro Forma Results**

HSNi has not presented Operating Income Before Amortization for 2005 on a pro forma basis for the Cornerstone acquisition because the results of Cornerstone were included in the reported results for the majority of 2005.

**One-Time Items**

Operating Income Before Amortization is presented before one-time items, if applicable. These items are truly one-time in nature and 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 one-time items.

**Non-Cash Expenses That Are Excluded From HSNi's Non-GAAP Measure**

*Non-cash compensation* expense consists principally of expense associated with the grants, including unvested grants assumed in acquisitions, of restricted stock, restricted stock units and stock options. These expenses are not paid in cash, and HSNi will include the related shares in its future calculations of diluted shares outstanding. Upon vesting of restricted stock and restricted stock units and the exercise of certain stock options, the awards will be settled, at HSNi's discretion, on a net basis, with HSNi remitting the required tax withholding amount from its current funds.

*Amortization of non-cash marketing* consists of non-cash advertising provided to HSNi by IAC. The non-cash marketing was secured by IAC from Universal Television as part of the IAC transaction pursuant to which VUE was created, and the subsequent transaction by which IAC sold its partnership interests in VUE (collectively referred to as the "NBC Universal Advertising"). The NBC Universal Advertising is available for television advertising on various NBC Universal network and cable channels without any cash cost.

The NBC Universal Advertising is excluded from Operating Income Before Amortization because it is non-cash and is incremental to the marketing and advertising that HSNi would otherwise undertake as a result of its ordinary cost/benefit marketing planning process. Accordingly, HSNi's aggregate level of advertising, and the increased concentration of that advertising on NBC Universal network and cable channels, does not reflect what HSNi's advertising effort would otherwise be without these credits. As a result, management believes that treating the NBC Universal Advertising as an expense does not appropriately reflect its true cost/benefit relationship, nor does it best reflect HSNi's long-term level of advertising expenditures. Nonetheless, while the benefits directly attributable to television advertising are always difficult to determine, and especially so with respect to the NBC Universal Advertising due to its incrementality and heavy concentration, it is likely that HSNi does derive benefits from it, though management believes such benefits are generally less than those received through its regular marketing and advertising for the reasons stated above. Operating Income Before Amortization therefore has the limitation of including those benefits while excluding the associated expense.

*Amortization of intangibles* is a non-cash expense relating primarily to acquisitions. At the time of an acquisition, the intangible assets of the acquired company, such as distribution agreements, customer relationships and merchandise agreements, are valued and amortized over their estimated lives. HSNi believes that since intangibles represent costs incurred by the acquired company to build value prior to acquisition, they were part of transaction costs.

## RECONCILIATION OF OPERATING INCOME BEFORE AMORTIZATION

For a reconciliation of Operating Income Before Amortization to operating income for HSNi's operating segments and to net income in total for the years ended December 31, 2007, 2006 and 2005, see Note 9 to the combined financial statements.

### Critical Accounting Policies and Estimates

The following disclosure is provided to supplement the descriptions of HSNi's accounting policies contained in Note 2 to the combined financial statements in regard to significant areas of judgment. HSNi's management is required to make certain estimates and assumptions during the preparation of its combined 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 combined financial statements. They also impact the reported amount of net income during any period. Actual results could differ from those estimates. Because of the size of the financial statement elements to which they relate, some of HSNi's accounting policies and estimates have a more significant impact on its combined financial statements than others. What follows is a discussion of some of HSNi's more significant accounting policies and estimates.

#### Recoverability of Long-Lived Assets

HSNi reviews the carrying value of all long-lived assets, primarily property and equipment and definite-lived intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may be impaired. In accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), impairment is considered to have occurred whenever the carrying value of a long-lived asset exceeds the sum of the undiscounted cash flows that is expected to result from the use and eventual disposition of the asset. The determination of cash flows is based upon assumptions that may not occur. The value of long-lived assets that is subject to assessment for impairment in accordance with SFAS 144 is $172.6 million at December 31, 2007.

**Recoverability of Goodwill and Indefinite-Lived Intangible Assets**

Goodwill impairment is determined using a two-step process. The first step of the process is to compare the fair value of a reporting unit with its carrying amount, including goodwill. In performing the first step, HSNi determines the fair value of its reporting units by using a discounted cash flow ("DCF") analysis. Determining fair value using a DCF analysis requires the exercise of significant judgments, including judgments about appropriate discount rates, perpetual growth rates and the amount and timing of expected future cash flows. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step of the impairment test is not required. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is required to be performed to measure the amount of impairment, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

The impairment test for indefinite-lived intangible assets involves a comparison of the estimated fair value of the intangible asset with its carrying value. If the carrying value of the indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. The estimates of fair value of indefinite-lived intangible assets are determined using a DCF valuation analysis that employs a "relief from royalty" methodology in estimating the fair value of its trade names and trademarks. Significant judgments inherent in this analysis include the determination of royalty rates, discount rates and the terminal growth rates.

Goodwill and indefinite-lived intangible assets, primarily trade names and trademarks, are tested annually for impairment as of October 1st or earlier upon the occurrence of certain events or substantive changes in circumstances. HSNi's 2007 annual impairment assessment did not identify an impairment. HSNi's reporting units are currently operating in dynamic and challenged industry segments. To illustrate the magnitude of potential impairment charges relative to future changes in estimated fair value, had the estimated fair value of HSNi's reporting units and their respective indefinite-lived intangible assets been hypothetically lower by 10% as of October 1, 2007, the aggregate book value of goodwill and indefinite-lived intangible assets would have exceeded fair value by approximately $166.0 million at HSN and $74.0 million at Cornerstone. Had the estimated fair values of HSNi's reporting units and their respective indefinite-lived intangible assets been hypothetically lower by 20% as of October 1, 2007, the book value of goodwill and indefinite lived-intangible assets would have exceeded fair value by approximately $441.0 million at HSN and $156.0 million at Cornerstone.

**Returns Reserves**

Revenue from HSNi primarily consists of merchandise sales and is reduced by incentive discounts and sales returns. In accordance with Staff Accounting Bulletin 104, revenue is recorded when delivery to the customer has occurred. Delivery is considered to have occurred when the customer takes title and assumes the risks and rewards of ownership, which is generally on the date of shipment. HSNi's sales policy allows customers to return merchandise for a full refund or exchange, subject in some cases to restocking fees and exceptions for certain merchandise. Allowances for returned merchandise and other adjustments (including reimbursed shipping and handling costs) are provided based upon past experience. HSNi's returns reserves at December 31, 2007 and 2006 were based upon estimated return rates of 18.4% and 17.7%, respectively, which were arrived at based upon historical levels of actual returns. Actual levels of product returns may vary from these estimates.

### Allowance for Doubtful Accounts

HSNi makes judgments as to its ability to collect outstanding receivables and provide allowances when it is assessed that all or a portion of the receivable will not be collected. HSNi determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, its previous loss history and the condition of the general economy. HSNi writes off accounts receivable when they become uncollectible. As of December 31, 2007, HSNi's allowance for doubtful accounts is $8.1 million.

### Income Taxes

Estimates of deferred income taxes and the significant items giving rise to the deferred assets and liabilities are shown in Note 8, and reflect management's assessment of actual future taxes to be paid on items reflected in the combined financial statements, giving consideration to both timing and the probability of realization. As of December 31, 2007, the balance of deferred tax liabilities, net, is $795.4 million. Actual income taxes could vary from these estimates due to future changes in income tax law, state income tax apportionment or the outcome of any review of IAC's tax returns by the IRS, as well as actual operating results of HSNi that vary significantly from anticipated results. Effective January 1, 2007, HSNi adopted the provisions of FIN 48. As a result of the adoption of FIN 48, HSNi recognizes liabilities for uncertain tax positions based on the two-step process prescribed by the interpretation. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. This measurement step is inherently difficult and requires subjective estimations of such amounts to determine the probability of various possible outcomes. HSNi considers many factors when evaluating and estimating its tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes.

### Inventory Valuation

Inventories are valued at the lower of cost or market, cost being determined based upon the first-in, first-out method. Market is determined on the basis of net realizable value, giving consideration to obsolescence and other factors. Net realizable value is estimated by HSNi based upon historical sales data, the age of inventory, the quantity of goods on hand and the ability to return merchandise to vendors. The actual net realizable value may vary from estimates due to changes in customer tastes or viewing habits, or judgmental decisions made by merchandising personnel when ordering new products. As of December 31, 2007, HSNi had $317.4 million of inventory on hand.

## Seasonality

Seasonality impacts HSNi, with revenue highest in the fourth quarter, but not to the same extent it impacts the retail industry in general.

## New Accounting Pronouncements

Refer to Note 2 to the combined financial statements for a description of recent accounting pronouncements.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

**Foreign Currency Exchange Risk**

During the second quarter of 2003, one of HSNi's foreign subsidiaries entered into a foreign exchange forward contract with a notional amount of $38.6 million which was used to hedge against the change in value of a liability denominated in a currency other than the subsidiary's functional currency. In connection with the sale of HSE, HSNi unwound the foreign exchange forward contract during June 2007. Prior to unwinding this contract, all foreign exchange remeasurement gains and losses related to the contract and liability were recognized each period in the statements of operations and were offsetting. Subsequent to the sale of HSE, HSNi does not have significant exposure to foreign currency risk and does not hold any derivative instruments at December 31, 2007 or March 31, 2008.

## Management of HSNi

### HSNi Board of Directors and Executive Officers

The following table sets forth information as to persons who are expected to serve as HSNi directors and executive officers following the spin-offs. The HSNi Board of Directors, the composition of which will comply with the independence requirements under the current standards imposed by the Marketplace Rules of the Nasdaq Stock Market (the "Marketplace Rules"), is currently expected to consist of directors.

| Name | Age | Position(s) |
|---|---|---|
| Mindy Grossman | 50 | Chief Executive Officer and Director of HSNi |
| Roxane Al-Fayez | 51 | President and Chief Executive Officer of Cornerstone Brands, Inc. |
| Mark P. Ethier | 48 | Executive Vice President and Chief Operations Officer of HSN |
| William Lynch | 38 | Executive Vice President/General Manager—Marketing, Content & Dot Com of HSN |
| Lynne Ronon | 55 | Executive Vice President, Merchandising of HSN |
| Judy Schmeling | 48 | Executive Vice President and Chief Financial Officer of HSNi |
| James P. Warner | 43 | Executive Vice President and General Counsel of HSNi |

### Directors

Background information about those individuals who are expected to serve as directors of HSNi appears below.

*Mindy Grossman*, age 50, will serve as Chief Executive Officer and director of HSNi upon completion of the spin-offs. Ms. Grossman currently serves as Chief Executive Officer of IAC Retailing, a position she has held since April 2006. A 30-year veteran of the retail and apparel industries, Ms. Grossman joined IAC from Nike, Inc., where she served as Vice President and head of the company's global apparel business from October 2000 to March 2006. Prior to Nike, Ms. Grossman was President and CEO at Polo Jeans Company from October 1995 to October 2000. Ms. Grossman was Vice President of New Business at Polo Ralph Lauren Corporation from October 1994 to October 1995 and President of the Chaps Ralph Lauren division of Warnaco's Menswear division from September 1991 to October 1994. Ms. Grossman was Vice President of Sales and Merchandising at Tommy Hilfiger from June 1987 to September 1991. Ms. Grossman began her career working for a variety of other apparel companies. Ms. Grossman serves on the Board of Directors at the National Retail Federation, as well as the East Harlem School at Exodus House in New York. She is the Chairperson of the Fashion Institute of Technology's Executive Women in Fashion Advisory Board, and is a member of the advisory board of the J. Baker School of Retail at the Wharton School of Business.

### Executive Officers

Background about HSNi's executive officers who are not expected to serve as directors appears below.

*Roxane Al-Fayez*, age 51, will serve as HSNi's President and Chief Executive Officer of Cornerstone Brands, Inc. upon completion of the spin-offs. Ms. Al-Fayez currently serves as President and Chief Executive Officer of Cornerstone Brands, Inc., a subsidiary of HSN, a position she has held since April 2007. Prior to this time, Ms. Al-Fayez served as Executive Vice President, Chief Marketing Officer of Victoria's Secret Direct and Chief Administrative Officer of Bath & Body Works Direct, both divisions of Limited Brands Inc., from August 2005 through October 2006. Previously, Ms. Al-Fayez served as Executive Vice President of Direct Operations, Distribution and Information Technology of J. Crew Group from October 2003 through August 2005. Prior to joining J. Crew, Ms. Al-Fayez was Vice President of Operations at Gap Inc. Direct from August 1997 to October 2003.

*Mark P. Ethier*, age 48, will serve as Executive Vice President and Chief Operations Officer of HSN upon completion of the spin-offs, which position he has held since December 2004. He had previously served as Executive Vice President of Operations since July 2001. Prior to joining HSN, Mr. Ethier worked for The Walt Disney Company in the Disney Stores business unit from March 1997 to July 2001 in capacities of Senior Vice President Global Operations and Vice President/Chief Information Officer. Prior to joining Walt Disney, Mr. Ethier held the position of Vice President of Operations at Pacific Linen, a specialty retailer of home goods from March 1994 to March 1997, and prior to that held positions of Vice President of Operations at Builders Emporium, a hardware chain in Southern California, and Vice President of Technology at Ames Department stores, a Northeastern Discount Store chain. Mr. Ethier started his career at Sage-Allen Company, a family owned department store chain in Connecticut in 1981.

*William Lynch*, age 38, will serve as Executive Vice President/General Manager—Marketing, Content & Dot Com of HSN upon completion of the spin-offs, which position he has held since November 2007. Prior to that, Mr. Lynch served as Executive Vice President/General Manager—Dot Com from December 2006 to October 2007. Mr. Lynch has also been President and Chief Executive Officer of Gifts.com, Inc., a subsidiary of IAC, since November 2004. Prior to joining IAC, Mr. Lynch was a founder of Bandera Capital, an investment firm specializing in investing in the search marketing and e-commerce sector, where he served as a Principal from January 2004 to November 2004. Prior to Bandera Capital, Mr. Lynch was Vice President/General Manager—Web Marketing and E-Commerce of Palm, Inc. from November 2000 to January 2004. Prior to Palm, Mr. Lynch held various senior level brand management positions for consumer product companies, including Diageo, Seagram/Universal and Scout Electromedia, a Chase-Flatiron and Idealab-funded start-up, based in San Francisco.

*Lynne Ronon*, age 55, will serve as Executive Vice President, Merchandising of HSN upon completion of the spin-offs, which position she has held since October 2007. Prior to joining HSN, Ms. Ronon was Senior Vice President North Asia for Burberry from December 2003 to September 2007. Prior to joining Burberry, Ms. Ronon worked at Lane Crawford, a luxury department store based in Hong Kong, from November 2001 to July 2003. Ms. Ronon served as a consultant to Lane Crawford from 2001 to 2002 and then as Senior Vice President Commercial between 2002 and 2003. Prior to her tenure with Lane Crawford, Ms. Ronon held various positions at Saks Fifth Avenue from August 1986 to August 2001, including Senior Vice President Chief Merchant from 2000 to 2001, Senior Vice President General Merchandise Manager from 1995 to 2000, Vice President Divisional Merchandise Manager from 1987 to 1995, and Buyer for Petites from 1986 to 1987. Prior to Saks Fifth Avenue, Ms. Ronon held various positions at Gimbels East in New York and Philadelphia.

*Judy Schmeling*, age 48, will serve as Executive Vice President and Chief Financial Officer of HSNi upon completion of the spin-offs. She currently serves as Executive Vice President and Chief Financial Officer of IAC Retailing, a position she has held since February 2002. Ms. Schmeling has held positions of increasing responsibility since joining HSN in September 1994. Prior to her role as Executive Vice President and Chief Financial Officer, Ms. Schmeling served as Senior Vice President Finance from November 1999 to February 2002. Ms. Schmeling also served as Chief Operating Officer of HSN's international operations from January 2001 to February 2002. Ms. Schmeling served as Vice President, Strategic Planning and Analysis of HSN from January 1998 to November 1999. Ms. Schmeling served as Director of Investor Relations and Operating Vice President, Finance of HSN from September 1994 to January 1998 during the time in which HSN was a separately traded public company. Prior to joining HSN, Ms. Schmeling was Managing Director of Tunstall Consulting, Inc., a corporate financial planning firm, from 1986 to 1994. Ms. Schmeling began her career at Deloitte & Touche, an international public accounting firm where she held various positions from 1982 to 1986.

*James P. Warner*, age 43, will serve as Executive Vice President and General Counsel of HSNi upon completion of the spin-offs. Mr. Warner currently serves as Executive Vice President and General Counsel of IAC Retailing, a position he has held since March 2007. Prior to joining IAC Retailing, Mr. Warner was based in London and served as Senior Vice President, European Counsel of

Ticketmaster, a subsidiary of IAC. Mr. Warner joined Ticketmaster in January 2001 as its Vice President and European Counsel. Prior to joining Ticketmaster, Mr. Warner served as an associate and then as a partner at DMA Legal, a London law firm, between October 1997 and December 2000. Prior to that, Mr. Warner was an associate at Hemenway & Barnes in Boston, from 1993 to 1997. Mr. Warner was a law clerk to the Justices of the Massachusetts Superior Court from 1992 to 1993. Mr. Warner serves on the Board of the Electronic Retailing Association.

**Committees of the Board of Directors**

Concurrent with the completion of the spin-offs, the HSNi Board of Directors will establish the following committees, with committee membership to be determined: the Audit Committee, the Compensation and Human Resources Committee, the Nominating Committee and the Executive Committee.

***Audit Committee.*** The Audit Committee of the HSNi Board of Directors will consist of three persons and the composition of the committee will satisfy the independence requirements under the current standards imposed by the rules of the SEC and the Marketplace Rules. The HSNi Board of Directors will determine which member of the Audit Committee is an "audit committee financial expert," as such term is defined in applicable SEC rules.

The Audit Committee will function pursuant to a written charter adopted by the HSNi Board of Directors, pursuant to which it will be granted the responsibilities and authority necessary to comply with Rule 10A-3 of the Securities Exchange Act of 1934, as amended. The Audit Committee will be appointed by the HSNi Board of Directors to assist the Board with a variety of matters, including monitoring (1) the integrity of HSNi's financial statements, (2) the effectiveness of HSNi's internal control over financial reporting, (3) the qualifications and independence of HSNi's independent registered public accounting firm, (4) the performance of HSNi's internal audit function and independent registered public accounting firm and (5) the compliance by HSNi with legal and regulatory requirements.

***Compensation and Human Resources Committee.*** The Compensation and Human Resources Committee will be authorized to exercise all of the powers of the HSNi Board of Directors with respect to matters pertaining to compensation and benefits, including, but not limited to, salary matters, incentive/bonus plans, stock compensation plans, retirement programs and insurance plans. The composition of this committee will satisfy the independence requirements under the current standards imposed by the Marketplace Rules, as well as applicable SEC and Internal Revenue Service rules.

***Nominating Committee.*** The Nominating Committee will be responsible for identifying individuals qualified to become members of HSNi's Board of Directors, recommending to the Board director nominees for the annual meeting of shareholders and otherwise on an as needed basis. The composition of this committee will satisfy the independence requirements under the current standards imposed by the Marketplace Rules.

***Executive Committee.*** The Executive Committee will have all the power and authority of the HSNi Board of Directors, except those powers specifically reserved to the HSNi Board of Directors by Delaware law or HSNi's organizational documents.

***Other Committees.*** In addition to the foregoing committees, the HSNi Board of Directors, by resolution, may from time to time establish other committees of the HSNi Board of Directors, consisting of one or more of its directors.

**Director Compensation**

***Non-Employee Director Arrangements.*** Each member of the HSNi Board of Directors will receive an annual retainer in the amount of $50,000. Each member of the Audit and Compensation and Human Resources Committees (including their respective chairs) will receive an additional annual retainer in the amount of $10,000. Each member of the Nominating Committee will receive an additional annual retainer in the amount of $5,000. Lastly, the chair of each of the Audit and Compensation and Human Resources Committees will receive an additional annual chairperson retainer in the amount of $15,000.

In addition, each non-employee director will receive a grant of restricted stock units with a dollar value of $100,000 upon his or her initial election to the HSNi Board of Directors and annually thereafter upon re-election on the date of HSNi's annual meeting of stockholders. The terms of these restricted stock units provide for (i) vesting in two equal annual installments commencing on the first anniversary of the grant date, (ii) cancellation and forfeiture of unvested units in their entirety upon termination of service with the HSNi Board of Directors and (iii) full acceleration of vesting upon a change in control of HSNi. Non-employee directors are also reimbursed for all reasonable expenses incurred in connection with attendance at HSNi Board and Committee meetings.

The Compensation and Human Resources Committee will have primary responsibility for establishing non-employee director compensation arrangements, which are designed to provide competitive compensation necessary to attract and retain high quality non-employee directors and to encourage ownership of HSNi stock to further align directors' interests with those of HSNi's stockholders. When considering non-employee director compensation arrangements, HSNi management will provide the Compensation and Human Resources Committee with information regarding various types of non-employee director compensation arrangements and practices of select peer companies.

***Deferred Compensation Plan for Non-Employee Directors.*** Under HSNi's Deferred Compensation Plan for Non-Employee Directors, non-employee directors will be able to defer all or a portion of their Board and Board Committee fees. Eligible directors who defer all or any portion of these fees can elect to have such fees applied to the purchase of share units, representing the number of shares of HSNi common stock that could have been purchased on the relevant date, or credited to a cash fund. If any dividends are paid on HSNi common stock, dividend equivalents will be credited on the share units. The cash fund will be credited with deemed interest at an annual rate equal to the weighted average prime lending rate of JPMorgan Chase Bank. After a director ceases to be a member of the HSNi Board of Directors, he or she will receive (i) with respect to share units, such number of shares of HSNi common stock as the share units represent and (ii) with respect to the cash fund, a cash payment in an amount equal to deferred amounts, plus accrued interest. These payments will be made in either one lump sum or up to five installments, as previously elected by the eligible director at the time of the related deferral election.

**Director Independence**

Under the Marketplace Rules, HSNi's Board will have a responsibility to make an affirmative determination that those members of its Board that serve as independent directors do not have any relationships with HSNi and its businesses that would impair their independence. In connection with these determinations, HSNi's Board will review information regarding transactions, relationships and arrangements involving HSNi and its businesses and each director that it deems relevant to independence, including those required by the Marketplace Rules. This information is obtained from director responses to a questionnaire circulated by HSNi management, HSNi records and publicly available information. Following these determinations, HSNi management will monitor those transactions, relationships and arrangements that are relevant to such determinations, as well as solicit updated information potentially relevant to independence from internal personnel and directors, to determine whether there have been any developments that could potentially have an adverse impact on HSNi's prior independence determinations.

**Compensation Committee Interlocks and Insider Participation**

HSNi's Board of Directors will have a Compensation and Human Resources Committee. It is expected that none of the members of this Committee will be or will have been in the past an officer or employee of HSNi or any of its businesses at the time of their respective service on the Committee.

## HSNi Executive Compensation

### *Compensation Discussion and Analysis*

#### *Roles and Responsibilities*

To date, the compensation of HSNi's executive officers has been predominantly determined by IAC, acting in effect as HSNi's compensation committee. IAC's compensation process is principally driven by IAC's General Counsel, who has primary responsibility for administering compensation and making compensation recommendations, with all material decisions approved by IAC's Chairman and Chief Executive Officer and, where appropriate, the Compensation Committee of IAC's Board of Directors (specifically with respect to all awards of IAC equity).

This Compensation Discussion and Analysis deals exclusively with historical information while HSNi has been part of IAC. Following the spin-off, HSNi will have an independent board of directors, which will in turn have a compensation committee with responsibility for establishing HSNi's compensation philosophy and programs and determining appropriate payments and awards to its executive officers. Because HSNi's compensation committee has not yet been established, HSNi cannot predict what compensation philosophies and programs will be adopted following the spin-off, and therefore this historical report is not necessarily indicative of the practices HSNi will follow when it is an independent public company.

In general, IAC has been responsible for establishing bonus pools and equity pools for HSNi, and then such pools are allocated throughout HSNi, with IAC directly establishing all compensation elements for HSNi's CEO, while the HSNi CEO makes the determinations for HSNi's other executive officers, subject to IAC's review and approval.

Neither HSNi nor IAC has an ongoing relationship with any particular compensation consulting firm, though IAC has from time to time retained the services of consultants on specific occasions regarding broad-based IAC compensation programs. At no time has a consultant been engaged with respect to compensation of any of HSNi's executive officers.

#### *Philosophy and Objectives*

HSNi's executive officer compensation program is designed to increase long-term stockholder value by attracting, retaining, motivating and rewarding leaders with the competence, character, experience and ambition necessary to enable HSNi to meet its growth objectives.

When establishing compensation packages for a given executive, HSNi follows a flexible approach, making decisions based on a host of factors particular to a given executive situation, including HSNi's firsthand experience with the competition for recruiting and retaining executives, negotiation and discussion with the relevant individual, competitive survey data, internal equity considerations and other factors HSNi deems relevant at the time.

Similarly, HSNi has not followed an arithmetic approach to establishing compensation levels and measuring and rewarding performance, as these often fail to adequately take into account the multiple factors that contribute to success at the individual and business level. In any given period, HSNi may have multiple objectives, and these objectives, and their relative importance, often change as the competitive and strategic landscape shifts, even within a given compensation cycle. As a result, formulaic approaches often over-compensate or under-compensate a given performance level. Accordingly, HSNi has historically avoided the use of strict formulas or pre-set performance targets in its compensation practices and has relied primarily on a discretionary approach.

***Compensation Elements***

HSNi's compensation packages for executive officers have primarily consisted of salary, annual bonuses, long-term incentives (typically equity awards, and in certain instances, cash plans), perquisites and other benefits. Prior to making specific decisions related to any particular element of compensation, HSNi typically reviews the total compensation of each executive, evaluating the executive's total near and long-term compensation in the aggregate. HSNi determines which element or combinations of compensation elements (salary, bonus or equity) can be used most effectively to further its compensation objectives; however, all such decisions are subjective, and made on a facts and circumstances basis without any prescribed relationship between the various elements of the total compensation package.

*Salary*

*General.* HSNi typically negotiates a new executive officer's starting salary upon arrival, based on the executive's prior compensation history, prior compensation levels for the particular position within HSNi, HSNi's location, salary levels of other executives within HSNi, salary levels available to the individual in alternative opportunities, reference to certain survey information and the extent to which HSNi desires to secure the executive's services.

Once established, salaries can increase based on a number of factors, including the assumption of additional responsibilities, internal equity, periodic market checks and other factors which demonstrate an executive's increased value to HSNi.

HSNi utilizes various salary surveys depending upon the position to determine a market relevant range of salaries for each position. At least two surveys are used in each analysis. HSNi uses the following surveys: Towers Perrin Compensation Data Bank, Towers Perrin Retail/Wholesale Executive Compensation Survey, and the Mercer Premium Executive Remuneration Survey. Depending on a variety of individualized factors, HSNi endeavors to pay at or above the median salary range for the relevant position; however there is no rigid approach.

*2007.* In 2007, Ms. Schmeling and Mr. Lynch each received salary increases in connection with entering into new employment agreements with HSNi. Based on survey and anecdotal data, HSNi determined that Ms. Schmeling's salary did not appropriately reflect her level of responsibility within the company, resulting in an increase of $50,000 to $400,000. Mr. Lynch assumed the responsibilities for HSN marketing and content in addition to his leadership of the online business, and as such a new salary was negotiated reflecting an increase from $350,000 to $450,000. Mr. Warner's salary of $315,000 was negotiated as part of his agreement to move to Tampa and assume the role of General Counsel.

*2008.* In 2008, Mr. Warner's salary was increased to $350,000 in connection with his increased responsibilities in connection with the spin-off, and Mr. Ethier's salary was increased to $450,000 in connection with the addition of operating responsibilities relating to HSNi's catalogs business. Both of these increases were based on survey data and internal equity considerations.

*Annual Bonuses*

*General.* HSNi's bonus program is designed to reward performance on an annual basis. Because of the variable nature of the bonus program, and because in any given year bonuses have the potential to make up a significant amount of an executive's total compensation, it provides an important incentive tool to achieve HSNi's annual objectives.

After consultation with HSNi management, IAC establishes the annual bonus pool for HSNi based on its assessment of HSNi's performance for the completed year. In large part, success has been measured based on HSNi's growth in profitability, but this is measured subjectively both in absolute terms over the prior year and in comparison to HSNi's competitors, taking into account economic and other factors, without any pre-established targets on which compensation levels are based. Additionally, consideration has sometimes been given to achievement of various strategic objectives over the course of the year and other factors IAC and HSNi's management deem relevant. No quantified weight has been given to any particular consideration and there has generally been no formulaic calculation. Rather, IAC has engaged in an overall assessment of appropriate bonus levels based on a subjective interpretation of all the relevant criteria.

IAC establishes the bonus of the HSNi CEO, taking into account her contractual bonus opportunity of 100% of salary which was established by negotiation as part of the inducement for Ms. Grossman to join HSNi. The specific bonus is established in large part based on the same considerations used in establishing the bonus pool for HSNi generally.

Ms. Grossman then establishes the bonus payments for the other executive officers out of the HSNi-wide bonus pool. Each executive officer has an annual bonus target, established by a combination of negotiation, internal equity and reference to survey data. Specific bonus payouts are determined based on the size of the bonus pool generally and the HSNi CEO's assessment of individual performance. The annual bonus target for Mr. Lynch is sixty-percent of salary and the annual target bonuses for Ms. Schmeling, Mr. Ethier and Mr. Warner are each fifty-percent of salary.

HSNi generally pays bonuses shortly after year-end following finalization of financial results for the prior year.

*2007.* HSNi experienced poor financial performance on both a sales and profit basis. However, HSNi's strategic repositioning plan began to take hold in the fourth quarter, with significantly improved year-over-year performance, providing a promising lead in to 2008. Based purely on annual profit performance, no bonuses would have been paid; however, IAC believed it was important to reward the late-year trend reversal and to provide increased motivation for key performers for 2008. Accordingly, a bonus pool was established that was significantly below aggregate target levels, but which provided for some level of reward compensation for key contributors, as generally determined by the HSNi CEO. The size of this pool was established on a purely subjective basis. In 2007, the performance of HSNi's catalogs business was not a significant factor in determining bonus compensation for HSNi's executive officers, as the executives of the HSN business and the catalogs business were compensated separately, though this is likely to change following the spin-off.

Out of the established bonus pool, IAC awarded Ms. Grossman a bonus of $500,000 while the other named executive officers received bonuses of $100,000 (Mr. Warner and Mr. Ethier), $120,000 (Ms. Schmeling) and $150,000 (Mr. Lynch). Because of the limited bonus pool available, these allocations were not particularly based on bonus targets but instead on subjective determinations of the HSNi CEO relating to the appropriate levels to reward, retain and motivate each individual.

*Long-Term Incentives*

*General.* HSNi believes that ownership shapes behavior, and that by providing a meaningful portion of an executive officer's compensation in stock, an executive's incentives are aligned with the stockholders' interests in a manner that drives better performance over time. As part of IAC, that led to each HSNi executive officer receiving IAC equity awards on a regular basis.

In setting particular award levels, the predominant objectives are providing the person with effective retention incentives, appropriate reward for past performance, and incentives for strong future performance. Appropriate levels to meet these goals may vary from year to year, and from individual to individual, based on a variety of factors.

The annual corporate performance factors relevant to setting bonus amounts that were discussed above, while taken into account, are generally less relevant in setting annual equity awards, as the awards tend to be more forward looking, and are a longer-term retention and reward instrument than annual bonuses.

Awards to the HSNi CEO are made by IAC. Additionally, IAC establishes a pool for annual equity awards which Ms. Grossman allocates to the company's employees, including the executive officers, subject to IAC's approval. In establishing the equity pool for HSNi, IAC has taken into account historical practices, its view of market compensation generally, the dilutive impact of equity grants across IAC, and other relevant factors. Additionally, IAC approves any equity grants recommended to be made to HSNi executives outside of the annual process. Executive officers receive grants that are subjectively determined based on the HSNi CEO's view of how best to allocate the equity pool for retention, reward and motivation based on a host of subjective factors (including past contribution, retention risk, contribution potential, and market data), with grants equal to annual salary being a basic guideline.

Except where otherwise noted, HSNi grants equity awards following year-end after finalization of financial results for the prior year. The meeting of the Compensation and Human Resources Committee of the IAC Board at which the awards are made is generally scheduled months in advance and without regard to the timing of the release of earnings or other material information.

*Restricted Stock Units.* Until 2008, IAC used restricted stock units, or RSUs, as its exclusive equity compensation tool for HSNi's executive officers. Through 2006, these awards generally vested in equal annual installments over five years (annual vesting RSUs), or cliff vested at the end of five years (cliff-vesting RSUs). Annual vesting awards were intended to provide frequent rewards and near-term retention incentives, while cliff-vesting RSUs provided more of a long-term retention mechanism.

In February 2007, IAC implemented a new equity instrument, Growth Shares, which were RSU grants that cliff vested at the end of three years in varying amounts depending upon growth in IAC's publicly reported metric, Adjusted Earnings Per Share, with certain modifications.

These awards were introduced throughout IAC to more closely link long-term reward with IAC's overall performance and to provide greater retentive effect by providing the opportunity to earn greater amounts through increased IAC performance. However, in connection with the spin-off, these awards will be converted into three-year cliff-vesting awards at the "target" value (or 50% of the shares actually granted), without variability based on performance. For information regarding the reasons behind this conversion, see "The Separation—Treatment of Outstanding IAC Compensatory Equity-Based Awards."

*Stock Options.* In 2008, IAC used non-qualified stock options as its primary equity compensation tool for HSNi's executive officers to continue the shift to performance-based equity that began with the granting of Growth Shares in 2007. IAC believes that following the spin-offs, HSNi's performance will have a greater correlation to the HSNi stock price than it did to IAC's price in the current conglomerated structure, thus making stock options a more targeted equity incentive tool. Stock options generally vest in equal installments over four years. IAC continues to use RSUs with a cliff vesting schedule in certain cases to reward executive leadership, contribution and to provide a retention mechanism.

*2007.* Ms. Grossman received a grant of 12,547 Growth Shares (at target value) which reflected the fact that she had received a larger grant upon her commencement with HSNi in May 2006. Mr. Lynch received a grant of 11,768 annual vesting RSUs in connection with the employment agreement entered into at the end of 2006. The other executive officers each received a combination of Growth Shares and annual vesting RSUs pursuant to the methodology outlined above in amounts reflected in the tables below.

*2008.* Ms. Grossman received 50,000 RSUs that cliff vest at the end of four years and 250,000 IAC options that vest annually over four years. Ms. Grossman also entered into an employment agreement that will become effective upon the consummation of the spin-off (the "New Grossman Employment Agreement") pursuant to which Ms. Grossman will receive, following the spin-off, three tranches of options priced based on enterprise values of $2.1 billion, $2.5 billion and $2.9 billion (or, if greater, the fair market value at the time of grant), each of which is intended to yield $3.33 million of compensation in the event HSNi's equity value, plus a number equal to the amount of debt HSNi has outstanding at the time of the spin-off, is equal to $3.4 billion.

Additionally, the New Grossman Employment Agreement provides for a cash-based incentive plan which provides from $0 to $4,000,000 in the aggregate in potential payments at the end of year 3 and the end of year 4 based on compounded annual EBITA growth of HSNi between 10% and 15% from 2007 levels.

Mr. Lynch received a grant of 50,000 annual vesting RSUs in connection with his entering into a new employment agreement and assuming additional responsibilities at the end of 2007, while Ms. Schmeling, Mr. Ethier and Mr. Warner received option grants of 42,500, 42,500 and 31,500 IAC options, respectively, pursuant to the general methodology described above.

*Spin-Off Adjustments.* In the spin-off, equity awards denominated in IAC stock will be adjusted as described in "The Separation—Treatment of Outstanding IAC Compensatory Equity-Based Awards."

Presuming the spin-off transactions occur prior to February 2009, the following table reflects the effect of these adjustments on all equity awards held by HSNi's executive officers:

| | Upon Completion of the Spin-Off | | | | |
|---|---|---|---|---|---|
| **Name** | **RSUs that will vest(#)** | **RSUs that will convert exclusively into RSUs of HSNi and vest on regular schedule(#)** | **RSUs that will be split among the post-transaction companies and vest after February 2009 on regular schedule(#)** | **Options outstanding at December 31, 2007—all of which will be split among the post-transaction companies(#)** | **Options granted after December 31, 2007—all of which will be converted into options of HSNi(#)** |
| Mindy Grossman | — | 94,277 | 21,728 | — | 250,000 |
| Mark Ethier | 43,249 | 25,096 | 24,903 | — | 42,500 |
| William Lynch | 2,354 | 57,061 | — | — | — |
| Judy Schmeling | 49,349 | 12,155 | 8,362 | 9,501 | 42,500 |
| James Warner | 3,908 | 5,249 | 2,928 | 3,130 | 31,500 |

* Excludes 6,682, 12,616, 11,288 and 3,515 RSUs that vested since December 31, 2007 or will vest prior to August 1, 2008 for Ms. Grossman, Mr. Ethier, Ms. Schmeling and Mr. Warner, respectively.

***Change of Control and Severance***

HSNi believes that providing executives with severance and change of control protection is critical to allowing executives to fully value the forward looking elements of their compensation packages, and therefore limit retention risk during uncertain times. Accordingly, HSNi's employment agreements and equity awards generally provide for salary continuation in the event of certain employment terminations beyond the control of the executive, as well as varying degrees of accelerated equity vesting in the event of a change of control of HSNi.

### *Other Compensation*

Ms. Grossman, who lives in New York but spends the majority of her professional time at HSNi's headquarters in Florida, received reimbursement of a variety of her Florida living and travel expenses, along with an associated tax gross-up. Under other limited circumstances, HSNi's executive officers have received non-cash and non-equity compensatory benefits. The values of these benefits are reported under the heading "Other Annual Compensation" in this filing pursuant to applicable rules, and are generally considered in determining overall compensation levels. Nonetheless, despite the fact that it reports Ms. Grossman's Florida reimbursements as compensation, HSNi does not believe Ms. Grossman receives a personal benefit as a result of such reimbursements, as they merely compensate her for the incremental expenses of commuting to and working in Florida, while her family continues to reside in New York. The executive officers do not participate in any deferred compensation or retirement program other than IAC's 401(k) plan.

### *Tax Deductibility*

IAC's practice has been to structure HSNi's compensation program in such a manner so that the compensation HSNi pays is deductible by IAC for federal income tax purposes. However, because the company's executive officers will now be subject to the limitations on deductibility under Section 162(m) of the Internal Revenue Code of 1986, as amended, and were not previously, certain compensatory arrangements established prior to the spin-off but that will be paid following the spin-off may not result in deductible compensation for HSNi.

### *Summary Compensation Table*

| Name and Principal Position | Year | Salary ($) | Bonus ($) | Stock Awards ($)(1) | All Other Compensation ($)(2) | Total ($) |
|---|---|---|---|---|---|---|
| Mindy Grossman<br>CEO | 2007 | 1,000,000 | 500,000 | 499,331 | 128,178 | 2,127,509 |
| Mark Ethier<br>EVP and COO | 2007 | 400,000 | 100,000 | 819,260 | 7,750 | 1,327,010 |
| William Lynch<br>EVP, HSN.com, Marketing and Content | 2007 | 356,731 | 150,000 | 129,503 | 205,949 | 842,183 |
| Judy Schmeling<br>EVP and CFO | 2007 | 387,500 | 120,000 | 681,413 | 7,750 | 1,196,663 |
| James Warner<br>EVP and General Counsel(3) | 2007 | 259,687 | 110,000 | 153,482 | 40,984 | 564,153 |

(1) Reflects the dollar amount recognized by IAC for financial statement reporting purposes for the fiscal year ended December 31, 2007, in accordance with SFAS 123R, for IAC restricted stock units ("RSUs") awarded in and prior to 2007 under IAC's stock and annual incentive plans. These amounts do not, therefore, represent the value of IAC equity compensation awarded or realized in 2007. For further discussion of IAC's accounting for its equity compensation plans, see Note 4 of IAC's audited financial statements for the fiscal year ended December 31, 2007 included in its Annual Report on Form 10-K filed with the SEC on February 29, 2008. For information on awards made and realized in 2007, see the "Grants of Plan-Based Awards" and "Option Exercises and Stock Vested" tables below.

(2) See the table below for additional information on amounts for 2007. Pursuant to SEC rules, perquisites and personal benefits are not reported for any named executive for whom such amounts were less than $10,000 in the aggregate for the fiscal year.

| | Mindy Grossman | Mark Ethier | William Lynch | Judy Schmeling | James Warner |
|---|---|---|---|---|---|
| Housing | $ 58,500 | — | — | — | — |
| Relocation expenses | — | — | $ 194,468 | — | $ 25,785 |
| Personal travel | — | — | — | — | 4,180 |
| Tax Payments(a) | 52,923 | — | 3,731 | — | 6,112 |
| Automobile | 9,005 | — | — | — | |
| 401(k) plan company match | 7,750 | $ 7,750 | 7,750 | $ 7,750 | 4,907 |
| Total All Other Compensation | $ 128,178 | $ 7,750 | $ 205,949 | $ 7,750 | $ 40,984 |

(a) Represents tax reimbursements on income imputed (i) to Ms. Grossman related to housing provided in Florida; (ii) to Mr. Lynch related to relocation to Florida; and (iii) to Mr. Warner related to relocation to Florida and certain personal travel.

(3) Includes compensation earned by Mr. Warner from January 1–March 12, 2007 as an employee of Ticketmaster, a subsidiary of IAC. Such amounts were converted to U.S. dollars based on an average exchange rate for 2007 of 1GBP to $0.49987.

***Grants of Plan-Based Awards***

The table below provides information regarding IAC equity awards granted to HSNi's named executives in 2007.

| | | Estimated Future Payouts Under Equity Incentive Plan Awards(1)(2) | | | | |
|---|---|---|---|---|---|---|
| Name | Grant Date | Threshold (#) | Target (#) | Maximum (#) | All other stock awards: Number of shares of stock or units(#)(2) | Grant Date Fair Value of Stock and Option Awards($)(3) |
| Mindy Grossman | 2/16/07 | 697 | 12,547 | 25,094 | — | 499,998 |
| Mark Ethier | 2/16/07 | 279 | 5,018 | 10,036 | 5,019 | 399,975 |
| William Lynch | 2/16/07 | — | — | — | 11,768 | 349,980 |
| Judy Schmeling | 2/16/07 | 697 | 12,546 | 25,092 | 5,019 | 699,966 |
| James Warner | 2/16/07 | 244 | 4,392 | 8,784 | 4,391 | 350,002 |

(1) Reflects performance-based RSU awards which cliff vest at the end of three years in varying amounts depending upon growth in IAC's publicly reported metric, Adjusted Earnings Per Share, with certain modifications. The threshold amount represents 5.56% of the target payout, which amount would vest upon achieving the minimum growth threshold. These awards will be converted into three year cliff-vesting awards in the spin-offs as described under "The Separation—Treatment of Outstanding IAC Compensatory Equity-Based Awards."

(2) RSU award recipients would be credited with amounts for cash dividends paid on IAC common stock, with such additional amounts vesting concurrently with the related RSU award. For information on the treatment of RSU awards granted to HSNi's named executives upon a termination of employment or a change in control, see the discussion under Potential Payments Upon Termination or Change in Control below.

(3) The fair value of equity incentive plan awards is based on the target amount.

***Outstanding Equity Awards at Fiscal Year-End***

The table below provides information regarding various IAC equity awards held by HSNi's named executives as of December 31, 2007. The market value of all RSU awards is based on the closing price of IAC common stock as of December 31, 2007 ($26.92), the last trading day of 2007.

| | Option Awards(1) | | | Stock Awards(1)(2) | | | |
|---|---|---|---|---|---|---|---|
| Name | Number of securities underlying unexercised Options (#)(3) (Exercisable) | Option exercise price ($) | Option expiration date | Number of shares or units of stock that have not vested (#)(4) | Market value of shares or units of stock that have not vested ($)(4) | Equity incentive plan awards: Number of unearned shares, units or other rights that have not vested (#)(4) | Equity incentive plan awards: Market or payout value of unearned shares, units or other rights that have not vested ($)(4) |
| Mindy Grossman | — | — | — | 60,140 | 1,618,969 | 697 | 16,394 |
| Mark Ethier | — | — | — | 100,846 | 2,714,774 | 279 | 7,511 |
| William Lynch | — | — | — | 9,415 | 253,452 | — | — |
| Judy Schmeling | 2,500 | $ 31.00 | 12/20/09 | — | — | — | — |
| | 7,001 | $ 26.46 | 12/16/11 | — | — | — | — |
| | — | — | — | 68,608 | 1,846,927 | 697 | 18,763 |
| James Warner | 1,437 | $ 11.43 | 2/20/11 | | | | |
| | 583 | $ 17.22 | 5/15/11 | — | — | — | — |
| | 1,110 | $ 33.13 | 3/19/11 | — | — | — | — |
| | — | — | — | —11,208 | —301,719 | —244 | —6,568 |

(1) For a discussion regarding how these IAC equity awards will be treated in the spin-offs, see "The Separation—Treatment of Outstanding IAC Compensatory Equity-Based Awards."

(2) Amounts shown for equity incentive plan awards are based on achieving the minimum growth threshold in accordance with SEC rules.

(3) On August 9, 2005, IAC completed the separation of its travel and travel-related businesses and investments (other than Interval and TV Travel Shop) into an independent public company (the "Expedia Spin-Off"). In connection with the Expedia Spin-Off, each then-vested option to purchase shares of IAC common stock was converted into an option to purchase shares of IAC common stock and an option to purchase shares of Expedia common stock. Adjustments were made to the number of shares subject to each IAC and Expedia stock option to give effect to the one-for-two reverse stock split effected in connection with the Expedia Spin-Off and to the corresponding exercise prices based on the relative market capitalizations of IAC and Expedia at the time of the Expedia Spin-Off. The adjusted IAC and Expedia stock options otherwise have the same terms and conditions, including exercise periods, as the corresponding vested IAC stock options outstanding immediately prior to the Expedia Spin-Off.

For the named executives, any value realized upon the exercise of Expedia stock options is treated for tax purposes as compensation payable to them in their respective capacities as executive officers of the Company. Accordingly, information regarding Expedia stock options held by HSNi's named executives as of December 31, 2007 appears in the table immediately below and information regarding any exercises of Expedia stock options by such named executives is reported in the Option Exercises and Stock Vested table below.

| Name | Number of Options (#) | Option Exercise Price ($) | Option Expiration Date |
|---|---|---|---|
| Judy Schmeling | 2,500 | $ 24.82 | 12/20/09 |
| | 7,500 | $ 20.06 | 4/25/11 |
| | 7,500 | $ 21.19 | 12/16/11 |

(4) The table below provides the following information regarding RSU awards held by HSNi's named executives as of December 31, 2007: (i) the grant date of each award, (ii) the number of RSUs outstanding (on an aggregate and grant-by-grant basis), (iii) the market value of RSUs outstanding as of December 31, 2007, (iv) the vesting schedule for each award and (v) the total number of RSUs that vested or are scheduled to vest in each of the fiscal years ending December 31, 2008, 2009, 2010, 2011 and 2012.

| | Number of Unvested RSUs as of 12/31/07 | Market Value of Unvested RSUs as of 12/31/07 | Vesting Schedule (#) | | | | |
|---|---|---|---|---|---|---|---|
| Grant Date | (#) | ($) | 2008 | 2009 | 2010 | 2011 | 2012 |
| Mindy Grossman | | | | | | | |
| 5/17/06(a) | 26,729 | 719,545 | 6,682 | 6,682 | 6,682 | 6,683 | — |
| 5/17/06(b) | 33,411 | 899,424 | — | — | — | 33,411 | — |
| 2/16/07(c) | 12,547 | 337,765 | — | — | 12,547 | — | — |
| *Total* | 72,687 | 1,956,734 | 6,682 | 6,682 | 19,229 | 40,094 | — |
| Judy Schmeling | | | | | | | |
| 2/12/03(d) | 2,472 | 66,546 | 2,472 | — | — | — | — |
| 2/4/04(a) | 5,014 | 134,977 | 2,507 | 2,507 | — | — | — |
| 2/10/05(a) | 8,483 | 228,362 | 2,827 | 2,828 | 2,828 | — | — |
| 2/10/05(b) | 37,703 | 1,014,965 | — | — | 37,703 | — | — |
| 2/6/06(a) | 9,917 | 266,966 | 2,479 | 2,479 | 2,479 | 2,480 | — |
| 2/16/07(a) | 5,019 | 135,111 | 1,004 | 1,004 | 1,004 | 1,004 | 1,004 |
| 2/16/07(c) | 12,546 | 337,739 | — | — | 12,546 | — | — |
| *Total* | 81,154 | 2,184,666 | 11,289 | 8,818 | 56,560 | 3,484 | 1,004 |
| Mark Ethier | | | | | | | |
| 2/12/03(d) | 2,252 | 60,624 | 2,252 | — | — | — | — |
| 2/4/04(a) | 5,899 | 158,801 | 2,949 | 2,950 | — | — | — |
| 2/4/04(b) | 29,490 | 793,871 | — | 29,490 | — | — | — |
| 2/10/05(a) | 10,181 | 274,073 | 3,394 | 3,393 | 3,394 | — | — |
| 2/6/06(a) | 12,073 | 325,005 | 3,018 | 3,018 | 3,018 | 3,019 | — |
| 2/6/06(b) | 35,932 | 967,289 | — | — | — | 35,932 | — |
| 2/16/07(a) | 5,019 | 135,111 | 1,003 | 1,004 | 1,004 | 1,004 | 1,004 |
| 2/16/07(c) | 5,018 | 135,085 | — | — | 5,018 | — | — |
| *Total* | 105,864 | 2,849,859 | 12,616 | 39,855 | 12,434 | 39,955 | 1,004 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| William Lynch | | | | | | | |
| 2/16/07(e) | 9,415 | 253,452 | 2,354 | 2,353 | 2,354 | 2,354 | — |
| *Total* | 9,415 | 253,452 | 2,354 | 2,353 | 2,354 | 2,354 | — |
| James Warner | | | | | | | |
| 2/12/03(d) | 541 | 14,564 | 541 | — | — | — | — |
| 2/4/04(a) | 1,181 | 31,793 | 590 | 591 | — | — | — |
| 2/10/05(a) | 2,795 | 75,241 | 931 | 931 | 933 | — | — |
| 2/6/06(a) | 2,300 | 61,916 | 575 | 575 | 575 | 575 | — |
| 2/16/07(a) | 4,391 | 118,206 | 878 | 878 | 878 | 878 | 879 |
| 2/16/07(c) | 4,392 | 118,233 | — | — | 4,392 | — | — |
| *Total* | 15,600 | 419,952 | 3,515 | 2,975 | 6,778 | 1,453 | 879 |

(a) These awards vest in five equal annual installments on each of the first five anniversaries of the grant date, subject to continued employment.

(b) These awards vest in one lump sum installment on the fifth anniversary of the grant date, subject to continued employment.

(c) Represents the initial "target" awards. See the Grants of Plan-Based Awards table and footnote (1) thereto.

(d) These awards vest in four equal annual installments, beginning on the second anniversary of the grant date, subject to continued employment.

(e) These awards vest in five equal annual installments on each of the first five anniversaries of October 20, 2006, the date Mr. Lynch joined HSN, subject to continued employment.

***Option Exercises and Stock Vested***

The table below provides information regarding the number of shares acquired by HSNi's named executives during 2007 upon the exercise of stock options and the vesting of RSU awards and the related value realized, in each case, excluding the effect of any applicable taxes. The dollar value realized upon exercise of stock options represents the difference between (i) the sale price of the shares acquired on exercise for simultaneous exercise and sale transactions and (ii) the exercise price of the stock option, multiplied by the number of stock options that were exercised. The dollar value realized upon vesting of RSUs represents the closing price of IAC common stock on the applicable vesting date multiplied by the number of RSUs so vesting.

| | Option Awards | | Stock Awards | |
|---|---|---|---|---|
| Name | Number of Shares Acquired on Exercise (#) | Value Realized on Exercise ($) | Number of Shares Acquired on Vesting (#) | Value Realized on Vesting ($) |
| Mindy Grossman | — | — | 6,682 | 254,718 |
| Mark Ethier(1) | 39,375 | 257,962 | 12,279 | 474,429 |
| William Lynch | — | — | 2,353 | 63,225 |
| Judy Schmeling | — | — | 11,189 | 439,960 |
| James Warner(1) | 2,604 | 39,080 | 2,634 | 103,575 |

(1) Includes 24,375 and 2,604 Expedia shares acquired by Messrs. Ethier and Warner, respectively, upon the exercise of Expedia stock options received in connection with the Expedia Spin-Off.

***Potential Payments Upon Termination or Change in Control***

Change of Control

Pursuant to the terms of IAC's (and, following the spin-off, HSNi's) equity compensation plans and the award agreements thereunder, upon a change of control the named executive officers are generally entitled to accelerated vesting of (i) equity awards made prior to 2006 and (ii) equity awards made thereafter if, following such change in control, their employment is terminated by the company for any reason other than death, disability or cause (as defined in the relevant employment agreement), or by the executive for good reason (as defined in the relevant employment agreement) (a "Qualifying Termination"). Additionally, under the New Grossman Employment Agreement, Ms. Grossman will be entitled to full acceleration of all her equity awards that were granted prior to, or in connection with, the spin-off.

Severance

Cash. Upon a Qualifying Termination, HSNi's executive officers are generally entitled to salary continuation for the remainder of their agreements, except for Ms. Grossman, who will receive twenty-four months of salary continuation. The expiration dates of the employment agreements for Mr. Lynch, Ms. Schmeling, Mr. Ethier and Mr. Warner are November 19, 2010, March 31, 2009, February 28, 2010 and March 12, 2009, respectively. Additionally, under the New Grossman Employment Agreement, Ms. Grossman will also be entitled to pro rated portions of the bonus she would otherwise earn during the year in which the Qualifying Termination occurs, payable at the time such bonus would otherwise be payable. Ms. Grossman's rights under her long-term cash incentive plan continue following a Qualifying Termination.

Equity. Upon a Qualifying Termination, Ms. Grossman will receive full acceleration of her equity awards outstanding immediately following the spin-off.

Obligations. The amounts payable upon a Qualifying Termination are all subject to the execution of a general release and to compliance with confidentiality, non-compete, non-solicitation of employees and non-solicitation of customer covenants set forth in the relevant employment agreements. Salary continuation payments will be offset by the amount of any compensation earned by an executive from other employment during the severance payment period.

The amounts shown in the table assume that the termination or change in control was effective as of December 31, 2007 and that the price of IAC common stock on which certain calculations are based was the closing price of $26.92 on The Nasdaq Stock Market on that date. These amounts are estimates of the incremental amounts that would have been paid out to the executive upon such terminations/change in control, and do not take into account equity grants made, and contractual obligations entered into, after December 31, 2007. The actual amounts to be paid out can only be determined at the time the event actually occurs.

| Name and Benefit | Termination without cause | Resignation for good reason | Death or Disability | Change in Control | Termination w/o cause or for good reason in connection with Change in Control |
|---|---|---|---|---|---|
| **Mindy Grossman** | | | | | |
| Cash Severance (salary) | 1,333,333 | 1,333,333 | 0 | 0 | 1,333,333 |
| RSUs (vesting accelerated) | 1,618,969 | 1,618,969 | 179,879 | 337,765 | 1,956,734 |
| Health Benefits | 19,363 | 19,363 | 0 | 0 | 19,363 |
| Total estimated value | 2,971,665 | 2,971,665 | 179,879 | 337,765 | 3,309,430 |
| **Mark Ethier** | | | | | |
| Cash Severance (salary) | 866,667 | 0 | 0 | 0 | 866,667 |
| RSUs (vesting accelerated) | 60,291 | 0 | 52,521 | 1,287,368 | 2,849,859 |
| Total estimated value | 927,291 | 0 | 52,521 | 1,287,368 | 3,716,526 |
| **William Lynch** | | | | | |
| Cash Severance (salary) | 1,299,999 | 1,299,999 | 0 | 0 | 1,299,999 |
| RSUs (vesting accelerated) | 0 | 0 | 0 | 0 | 253,452 |
| Total estimated value | 1,299,999 | 1,299,999 | 0 | 0 | 1,553,451 |
| **Judy Schmeling** | | | | | |
| Cash Severance (salary) | 500,000 | 0 | 0 | 0 | 500,000 |
| RSUs (vesting accelerated) | 66,546 | 0 | 54,428 | 1,444,850 | 2,184,666 |
| Total estimated value | 566,546 | 0 | 54,428 | 1,444,850 | 2,684,666 |
| **James Warner** | | | | | |
| Cash Severance (salary) | 380,625 | 0 | 0 | 0 | 380,625 |
| RSUs (vesting accelerated) | 7,268 | 0 | 12,599 | 121,598 | 419,952 |
| Total estimated value | 387,893 | 0 | 12,599 | 121,598 | 800,577 |

**HSNi Security Ownership of Certain Beneficial Owners and Management**

As of the date hereof, all of HSNi's outstanding shares of common stock are owned by IAC. After the distribution, IAC will no longer own any shares of HSNi common stock. The following table presents information relating to the expected beneficial ownership of shares of HSNi common stock, assuming completion of the distribution as if it occurred on [ ], 2008, by (i) each individual or entity expected to own beneficially more than 5% of the outstanding shares of HSNi common stock, assuming that there are 278,735,546 shares of common stock and Class B common stock of IAC outstanding immediately prior to the spin-offs and a distribution ratio of one-fifth of a share of HSNi common stock for every share of IAC common stock and/or Class B common stock, (ii) each director of HSNi, (iii) the Chief Executive Officer, the Chief Financial Officer and the other three named executive officers in the HSNi summary compensation table (see "HSNi Executive Compensation") and (iv) all of HSNi's executive officers and directors as a group.

Unless otherwise indicated, beneficial owners listed here may be contacted at HSNi's corporate headquarters at 1 HSN Drive, St. Petersburg, Florida 33729. For each listed person, the number of shares of HSNi common stock and percent of such class listed assumes the conversion or exercise of any HSNi equity securities owned by such person that are or will become convertible or exercisable, and the exercise of stock options and the vesting of restricted stock units, if any, that will vest, within 60 days of April 30, 2008, but does not assume the conversion, exercise or vesting of any such equity securities owned by any other person.

The share amounts for each beneficial owner listed here are based on each such individual's beneficial ownership of shares of IAC common stock and/or Class B common stock as of April 30, 2008, and assuming a distribution ratio of one-fifth of a share of HSNi common stock for every share of IAC common stock and/or Class B common stock. To the extent that HSNi directors and executive officers own shares of IAC common stock at the time of the distribution, they will participate in the distribution on the same terms as other holders of IAC common stock. In addition, following the distribution, HSNi expects that all IAC stock-based awards held by these individuals will be adjusted to become awards relating to common stock of all five companies resulting from the spin-offs. Those awards that will relate to HSNi common stock are reflected in the table below based upon the expected adjustment formula described under the caption "The Separation—Treatment of Outstanding IAC Compensatory Equity-Based Awards."

The actual number of shares of HSNi capital stock outstanding as of the date of the distribution may differ due, among other things, to the exercise of stock options or the vesting of restricted stock units, in each case, between April 30, 2008 and the date of the distribution and to the extent the other assumptions set forth above differ from actual developments.

| | HSNi Common Stock | |
|---|---|---|
| **Name and Address of Beneficial Owner** | **Shares** | **%** |
| Clearbridge Advisors, LLC, *et al*(1)(2)<br>399 Park Avenue<br>New York, NY 10022 | 2,651,312 | 4.75 |
| Lord Abbett & Co. LLC(1)(2)<br>90 Hudson Street, 11th Floor<br>Jersey City, N7 07302 | 7,839,768 | 14.06 |
| Liberty Media Corporation(3)(4)<br>12300 Liberty Boulevard<br>Englewood, CO 80112 | 16,643,961 | 29.86 |
| Mark Ethier | | |
| Mindy Grossman | | |
| William Lynch | | |
| Judy Schmeling | | |
| James Warner | | |
| All executive officers and directors as a group (                persons) | | |

(1) We have not been able to determine the person or persons controlling the fund through publicly available information.

(2) Based upon information regarding IAC holdings reported on a Schedule 13G, as amended, which was filed with the SEC on February 14, 2008 and a distribution ratio of one-fifth of a share of HSNi common stock for every share of IAC common stock and/or Class B common stock.

(3) Liberty Media Corporation is a publicly traded corporation. According to Liberty Media Corporation's Schedule 14A, filed April 24, 2008, Liberty's chairman, John C. Malone, controls 33% of the voting power of Liberty Media Corporation.

(4) Based on 58,796,381 shares of IAC common stock held by Liberty and 4,000,000, 15,618,230, 4,005,190 and 800,006 shares of IAC Class B common stock held by each of BDTV Inc., BDTV II Inc., BDTV III Inc. and BDTV IV Inc., respectively and a distribution ratio of one-fifth of a share of HSNi common stock for every share of IAC common stock and/or Class B common stock.

## CERTAIN INFORMATION WITH RESPECT TO ILG

## BUSINESS OF ILG

When used with respect to any periods following the spin-offs and unless otherwise indicated, the term (i) "ILG" refers to Interval Leisure Group, Inc., a Delaware corporation, which was incorporated in connection with the spin-offs in May 2008 to hold the businesses and subsidiaries of Interval Acquisition Corp., the results of which were reported in the Interval reporting segment of IAC's Memberships & Subscriptions reporting sector immediately prior to the completion of the spin-offs, (ii) "Interval" refers to that group of companies operating ILG's vacation ownership membership business and (iii) "RQH" refers to that group of companies operating ILG's vacation rental and property management business, including, without limitation, ResortQuest Hawaii, LLC and ResortQuest Real Estate of Hawaii, LLC. The businesses to be operated by ILG following the spin-offs are referred to herein as the "ILG businesses." The following disclosure regarding ILG's businesses assumes completion of the spin-offs.

For information regarding the results of operations of ILG and its segments on a historical basis, see the Consolidated Financial Statements of ILG and the disclosure set forth under the caption "—Management's Discussion and Analysis of Financial Condition and Results of Operations of ILG." For information regarding the results of operations of ILG on a pro forma basis to give effect to the completion of the spin-offs, see the Unaudited Pro Forma Condensed Consolidated Financial Statements for ILG.

### Who We Are

ILG is a leading provider of membership services to the vacation ownership industry. ILG's principal business, Interval, makes available vacation ownership membership services to the individual members of its exchange networks, as well as related services to developers of the resorts participating in its exchange networks worldwide. As of December 31, 2007, more than 2,400 resorts located in more than 75 countries participated in Interval's primary exchange network, the Interval Network, and nearly two million owners of vacation interests were enrolled as members of the Interval Network. For the fiscal year ending December 31, 2007, Interval represented approximately 88% of ILG's consolidated revenues.

ILG's other principal business, RQH, was acquired in May 2007 and is a provider of vacation rental and property management services to vacationers and vacation property owners across Hawaii. As of December 31, 2007, RQH provided property management services to 26 resorts and hotels, as well as other more limited management services to an additional 23 properties. For the fiscal year ending December 31, 2007, RQH represented approximately 12% of ILG's consolidated revenues for the seven month period following RQH's acquisition on May 31, 2007.

### History

Although ILG was incorporated in Delaware in May 2008 in connection with the spin-offs, the ILG businesses have rich operating histories. Founded in 1976, Interval has undergone multiple ownership structures. RQH dates its history back to 1968 through its predecessors, Hotel Corporation of the Pacific and Aston Hotels and Resorts.

**What We Do**

***Vacation Ownership Membership Services***

**Member Services**

*Membership Programs.* Interval operates membership programs for owners of vacation interests at resorts that participate in its exchange networks. Interval does not own, operate or manage any resorts. Participation in one of Interval's membership programs provide members with the right to exchange their occupancy rights in their vacation interest (generally, for periods of one week) for comparable, alternative accommodations on a worldwide basis at the same or another resort participating in Interval's exchange networks, as well as benefit from a comprehensive package of value-added products and services. Generally, individuals are enrolled in one of Interval's membership programs by resort developers in connection with their purchase of vacation interests from such developers, with initial annual membership fees being paid on behalf of members by the developers.

Following their period of initial enrollment, Interval Network members have the option of renewing their memberships for terms ranging from one to five years and paying their own membership fees directly to Interval, which option generally remains available regardless of whether the affiliation agreement for the resort at which members own their vacation interests is not renewed or otherwise terminated. Alternatively, some developers incorporate the Interval Network membership fee into certain annual fees they charge to owners of vacation interests at their resorts after the initial enrollment period, which results in these owners having their membership in the Interval Network and, where applicable, the Interval Gold program (as described below), automatically renewed throughout the period of their resort's participation in the Interval Network. Membership in the Preferred Residences Program, Interval's newly-launched hospitality-branded membership program for luxury shared ownership resorts and condo hotels, is also renewed annually throughout the period of each resort's participation in the Preferred Residences Program's exchange network.

The resorts participating in Interval's exchange networks primarily includes resorts (including, in certain cases, resorts under construction) with which Interval has an effective affiliation agreement in place, as well as resorts at which Interval continues to provide exchange services following the non-renewal or termination of the applicable affiliation agreement. In addition to providing membership services to the vacation ownership industry, ILG provides membership services to certain markets within the larger travel industry, such as the membership-based campground industry.

*Exchanges.* Interval provides members with two primary methods of exchange, "Deposit First" and "Request First." With Deposit First, members immediately transfer the use and occupancy of vacation interests at their home resort in return for the right to request an exchange at a different or the same resort at an alternative period of occupancy. Under this method, members are not required to select a location or travel date at the time of deposit, but can request an exchange at any time during the period of the deposit's availability for exchange. All deposits expire two years after the occupancy date of the week deposited, unless extended by members through the purchase of a deposit extension. With Request First, members request an exchange prior to relinquishing the occupancy right in the vacation interest to Interval's exchange networks. Using this method, the use and occupancy of vacation interest is relinquished when a confirmation actually occurs. This method requires member to be confirmed to an exchange and travel prior to the occupancy period of the vacation interest.

All vacation ownership accommodations relinquished to Interval's exchange networks are assigned a trading value at the time of deposit (under the Deposit First method) or at the time of request (under the Request First method) based on multiple factors, including location, quality, seasonality, unit attributes and time of relinquishment to determine the relinquished accommodations' relative exchange value to Interval's exchange networks. Members are offered an exchange to accommodations which are generally of comparable value to those relinquished.

Some members also exchange their vacation interests with Interval on a points basis. In these circumstances, points are relinquished to Interval's exchange networks by the member and Interval receives accommodations from the operator of the points program on behalf of the member.

*Getaway Program.* Interval also offers additional vacation rental opportunities to members at attractive rates through its Getaway Program. This program allows members to rent resort accommodations for a fee, plus applicable taxes, without relinquishing the use and occupancy of their vacation interests. Resort accommodations available through the Getaway Program consist of seasonal oversupply of vacation ownership accommodations within Interval's exchange networks, as well as resort accommodations sourced by Interval specifically for use in the Getaway Program.

*Interval Gold.* Interval also offers Interval Gold, an enhanced membership program, to Interval Network members to provide them with year-round access to value-added benefits and services for an additional annual fee. These benefits and services vary by country of residence, but generally consist of discounts on Interval's Getaway Program, a concierge service, a hotel discount program and Interval Options, a service that allows members to relinquish annual occupancy rights in their vacation interests for credits towards the purchase of various travel products, including cruises and spa vacations. Members are enrolled in the Interval Gold program by resort developers in connection with the initial purchase of their vacation interests or by Interval directly. Renewal membership terms and procedures and responsibility for fees are generally the same as those for basic membership in the Interval Network.

*Revenue.* Interval revenue is derived principally from membership fees and transactional fees paid for exchange and Getaway Program transactions, which are collectively referred to as "vacations," as well as fees from other value-added member services, such as reservation servicing fees, which are generally paid by the developer for the purpose of affording its owners access to internal reservation services. Revenue is also derived from fees for certain products and services sold to developers (as described below).

**Relationships with Leading Independent Developers and Brand Name Hospitality Companies**

*Resort Affiliations.* Interval has established multi-year relationships with numerous developers under exclusive affiliation agreements. Interval does not consider its overall business to be dependent on any one of these developers, provided, that the loss of a significant number of developers could materially impact Interval's business. See "Risk Factors Relating to the Business of ILG Following the Spin-Offs—Third Party Relationships". Pursuant to these agreements, developers are obligated to enroll all purchasers of vacation interests at their resorts in the applicable exchange membership program and, in some circumstances, are obligated to renew these memberships annually for the term of their affiliation agreement. Most affiliation agreements contain automatic renewal provisions, pursuant to which arrangements will be renewed on the same terms and conditions (subject to agreed upon pricing modifications), unless either party provides the other with written notice of its intent not to renew prior to expiration (typically anywhere from 90 to 270 days prior to expiration).

*Products and Services.* A primary basis on which developers choose Interval as a partner is the comprehensive array of products and services that it offers developers, such as sales and marketing support, operational and custom vacation program design services.

- *Sales and Marketing Support.* Interval offers its developers a selection of sales and marketing materials, all designed to reinforce the value of owning a vacation interest. These materials, which are available in approximately 30 languages, include brochures, publications, sales-office displays, videos and resort directories. Developers also promote membership in Interval's exchange programs and related value-added services as an important benefit of owning a vacation interest. In addition, Interval offers the Leisure Time Passport program, which is primarily used by developers as an exit or trial membership program for potential purchasers of vacation interests. The Leisure Time Passport program provides participants with many of the benefits of the Interval Gold program, as well as the opportunity to experience vacationing in condominium-style accommodations prior to making a commitment to purchase a vacation interest.

Interval has also established certain service and quality recognition awards and programs in an effort to encourage resorts to provide quality accommodations, amenities and services. In 2008, Interval introduced a new resort recognition program through which eligible Interval Network resorts will be recognized as either a "Select Resort" or a "Premier Resort," based upon the satisfaction of qualifying criteria. Interval either inspected these resorts or relied on quality rating and consumer satisfaction indexes to initially determine if a resort met the qualifying criteria. Recognized resorts are then subject to periodic inspection and customer evaluations and must comply with the program's service and quality criteria to retain their status. Approximately 40% of Interval Network resorts have been recognized as either a Select or Premier Resort for 2008.

- *Operational Support.* Interval also makes available a comprehensive array of back-office servicing solutions to developers and resorts. For example, for an additional fee, Interval provides internal reservation services, pursuant to which Interval acts as the facilitator of both internal club and resort reservations, and billing and loan servicing services, pursuant to which Interval collects property maintenance fees and other amounts due to developers or homeowner's associations.

In addition, through consulting arrangements, Interval assists developers in the design of vacation programs for owners of vacation interests. Such programs, which may include a wide range of flexible-use plans, as well as point-based programs and vacation clubs, are tailored to the specific needs of the relevant developer and/or resort. In connection with the design of these programs, Interval undertakes a comprehensive analysis of the existing operations and intended growth plan of the relevant developer or resort, and then works closely with the developer or resort to design and implement a tailored program.

**Vacation Rental and Property Management Services**

ILG operates a Hawaiian-based vacation rental and property management business through RQH. RQH provides vacation property rental, real estate brokerage and related services (including common area management services for condominium projects), as well as property management services to resorts and hotels in Hawaii.

***Vacation Rental and Related Property Management Services***

RQH provides vacation property rental services for condominium owners. These rental properties are generally investment properties, and, to a lesser extent, second homes, owned by individuals who contract with RQH directly to manage, market and rent their properties, generally pursuant to short-term agreements. RQH also offers such owners a comprehensive package of marketing, management and rental services designed to enhance rental income and profitability.

RQH secures guests for its vacation rentals primarily through long-standing relationships with travel partners, including wholesalers, retail travel agents and online travel intermediaries. RQH also conducts direct online marketing initiatives to reach consumers directly through its websites, *www.resortquesthawaii.com* and *www.mauicondo.com*. As an additional distribution channel, RQH also makes units available to Interval for use in its Getaway Program.

***Property Management Services***

RQH also provides property management services for owners of condominium and hotel management services to owners of traditional hotels. Condominium hotels generally offer the same type of services offered by hotels and resorts, plus certain comforts of home, such as kitchens or kitchenettes, separate seating or living room areas and in suite, private bedrooms, with actual services and features varying by property. Generally, property management services are provided pursuant to exclusive agreements with terms ranging from one to five years, many of which are automatically renewable.

RQH revenues are derived principally from management fees for vacation property rental services and property management services. Property management fees consist of a base management fee and, in some instances, an incentive fee based on a percentage of gross operating profits, net operating income or other similar metric. Property management agreements may provide that owners receive a specified portion of the revenues generated while the relevant properties are under RQH management. In these cases, RQH pays the operating expenses for the rental operation from its share of the revenues and retains the balance (if any) as its management fee. Revenues are also derived from fees for hotel management services.

**Marketing and Technology**

The success of the Interval business depends, in significant part, on the continued growth of the vacation ownership industry. As a result, Interval markets its products and services to developers and other parties in the vacation ownership industry through a series of business development initiatives. For nearly ten years, Interval has organized and co-sponsored a proprietary, multi-day informational seminar, currently known as the Vacation Ownership Investment Conference ("VOIC"), where real estate developers, hospitality companies and others contemplating entry into the vacation ownership industry can meet and network with industry leaders, as well as participate in educational panels on various vacation ownership issues, such as property and program planning, financing and regulatory requirements. This seminar is offered annually at locations in regions that Interval views as potential market opportunities for vacation ownership development. Through these programs, Interval works to strengthen and expand the vacation ownership industry through the education and support of viable new entrants. Interval has also maintained leadership roles in various industry trade organizations throughout the world since their inception, through which it has been a driving force in the promotion of constructive legislation, both in the U.S. and abroad, principally aimed at creating or enhancing consumer protection in the vacation ownership industry.

Given that the success of Interval is dependent, in significant part, on its ability to secure vacation ownership accommodations and attract new members to its exchange programs, Interval also targets its sales and marketing efforts more directly at developers and prospective owners of vacation interests. In doing so, Interval not only promotes the benefits of the Interval Network and its value-added services, but also markets itself to developers as a provider of operational and sales and marketing support services. Interval's sales and services personnel proactively seek to establish strong relationships with developers during the early stages of the development of a particular resort by providing input on consumer preferences based upon years of experience. In addition, given its long-standing relationships with others within the vacation ownership industry, Interval is often able to refer developers to quality providers of a wide range of planning and operational resources. Interval believes that it has established a strong reputation within the vacation ownership industry as being highly responsive to the needs of developers and owners of vacation interests.

Interval maintains developer and consumer marketing departments, both of which are based in ILG's global headquarters in Miami, Florida. International marketing expertise is provided primarily by London-based employees, with input and local expertise being provided by employees in local and regional offices worldwide. These departments are responsible for implementing Interval's overall marketing strategy and developing the materials that are necessary to secure new relationships with developers and resorts and obtain new members, as well as promote membership renewals, exchange opportunities and other value-added services to existing members.

Important to the success and continued growth of the RQH business is its ability to source vacationers interested in booking vacation properties made available through its vacation rental and property management services. RQH markets vacation rental opportunities through online travel intermediaries and other distribution channels, as well as through dedicated property sales, field sales personnel and Interval.

Interval's success also depends, in part, on its ability to provide prompt, accurate and complete service to its members through voice and data networks and proprietary and third party information systems. The technology platform for the Interval Network is a proprietary, custom developed enterprise application and database that manages all aspects of membership, exchange and Getaway Program transaction processing and inventory management. Interval also uses advanced telecommunications systems and technologies to promptly respond and efficiently route member calls. Interval also operates consumer websites for its members, such as *www.IntervalWorld.com* and *www.PreferredResidences.com*, while RQH offers vacation rentals to non-member vacationers through *www.ResortQuestHawaii.com*.

**Industry Overview and Trends**

The hospitality industry is a major component of the travel industry, which is affected by the performance of the U.S. economy. The hospitality industry includes the segments in which ILG businesses operate. In 2007, domestic and international travelers spent an estimated $740 billion in the U.S. for business and leisure travel of 50 miles or more, as compared to $699 billion in 2006 and $654 billion in 2005.

Travel expenditures are sensitive to business and personal discretionary spending levels and tend to decline during general economic downturns as factors, including the increased costs of transportation due to increased fuel prices and the overall financial instability of the airline industry and associated air carrier bankruptcies, adversely impact consumers' decisions to use and consume travel services. See "Risk Factors Relating to the Business of ILG Following the Spin-Offs—Adverse Events and Trends."

Vacation ownership is the segment of the hospitality industry that encompasses the development, operation and sale of vacation interests in traditional timeshare regimes, fractional products, private residence clubs, condo hotels and other forms of shared ownership, including, in some instances, whole ownership. Vacation ownership sales (excluding sales of fractional, private residence club, destination club and whole ownership products) in the U.S. for 2007 are approximately $10.6 billion, as compared to $10.0 billion in 2006 and $8.6 billion in 2005, although much of this growth was driven by higher sales prices. U.S. sales of fractional products, private residences and destination club products were approximately $2.3 billion in 2007, as compared to $2.1 billion in 2006 and $1.97 billion in 2005.

The tightening of credit available to both vacation property developers and purchasers could result in the development of fewer vacation ownership and vacation rental properties (and in the case of existing vacation ownership and vacation rental properties, fewer potential purchasers). This factor, plus the potential for increased default rates among current vacation interest owners, could have a negative impact on the number of Interval members and could have a material adverse effect on the vacation ownership and vacation rental industries. See "Risk Factors Relating to the Business of ILG Following the Spin-Offs—Adverse Events and Trends."

*Vacation Ownership Membership Services*

The vacation ownership membership services industry provides owners of vacation interests with flexibility and choice by providing them access to alternative accommodations through exchange networks encompassing a wide variety of resorts. There are two principal providers of vacation ownership membership services in the global vacation membership services industry, Interval and RCI LLC, a subsidiary of Wyndham Worldwide Corp. According to a study published in 2008 by ARDA International Foundation, 99% of all U.S.-based vacation ownership resorts were participants in an exchange network offered by Interval or RCI or both.

Growth in the vacation ownership membership services industry is driven primarily by the number of vacation interests sold to new purchasers. In 2008, the number of U.S.-based households that owned vacation interests increased to approximately 4.7 million, an increase of approximately 300,000 households, from the number reported for 2007. Continued growth is expected to be driven by:

- increased consumer awareness and acceptance of the value and benefits of the ownership of vacation interests;

- adoption of constructive legislation and regulations internationally that improve consumer protection and allow businesses to operate profitably, including a recent announcement by the Government of Dubai that it will shortly issue its first set of vacation ownership regulations and strong consumer protection regulations in Australia and South Africa that provide for (i) a cooling off period during which the consumer can cancel the contract for any reason and any amounts are held in escrow and (ii) extensive disclosures prior to execution of any documents;

- the entry of additional independent developers and brand-name hospitality companies into the vacation ownership industry, which will increase the number of vacation interests available for sale; and

- reported demand for vacation ownership products in the U.S. Industry sources estimate that approximately 5% of all adult leisure travelers familiar with the concept of vacation ownership have expressed an interest in acquiring a vacation interest at some point before February 2010, which equates to an estimated potential market consisting of approximately 6.0 million potential purchasers.

The vacation ownership membership services industry growth is driven by the continued development and offering of new vacation ownership accommodations and alternative vacation ownership related products. For example, industry studies suggest that developers are selling more biennial products, whereby owners of vacation interests have access to their accommodations during alternating years. While these trends may have a positive impact on the average number of potential new members of exchange programs, the alternating annual ownership associated with these products could adversely impact average revenue per member across the industry.

*Vacation Rental and Property Management Services*

ILG believes that the overall supply of vacation rental properties has been increasing as a result of the growth in second/vacation home ownership and the increasing desire among many owners to rent their properties for additional income. An increasing percentage of second/vacation home (including condominiums and shared ownership properties) purchasers have cited the ability to generate rental income as a motivating factor for their purchase decision. Property management and vacation rental companies facilitate the rental process by handling most, if not all, aspects of interaction with vacationers. Growth in the marketplace is due, in some part, to the numbers of resorts entering the condo space as a means to capitalize on overall property construction through the upfront sales of vacation condos. Additionally, consumer reasoning with regard to the usage of vacation property as an investment to rent, for supplemental income, may be a stimulus for market growth.

Vacation rental properties are also growing in number due to the increasing popularity of renting non-hotel accommodations among consumers. Condominium accommodations typically provide substantial value to consumers seeking more than a nightly stay, as they offer families greater space and convenience than a traditional hotel room by offering separate living, sleeping and eating quarters. Continued growth in leisure travel, as well as improved product awareness and consumer convenience through direct and indirect online distribution channels, is also expected to drive this growth.

Currently, ILG offers vacation rental and property management services in Hawaii through RQH. According to the Hawaii Department of Business, Economic Development & Tourism, approximately 7.5 million visitors traveled to Hawaii in 2006, with the same number estimated to have visited in 2007. ILG believes that Hawaii's lodging industry fundamentals continue to remain strong and Hawaii has consistently posted one of the highest growths in revenue per average daily room rate of any market.

**Competition**

The two principal companies in the global vacation ownership membership services industry, Interval and RCI, aggressively compete for developer and consumer market share. Other third parties operate in this industry, but generally outside of the context of value-added membership programs offered at point-of-sale. While the operations of these third parties are generally smaller and more regional in nature, at least one operates on a global basis. Interval also faces increasing competition from points-based vacation clubs and large resort developers, which may elect to operate their own internal exchange systems to facilitate exchanges for owners of vacation interests at their resorts as they increase in size and scope. In addition, increasingly, vacation clubs and large resort developers are forging direct relationships with other developers.

Interval believes that developers generally choose to affiliate with an exchange network based on:

- the perceived quality of resorts participating in the network, which is characterized by the desirability of numerous locations, quality of accommodations and the amenities and services available;
- the level of service provided to members;
- the range and level of support services provided to developers;
- the flexibility of the exchange program; and
- the costs for annual membership and exchanges.

Developers affiliated with Interval and/or RCI collectively represent approximately 99% of the vacation ownership resorts in the U.S. Based on the annual disclosure statements filed by RCI and Interval for the year ended December 31, 2007, on a global basis, Interval held approximately 36.3% of the resorts and 42.2% of the members participating in exchange networks operated by these companies and RCI held the remainder. Accordingly, RCI is the larger provider of vacation ownership member services with a larger exchange network. Through the resources of its corporate affiliates, particularly Wyndham Vacation Ownership, Inc., itself engaged in vacation ownership sales, RCI may have greater access to a significant segment of new purchasers of vacation interests.

While overall Interval's primary competitor has a greater number of resorts in its exchange network and reports a larger number of owners of vacation interests participating in its vacation ownership membership programs, Interval believes that it has distinguished itself as the vacation ownership membership service provider of choice with developers of high quality vacation properties and their owners, based primarily on the quality of the resorts in the Interval Network and related services provided by these resorts, coupled with its continued commitment to attract quality resorts to its exchange networks and foster quality vacation experiences for its members. For example, in 2008, Interval launched the Preferred Residences Program, a hospitality-branded membership program for luxury shared ownership resorts and condo hotels.

RQH's vacation rental business faces competition from other suppliers of travel products and services, hotel operators and local rental agents and its property management business is also highly competitive in that there are low barriers to entry.

**Employees**

As of December 31, 2007, ILG had approximately 2,800 employees worldwide. With the exception of a limited number of housekeeping employees at one property in Hawaii and a few member services employees in Italy and Spain, employees are not represented by unions or collective bargaining agreements. ILG believes that relationships with its employees are generally good.

**Properties**

ILG conducts operations through 29 offices in 17 countries, of which 8 locations are within the U.S. and 21 locations are outside of ILG's global headquarters which is located in Miami, Florida and occupies approximately 100,000 square feet of office space under a long-term lease expiring in July 2016. Interval also operates a call center in Miami that is approximately 60,000 square feet under a long-term lease expiring in December 2020. Interval's European headquarters is located in London, England and occupies approximately 24,400 square feet of office space under a long-term lease which expires in May 2016, while its Asian headquarters are located in Singapore and occupies approximately 3,000 square feet of office space, the current term of which expires in September 2009, subject to automatic renewal.

RQH's property management headquarters is located in Honolulu, Hawaii and occupies approximately 25,000 square feet of office space under a lease expiring in October 2009. Activities have commenced to source and secure alternative premises upon the termination of the existing lease.

## RISK FACTORS RELATING TO THE BUSINESS OF ILG FOLLOWING THE SPIN-OFFS

ILG's business, financial condition and results of operations are subject to certain risks that are described below and in the section "Risk factors" beginning on page [ ]. You should carefully consider these risks and uncertainties. While ILG believes that the risks and uncertainties described below and elsewhere in this information statement include the most significant risk factors that should be considered by ILG's investors, these risks and uncertainties are not the only ones facing ILG and its businesses.

***Adverse Event and Trends—Adverse events and trends in the vacation ownership, vacation rental and travel industries could adversely affect ILG's business, financial condition and results of operations.***

The success of ILG and its businesses depends, in substantial part, upon the health of the worldwide vacation ownership, vacation rental and travel industries. Travel expenditures are sensitive to business and personal discretionary spending levels and tend to decline during general economic downturns. Also, inclement weather and/or natural disasters, such as earthquakes, hurricanes, fires, floods and tsunamis may result in the inability of consumers to travel to and vacation in certain destinations and regions in which participating resorts operate and/or vacation rental properties are located. Similarly, significant damage to resorts and/or vacation rental properties could result in a decrease in the number of resort accommodations or vacation rentals available for use in ILG's vacation ownership membership programs or as vacation rentals. ILG's businesses are also sensitive to travel health concerns, such as SARS, bird flu and other pandemics, as well as concerns related to terrorism, enhanced travel security measures and/or geopolitical conflicts. Accordingly, downturns or weaknesses in the travel industry or price increases for travel related services, including economic factors adversely impacting consumers' decisions to use and consume travel services, the overall financial instability of the airline industry and associated air carrier bankruptcies, decreased airlift to relevant markets, job actions and strikes, and increased costs of transportation based on increased fuel prices, could adversely affect ILG's business, financial condition and results of operations, as could inclement weather, natural disasters, health concerns, terrorism, enhanced travel security measures and/or geopolitical conflicts. In addition, the tightening of credit available to both vacation property developers and purchasers could result in the development of fewer vacation ownership and vacation rental properties (and in the case of existing vacation ownership and vacation rental properties, fewer potential purchasers). This factor, plus the potential for increased default rates among current vacation interest owners, could result in a decrease in the number of Interval's exchange network members and could have a material adverse effect on the vacation ownership and vacation rental industries, which in turn could have a material adverse effect on ILG's business, financial condition and results operations.

***Competition—The industries in which ILG's businesses operate are highly competitive and these businesses are subject to risks relating to competition that may adversely affect ILG's performance.***

ILG's businesses will be adversely impacted if they cannot compete effectively in their respective industries, each of which is highly competitive. ILG's continued success depends upon its ability to compete effectively in markets that contain numerous competitors, some of which may have significantly greater financial, marketing and other resources than ILG. In particular, in the case of the Interval business, its primary competitor, RCI is larger and, through the resources of its corporate affiliates, particularly, Wyndham Vacation Ownership, Inc., itself engaged in vacation ownership sales, may have greater access to a significant segment of new vacation ownership purchasers. New competition or existing competition that does not operate on a value-added, membership basis may cause Interval to reduce its fee structure or potentially modify its business model, which would adversely affect ILG's business, financial condition and results of operations.

***Third Party Relationships—ILG depends on relationships with developers, members and other vacation property owners and any adverse changes in these relationships could adversely affect its business, financial condition and results of operations.***

The Interval business is dependent upon vacation ownership developers for new members and resort accommodations for use in its exchange and vacation rental programs, as well as upon members to renew their existing memberships and otherwise engage in transactions. The RQH business is dependent upon vacation property owners and hotels for vacation properties to manage and rent to vacationers.

Interval has established multi-year relationships with numerous developers pursuant to exclusive affiliation agreements and ILG believes that relationships with these entities are generally strong, but these historical relationships may not continue in the future. The ability of Interval to maintain existing or negotiate new affiliation agreements is adversely impacted by the continued creation and operation of internal reservation and exchange systems by developers, as well as by consolidation in the vacation ownership industry. The non-renewal or termination of an affiliation agreement with a major developer or multiple affiliation agreements with a combination of smaller developers could have a material adverse effect on ILG's business, financial condition and results of operations. Several affiliation agreements with Interval's largest developers, as determined based on new member contribution for the calendar year 2007, do not include auto-renewal provisions. During 2008, the affiliation agreements for several of Interval's largest new member producing developers are scheduled to renew. Negotiations aimed at the extension of these affiliation relationships are ongoing or are anticipated to commence shortly. The failure to renew some or all these agreements will impact Interval's new member enrollment and could have a material adverse impact on our business, financial condition and results of operation.

ILG believes that developers will continue to create and operate internal reservation and exchange systems, which decreases their reliance on vacation ownership membership programs, including those offered by Interval, and could adversely impact the supply of resort accommodations available through Interval's exchange networks. The vacation ownership industry continues to experience consolidation through the acquisition of vacation ownership developers by other developers, which may result in the diversion of exchange membership and other business. While the non-renewal of an affiliation agreement, in most cases, does not result in a significant loss of existing members, it does adversely affect the ability of Interval to secure new members for its programs from the non-renewing resort and, to the extent that Interval does not secure renewals with existing members that own vacation interests at the non-renewing resort, existing members in its programs would decrease.

Interval may be unable to maintain existing or negotiate new affiliation agreements with developers or secure renewals with existing members in its programs, and its failure to do so would result in decreases in the number of new and/or existing members, the supply of resort accommodations available through its exchange networks and related revenues, which would have a material adverse effect on ILG's business, financial condition and results of operations.

Similarly, the failure of RQH to maintain existing or negotiate new property management and/or rental services arrangements with vacation property owners, as a result of the sale of property to third parties or otherwise, or the failure of vacationers to book vacation rentals through, RQH would result in a decrease in related revenues, which would have an adverse effect on ILG's business, financial condition and results of operations.

***Adverse Events and Trends in Key Vacation Destinations—Adverse events and trends in key vacation destinations could adversely affect ILG's business, financial condition and results of operations.***

A substantial percentage of the vacation ownership resorts currently participating in Interval's exchange networks are located in Florida, Hawaii, Las Vegas, Mexico and Southern California, and all of the vacation properties for which RQH provides vacation rental and property management services are located in Hawaii. Approximately $110 million in revenue was generated from properties located in all of these locations in 2007. As a result, the ongoing ability to successfully confirm exchange requests for members, as well as its ability to find a market for accommodations sourced through RQH, is largely dependent on the continued desirability of these areas as key vacation destinations. While travel demand for these destinations has been historically high on a consistent basis, this may not continue to be the case. Any significant shift in travel demand for one or more of these key destinations or any adverse impact on transportation to them, such as decreased airlift or increased travel costs, could have a material adverse effect on ILG's business, financial condition and results of operations.

In addition, hurricanes, earthquakes or other adverse events impacting one or more of these key destinations could significantly reduce the number of accommodations available for exchange confirmation or rental to members and vacationers, as well as the need for vacation rental and property management services generally. Accordingly, any such event could have a material adverse effect on ILG's business, financial condition and results of operations, the impact of which could be prolonged.

***International Operations—Interval operates in a number of international markets, which exposes ILG to additional risks that could adversely affect its business, financial condition and results of operations.***

Revenues from international operations represented approximately 16%, 18% and 18% of ILG's consolidated revenues in 2007, 2006 and 2005, respectively. ILG currently expects to continue to seek to expand and invest in its vacation ownership membership business in various international markets, especially in the Middle East and Asia.

In order to achieve widespread acceptance in international markets, Interval must continue to successfully tailor its services to the unique customs and cultures of relevant countries and markets. Learning the customs and cultures of various countries and markets can be difficult and costly, and the failure to do so could slow international growth. Operating in international markets also exposes ILG to additional risks, including, among others, changes in regulatory requirements, including taxation, limits on the ability to sell products and services and enforce intellectual property rights and difficulties in managing operations due to distance, language and cultural differences, including issues associated with establishing management systems and infrastructures and staffing and managing foreign operations. Also, in particular, significant fluctuations in the value of the U.S. dollar relative to certain foreign currencies could have an adverse effect on the results of ILG businesses operating in jurisdictions where the pricing for products and services is established in U.S. dollars and adjusted to local currency based on then-current exchange rates. ILG does not currently engage in hedging transactions designed to reduce its exposure to foreign currency risk.

ILG is also exposed to risks associated with the repatriation of cash generated by certain of its foreign operations to the United States. Currently, ILG conducts vacation ownership exchange operations in one Latin American country from which it cannot repatriate cash generated by its operations in full. As of December 31, 2007 and 2006, the repatriation of approximately $5.1 million and $4.0 million in cash remained pending, subject to the approval of such country's government. While ILG continues to pursue the repatriation of this cash through all lawful means, these efforts may be unsuccessful. Furthermore, other countries in which ILG maintains operations may impose limitations on the repatriation of cash generated by operations in such countries now or in the future. Any limitation on ILG to repatriate significant cash generated by its international operations would have a material adverse effect on its business, financial condition and results of operations.

***Acquisitions and Strategic Arrangements—ILG may experience financial and operational risks in connection with acquisitions and strategic arrangements. In addition, businesses acquired by ILG may incur significant losses from operations or experience impairment of carrying value.***

ILG acquired RQH in May 2007 and intends to selectively pursue other acquisitions. ILG, however, may be unable to identify attractive acquisition candidates or complete transactions on favorable terms. In addition, in the case of acquired businesses, ILG will need to:

- successfully integrate the operations, as well as the accounting, financial controls, management information, technology, human resources and other administrative systems, of acquired businesses with existing operations and systems;
- maintain third party relationships previously established by acquired companies;
- retain senior management and other key personnel at acquired businesses; and
- successfully manage acquisition-related strain on the management, operations and financial resources of ILG and/or acquired businesses.

ILG may not be successful in addressing these challenges or any others encountered in connection with historical and future acquisitions. In addition, the anticipated benefits of one or more acquisitions may not be realized and future acquisitions could result in potentially dilutive issuances of equity securities and/or the assumption of contingent liabilities. Also, the value of goodwill and other intangible assets acquired could be impacted by one or more unfavorable events or trends, which could result in impairment charges. The occurrence of any these events could adversely affect ILG's business, financial condition and results of operations.

ILG also intends to selectively enter into joint ventures and other strategic arrangements to provide new products and services complimentary to those currently offered by its businesses. However, ILG may be unable to successfully enter into these arrangements on favorable terms or launch related products and services or such products and services may not gain market acceptance or be profitable. The failure to develop and execute any such initiatives on a cost-effective basis could have an adverse effect on ILG's business, financial condition and results of operations.

***Property Renovations—A significant decrease in the supply of available vacation rental accommodations due to ongoing property renovations could adversely affect ILG's business, financial condition and results of operations.***

Several of the vacation rental properties in Hawaii for which RQH provides vacation rental and property management services are expected to undergo significant renovations over the next few years. While these renovations are not under the control of ILG (and ultimately are not funded by ILG), they will result in a decrease in the supply of vacation rental accommodations available to vacationers, as well as the need for vacation rental services, during the applicable renovation periods. Furthermore, ongoing renovations at a particular property may negatively impact the desirability of the property as a vacation destination. A significant decrease in the supply of available vacation rental accommodations and the need for vacation rental services during renovation periods, coupled with the inability to attract vacationers to properties undergoing renovations, could have a material adverse effect on ILG's business, financial condition and results of operations.

***Compliance and Changing Laws, Rules and Regulations—The failure of ILG's businesses to comply with extensive regulatory requirements, or to obtain and maintain required licenses and rights, could adversely affect ILG's business, financial condition and results of operations.***

ILG's businesses are subject to various laws, rules and regulations on a global basis, including those specific to the vacation ownership industry, as well as those applicable to businesses generally, such as consumer protection and sales, use, value-added and other tax laws, rules and regulations. While ILG believes that the operations and practices of its businesses have been structured in a manner to ensure material compliance with applicable laws, rules and regulations, the relevant regulatory authorities may take a contrary position. The failure of its businesses to comply with applicable laws, rules and regulations, or to obtain required licenses or rights, could have a material adverse effect on ILG's business, financial condition and results of operations. In addition, unfavorable changes in the laws, rules and regulations applicable to ILG's businesses, including those related to the imposition of taxes, could decrease demand for the services offered by ILG's businesses, increase costs and/or subject ILG to additional liabilities, which could have an adverse effect on ILG's business, financial condition and results of operations.

The vacation ownership industry is subject to extensive regulation in the United States and elsewhere, which generally requires vacation ownership resort developers to follow certain procedures in connection with the sale and marketing of vacation interests, including the filing of offering statements describing proposed developments with relevant governmental authorities for approval and the delivery to prospective purchasers of certain information relating to the terms of the purchase and use, including recission rights. Although ILG and its businesses are not subject to these regulations, such regulations directly affect the members and developers that participate in Interval's exchange networks and, therefore, indirectly affect ILG. As a result, any negative change in the regulatory environment within the vacation ownership industry could have a material adverse effect ILG's business, financial condition and results of operations.

ILG's vacation rental operations are directly subject to a number of licensing requirements, as well as certain laws and regulations relating to consumer protection, particularly, those associated with the property management, including those relating to the preparation and sale of food and beverages, liquor service and health and safety of managed premises. The failure of RQH businesses to comply with applicable laws, rules and regulations, or to obtain required licenses or rights, could have a material adverse effect on ILG's business, financial condition and results of operations.

***Increasing Vacation Rental Revenues—ILG's future growth is dependent, in part, on the ability of its businesses to increase revenues from vacation rentals, and their failure to do so could adversely affect its business, financial condition and results of operations.***

ILG is actively seeking to increase revenues from vacation rentals. In furtherance of these efforts, ILG acquired RQH in May 2007. Through RQH, ILG consistently seeks opportunities to solidify and expand upon its existing base of managed property owners through the critical evaluation and improvement of the property management services made available to managed property owners. In addition, in an effort to better identify and secure (and ultimately rent more) available vacation rental properties, RQH actively seeks to own or lease the front desks of its managed properties and to manage each property's homeowners' association. However, these efforts may not increase the number of available vacation rentals or related revenues or the property management services provided by RQH may not continue to be attractive to vacation property owners. Interval is also actively seeking to provide vacation rental services to resorts participating in its exchange networks. See "Business of ILG—What We Do—Vacation Ownership Membership Services—Member Services—Getaway Program." ILG businesses, however, may be unable to secure accommodations from developers on favorable terms, or it may be unable to rent such accommodations to its members. The failure of ILG to increase revenues from vacation rentals could have a material adverse effect on its business, financial condition and results of operations.

## CAPITALIZATION

The following table presents ILG's cash and cash equivalents and capitalization as of March 31, 2008 on an historical basis and on an unaudited pro forma basis for the separation and the financing. Pro forma for the separation and the financing includes the $450 million in indebtedness that ILG expects to hold at separation. In connection with the separation, ILG is expected to distribute the net proceeds of the financing to IAC except for $50 million which it will retain. ILG will also retain its international cash which is approximately $69.0 million as of March 31, 2008. The separation of ILG and the related financing transactions are described in the notes to the Unaudited Pro Forma Condensed Consolidated Balance Sheet under the Unaudited Pro Forma Condensed Consolidated Financial Statements as if the separation and the related transactions and events had been consummated on March 31, 2008.

The assumptions used and pro forma adjustments derived from such assumptions are based on currently available information and ILG believes such assumptions are reasonable under the circumstances. Such adjustments are subject to change based upon the finalization of the terms of the separation and financing.

This table should be read in conjunction with "Selected Historical Financial Data," "Transfers to IAC and Financing," "Description of Capital Stock of the Spincos," "Management's Discussion and Analysis of Financial Condition and Results of Operations of ILG," the consolidated financial statements of ILG and the "Unaudited Pro Forma Condensed Consolidated Financial Statements" and accompanying notes included in this information statement.

The table below is not necessarily indicative of ILG's cash and cash equivalents and capitalization had the separation and the related financing transactions been completed on the date assumed. The capitalization table below may not reflect the capitalization or financial condition which would have resulted had ILG been operating as an independent, publicly-traded company at that date and is not necessarily indicative of ILG's future capitalization or financial condition.

| | As of March 31, 2008 | |
|---|---|---|
| | Historical | Unaudited Pro Forma for the Separation and Financing |
| | (In millions) | |
| Cash and cash equivalents | $ 69 | $ 119 |
| Long-term debt: | | |
| Bank credit facility and notes | $ — | $ 450 |
| Total long-term debt | — | 450 |
| Shareholders' equity | 508 | 117 |
| Total capitalization | $ 508 | $ 567 |

## SELECTED HISTORICAL FINANCIAL DATA

The following table presents summary selected historical consolidated financial information for Interval Leisure Group, Inc. ("ILG"). This data was derived, in part, from the historical consolidated financial statements of ILG included elsewhere in this document and reflects the operations and financial position of ILG at the dates and for the periods indicated. The information in this table should be read in conjunction with the consolidated financial statements and accompanying notes and other financial data pertaining to ILG included herein. However, this financial information does not necessarily reflect what the historical financial position and results of operations of ILG would have been had ILG been a stand-alone company during the periods presented.

| | Year Ended December 31, | | | | | Three Months Ended March 31, | |
|---|---|---|---|---|---|---|---|
| | 2007[1] | 2006 | 2005 | 2004 (unaudited) | 2003 (unaudited) | 2008 (unaudited) | 2007 (unaudited) |
| | (In thousands) | | | | | | |
| **Statement of Operations Data:** | | | | | | | |
| Revenue | $ 360,407 | $ 288,646 | $ 260,843 | $ 242,101 | $ 206,453 | $ 115,937 | $ 86,433 |
| Operating income | 106,566 | 86,128 | 72,824 | 49,624 | 24,507 | 38,964 | 31,829 |
| Net income | 71,056 | 58,043 | 49,243 | 31,730 | 14,918 | 24,808 | 21,149 |

| | December 31, | | | | | March 31, |
|---|---|---|---|---|---|---|
| | 2007[1] | 2006 | 2005 | 2004 (unaudited) | 2003 (unaudited) | 2008 (unaudited) |
| | (In thousands) | | | | | |
| **Balance Sheet Data (end of period):** | | | | | | |
| Working capital (deficit) | $ (12,712) | $ (43,204) | $ (37,578) | $ (29,161) | $ (23,981) | $ (7,778) |
| Total assets | 922,617 | 767,677 | 783,032 | 789,383 | 799,847 | 933,905 |
| Minority interest | 512 | — | — | — | — | 520 |
| Shareholders' equity | 513,367 | 408,887 | 439,947 | 467,746 | 522,577 | 507,549 |

(1) Includes the results of ResortQuest Hawaii and ResortQuest Real Estate of Hawaii, (collectively referred to herein as "RQH"), since its acquisition on May 31, 2007.

**INTERVAL LEISURE GROUP, INC. AND SUBSIDIARIES**
**UNAUDITED PRO FORMA**
**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The following Unaudited Pro Forma Condensed Consolidated Financial Statements of Interval Leisure Group, Inc. and subsidiaries ("ILG") reflect adjustments to the historical consolidated financial statements of ILG to give effect to the separation and related financing transactions described in the notes to the Unaudited Pro Forma Condensed Consolidated Financial Statements as of March 31, 2008 for the Unaudited Pro Forma Condensed Consolidated Balance Sheet and as of January 1, 2007 and January 1, 2008 for the Unaudited Pro Forma Condensed Consolidated Statement of Operations for the year ended December 31, 2007 and the three months ended March 31, 2008, respectively.

The assumptions used and pro forma adjustments derived from such assumptions are based on currently available information and ILG believes such assumptions are reasonable under the circumstances. While at this time ILG does not expect material changes to the terms of the separation, the finalization of the financing described in the notes hereto is still subject to credit market conditions at the time that the financing actually occurs. Given the volatility in the credit markets, it is possible that material changes may occur with respect to the financing.

The following Unaudited Pro Forma Condensed Consolidated Financial Statements should be read in conjunction with the historical consolidated financial statements of ILG and "Management's Discussion and Analysis of Financial Condition and Results of Operations" of ILG included in this information statement.

These Unaudited Pro Forma Condensed Consolidated Financial Statements are not necessarily indicative of ILG's results of operations or financial condition had the separation and related transactions been completed on the dates assumed. Also, they may not reflect the results of operations or financial condition which would have resulted had ILG been operating as an independent publicly traded company during such periods. In addition, they are not necessarily indicative of ILG's future results of operations or financial condition.

These Unaudited Pro Forma Condensed Consolidated Financial Statements are forward looking information within the meaning of "Forward-Looking Statements" as described on pages 2-3 of this Information Statement.

## INTERVAL LEISURE GROUP, INC. AND SUBSIDIARIES

## UNAUDITED PRO FORMA
## CONDENSED CONSOLIDATED BALANCE SHEET

## MARCH 31, 2008

| | Historical | Pro Forma Adjustments | Notes | Pro Forma |
|---|---|---|---|---|
| | | (In thousands, except share data) | | |
| **ASSETS** | | | | |
| Cash and cash equivalents | $ 69,242 | $ 440,000 | (a) | $ 119,000 |
| | | (390,242) | (b) | |
| Other current assets | 95,918 | — | (a) | 95,918 |
| Total current asset | 165,160 | 49,758 | | 214,918 |
| Non-current assets | 768,745 | 10,000 | (a) | 778,745 |
| **TOTAL ASSETS** | $ 933,905 | $ 59,758 | | $ 993,663 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| **LIABILITIES:** | | | | |
| Current liabilities | $ 172,938 | $ — | (a) | $ 172,938 |
| Long-term debt | — | 450,000 | (a) | 450,000 |
| Other long-term liabilities | 252,898 | — | | 252,898 |
| Minority interest | 520 | — | | 520 |
| **SHAREHOLDERS' EQUITY:** | | | | |
| Common shares, $0.01 par value,—authorized; 55,747,109 issued and outstanding on a pro forma basis | — | 557 | (b) | 557 |
| Additional paid-in capital | — | 115,589 | (b) | 115,589 |
| Invested capital | 726,760 | (726,760) | (b) | — |
| Receivables from IAC and subsidiaries | (467,664) | 467,664 | (b) | — |
| Retained earnings | 247,292 | (247,292) | (b) | — |
| Accumulated other comprehensive income | 1,161 | — | | 1,161 |
| Total shareholders' equity | 507,549 | (390,242) | | 117,307 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | $ 933,905 | $ 59,758 | | $ 993,663 |

The accompanying Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements are an integral part of these statements.

**INTERVAL LEISURE GROUP, INC. AND SUBSIDIARIES**

**UNAUDITED PRO FORMA**
**CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**

**MARCH 31, 2008**

| | Historical | Pro Forma Separation Adjustments | Notes | Pro Forma for the Separation | Pro Forma Financing Adjustments | Notes | Final Pro Forma for the Separation and Financing |
|---|---|---|---|---|---|---|---|
| | (In thousands, except per share data) | | | | | | |
| Revenue | $ 115,937 | $ — | | $ 115,937 | $ | | $ |
| Operating expenses | 76,973 | 1,635 | (c) | 79,327 | | | |
| | | 719 | (d) | | | | |
| Operating income | 38,964 | (2,354) | | 36,610 | | | |
| Other income (expense): | | | | | | | |
| Interest income | 2,016 | (1,276) | (e) | 740 | | | |
| Interest expense | (60) | — | | (60) | | (f) | |
| Other expense | (500) | — | | (500) | | | |
| Total other income, net | 1,456 | (1,276) | | 180 | | | |
| Earnings before income taxes and minority interest | 40,420 | (3,630) | | 36,790 | | | |
| Income tax provision | (15,604) | 1,406 | (g) | (14,198) | | (g) | |
| Minority interest in income of consolidated subsidiaries | (8) | — | | (8) | | | |
| **Net income** | $ 24,808 | $ (2,224) | | $ 22,584 | $ | | $ |
| Pro forma earnings per share:(h) | | | | | | | |
| Basic earnings per share | | | | | | | $ |
| Diluted earnings per share | | | | | | | $ |

The accompanying Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements are an integral part of these statements.

**INTERVAL LEISURE GROUP, INC. AND SUBSIDIARIES**

**UNAUDITED PRO FORMA**
**CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**

**YEAR ENDED DECEMBER 31, 2007**

| | Historical | Pro Forma Separation Adjustments | Notes | Pro Forma for the Separation | Pro Forma Financing Adjustments | Notes | Final Pro Forma for the Separation and Financing |
|---|---|---|---|---|---|---|---|
| | (In thousands, except per share data) | | | | | | |
| Revenue | $ 360,407 | $ — | | $ 360,407 | $ | | $ |
| Operating expenses | 253,841 | 6,940 | (c) | 263,656 | | | |
| | | 2,875 | (d) | | | | |
| Operating income | 106,566 | (9,815) | | 96,751 | | | |
| Other income (expense): | | | | | | | |
| Interest income | 10,345 | (7,718) | (e) | 2,627 | | | |
| Interest expense | (205) | — | | (205) | | (f) | |
| Other expense | (606) | — | | (606) | | | |
| Total other income, net | 9,534 | (7,718) | | 1,816 | | | |
| Earnings before income taxes and minority interest | 116,100 | (17,533) | | 98,567 | | | |
| Income tax provision | (45,032) | 6,790 | (g) | (38,242) | | (g) | |
| Minority interest in income of consolidated subsidiaries | (12) | — | | (12) | | | |
| **Net income** | $ 71,056 | $ (10,743) | | $ 60,313 | $ | | $ |
| Pro forma earnings per share:(h) | | | | | | | |
| Basic earnings per share | | | | | | | $ |
| Diluted earnings per share | | | | | | | $ |

The accompanying Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements are an integral part of these statements.

**NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(a) In connection with the separation, ILG expects to raise $450 million through a combination of privately issued debt securities (the "Bonds") and secured credit facilities (the "Term Loan"). In addition, ILG expects to negotiate a $ million revolving credit facility (the "RCF"). The total costs expected to be incurred in connection with the issuance of the Bonds and borrowings under the Term Loan and establishing the RCF are $10.0 million. The net proceeds are expected to be approximately $440 million. The Bonds are expected to have a maturity of years from the date of issuance and the Term Loan is expected to have a term of five years. The RCF is expected to have a term of years. The interest rate on the Bonds is estimated to be % and LIBOR plus % for the Term Loan. The RCF is expected to have a fee of % for the unused portion.

(b) To effect the terms of the separation as follows:

(i) The transfer of approximately $390.2 million in cash to IAC prior to ILG's separation from IAC, which includes $390 million from the financing referred to in note (a) above. ILG will retain $50 million in proceeds from the financings as well as its international cash, which is approximately $69.0 million as of March 31, 2008;

(ii) The extinguishment of the receivable from IAC and subsidiaries; and

(iii) The issuance of 55.7 million shares to effect the transfer of the ownership of ILG from IAC to IAC's shareholders based upon an expected exchange ratio of $^{1}/5^{th}$ of a share of ILG for each share of IAC and the number of IAC common shares outstanding as of March 31, 2008 before giving effect to the 1 for 2 reverse stock split of IAC shares that is expected to be effected in connection with the separation.

To the extent that the net proceeds from the Bonds and Term Loan are less than $440 million, as described in note (a) above, there would be a corresponding reduction in the transfer of cash to IAC.

(c) ILG expects to incur additional cost related to being a stand-alone, public company. These costs have been estimated to be $8.0 million on an annual basis. These costs relate to the following:

- additional personnel including accounting, tax, treasury, internal audit and legal personnel;
- professional fees associated with audits, tax and other services;
- increased insurance premiums;
- increased health and welfare benefit costs;
- costs associated with a board of directors;
- increased franchise taxes, stock exchange listing fees, fees for preparing and distributing periodic filings with the Securities and Exchange Commission; and
- other administrative costs and fees.

The total costs referred to above were compared to the corporate allocations from IAC for the three months ended March 31, 2008 and for the year ended December 31, 2007 in order to determine the incremental costs expected to be incurred for each period as follows:

| | Three Months Ended March 31, 2008 | Year Ended December 31, 2007 |
|---|---|---|
| | (In thousands) | |
| Estimated stand-alone, public company costs | $ 1,950 | $ 7,973 |
| Less: corporate allocations | (315) | (1,033) |
| Incremental costs of being a stand-alone, public company | $ 1,635 | $ 6,940 |

The significant assumptions involved in arriving at these estimates include:

- the number of additional personnel required to operate as a public company and the compensation level with respect to each position;
- the level of additional assistance ILG will require from professional service providers;
- the increase in insurance premiums as a stand-alone public company;
- the increase in health and welfare costs as a stand-alone entity; and
- the type and level of other costs expected to be incurred in connection with being a stand-alone, public company.

This amount excludes the $1.1 million of estimated one-time recruiting fees; professional fees for legal and tax services (e.g. initial benefit plan design); and other costs (e.g. initial stock exchange listing fees) expected to be incurred in initially establishing ILG as a stand-alone, public company. These costs are therefore not expected to recur.

(d) To reflect the additional compensation expense associated with equity-based awards that will be granted only upon consummation of the separation.

The awards related to the consummation of the separation are expected to be granted to certain members of executive management of ILG in the form of restricted stock units ("RSUs"). The issuance of these awards is contingent upon the consummation of the separation. The expense related to these awards is included as a pro forma adjustment because they will vest over four years and will therefore have an impact on the ongoing operations of ILG. The aggregate estimated value of the awards is being amortized to expense on a straight-line basis over the four year vesting period of the awards. This does not reflect non-recurring compensation expense related to modifications of existing IAC RSUs that will be made in connection with the separation described below.

The modification related to IAC issued RSUs relates to the accelerated vesting, upon the consummation of the separation, of all RSUs granted prior to August 8, 2005 and all awards that were scheduled to vest prior to February 28, 2009. The estimated expense of $3.3 million is the previously unrecognized expense associated with these awards. The expense is treated as non-recurring because after the separation no future service is required with respect to these awards.

**NOTES TO UNAUDITED PRO FORMA**
**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

There may be additional stock-based awards granted in connection with the separation but the amount of such awards, if any, has not yet been determined and no expense with respect thereto has been reflected herein.

(e) To reflect the elimination of intercompany interest income allocated by IAC to ILG.

(f) This reflects the incremental interest expense related to the financing referred to in note (a) above. It includes interest expense at an assumed rate of % on the Bonds and LIBOR plus % on the Term Loan, LIBOR is assumed to be %, the aggregate assumed rate is therefore %. It also reflects expense at % on the RCF which is assumed to be unused. The interest expense calculation includes the amortization of debt issuance costs over the applicable term of each portion of the financing. An assumed 25 basis point change in the interest rate would result in an increase or decrease to interest expense of $ million for the Bonds and $ million for the Term Loan.

(g) To reflect the tax effect of the pro forma adjustments at an assumed effective tax rate of 38.7% which represents a federal statutory tax rate of 35% and a state effective statutory tax rate of 3.7%.

(h) Earnings per share and weighted average shares outstanding reflect the historical number of common shares used to calculate IAC's earnings per share, adjusted based on an expected exchange ratio of $^{1}/_{5}$th of a share of ILG for each share of IAC before giving effect to the 1 for 2 reverse stock split for IAC shares that is expected to be effected in connection with the separation. These amounts reflect the outstanding equity-based awards that were included in IAC's dilutive earnings per share calculation. Pro forma earnings per share is calculated using the following:

| | Three Months Ended March 31, 2008 | Year Ended December 31, 2007 |
|---|---|---|
| | (In thousands) | |
| Net income | $ | $ |
| Basic shares outstanding—weighted average shares | 55,753 | 57,137 |
| Other dilutive securities including stock options, warrants and restricted stock and share units | 1,496 | 2,729 |
| Diluted shares outstanding—weighted average shares | 57,249 | 59,866 |

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF ILG

*The following discussion describes the financial condition and results of operations of Interval Leisure Group, Inc. ("ILG") as though ILG were a separate company as of the dates and for the periods presented and includes the businesses, assets and liabilities that will comprise ILG following the spin-off.*

**Spin-Off**

On November 5, 2007, IAC/InterActiveCorp ("IAC") announced that its Board of Directors approved a plan to separate IAC into five publicly traded companies, identifying ILG as one of those five companies. We refer to the separation transaction herein as the "spin-off". In connection with the spin-off, ILG was incorporated as a Delaware corporation in May 2008. ILG currently does not have any material assets or liabilities, nor does it engage in any business or other activities and, other than in connection with the spin-off, will not acquire or incur any material assets or liabilities, nor will it engage in any business or other activities. Upon completion of the spin-off, ILG will consist of Interval and ResortQuest Hawaii and ResortQuest Real Estate of Hawaii, collectively referred to herein as "RQH", which was acquired on May 31, 2007, the businesses that formerly comprised IAC's Interval segment. The businesses to be operated by ILG following the spin-off are referred to herein as the "ILG Businesses".

**Basis of Presentation**

The historical consolidated financial statements of ILG and its subsidiaries and the disclosure set forth in this Management's Discussion and Analysis of Financial Condition and Results of Operations of ILG reflect the contribution or other transfer to ILG of all of the subsidiaries and assets and the assumption by ILG of all of the liabilities relating to the ILG Businesses in connection with the spin-off, and the allocation to ILG of certain IAC corporate expenses relating to the ILG Businesses. Accordingly, the historical consolidated financial statements of ILG reflect the historical financial position, results of operations and cash flows of the ILG Businesses since their respective dates of acquisition by IAC, based on the historical consolidated financial statements and accounting records of IAC and using the historical results of operations and historical bases of the assets and liabilities of the ILG Businesses with the exception of accounting for income taxes. For purposes of these financial statements, income taxes have been computed for ILG on an as if stand-alone, separate tax return basis. Intercompany transactions and accounts have been eliminated.

In the opinion of ILG's management, the assumptions underlying the historical consolidated financial statements of ILG are reasonable. However, this financial information does not necessarily reflect what the historical financial position, results of operations and cash flows of ILG would have been had ILG been a stand-alone company during the periods presented.

## MANAGEMENT OVERVIEW

ILG is a leading provider of membership services, primarily to the vacation ownership industry, through Interval. With the acquisition of RQH in May 2007, ILG also entered the vacation rental and property management services industry.

### Sources of Revenue

Vacation ownership membership services revenue is generated primarily from membership fees and transactional fees paid for exchange and Getaway transactions (i.e., vacations). Interval typically enters into multi-year contracts with developers of vacation ownership resorts, pursuant to which the developers agree to enroll all purchasers of vacation interests at the applicable resort as members of Interval's exchange programs. In return, Interval provides enrolled purchasers with the ability to exchange the use and occupancy of their vacation interest at the home resort (generally for periods of one week) for the right to occupy accommodations at a different resort participating in Interval's network or at the same resort during a different period of occupancy. Members are also generally eligible to participate in the program's other value-added member services. Developers generally remit Interval's initial basic membership fee and, where applicable, upgraded membership fees, on behalf of their respective owners for membership periods ranging from one to three years at the time the vacation interests are sold. In most cases, vacation interest owners are responsible for renewing their memberships and paying related fees. However, some developers have incorporated Interval's membership fees into their annual assessments and these owners' memberships are renewed annually by the developer during the period of the resort's participation in the Interval network. In connection with its vacation ownership membership services business, Interval also provides travel-related services for members as well as support, consulting and back-office services for developers participating in the Interval exchange programs. Through Interval's Getaway program, members may rent resort accommodations for a fee, plus applicable taxes, without relinquishing the use of their vacation interests. For the year ended December 31, 2007, ILG's vacation ownership membership services business represented 88% of its revenue.

ILG, through RQH, also provides vacation rental and property management services for owners of condominium hotels and hotel management services to owners of traditional hotels. Revenue from RQH is derived principally from management fees for vacation rental services and property management services. Property management fees consist of a base management fee and, in some instances, an incentive fee. Property management agreements may provide that owners receive a specified portion of the revenue generated while the relevant properties are under RQH management. In these cases, the operating expenses for the rental operation are paid from the revenue generated by the accommodations rentals. The owners are then paid their contractual percentages, and RQH either retains the balance (if any) as its management fee or is required to make up the deficit. Revenue is also derived from fees for hotel management services. For the year ended December 31, 2007, ILG's vacation rental and property management services business represented 12% of its revenue.

### Channels of Distribution; Marketing Costs

ILG markets and offers services directly to customers through call centers and branded websites allowing customers to transact directly with ILG in a convenient manner. ILG also markets its value-added, operational and sales and marketing support services directly to developers and the benefits of membership directly to prospective owners of vacation interests. ILG also markets and distributes its services through its various customer and industry publications and through third party distribution channels, including, without limitation, online travel intermediaries and, to a limited degree, via internet search engines.

**Access to Supply**

ILG's vacation ownership membership services business is dependent upon vacation ownership developers for new members and resort accommodations for use in its exchange and Getaway programs, as well as upon members to renew their existing memberships. Its vacation rental and property management business is dependent upon vacation property owners and hotels for vacation properties to manage and rent to vacationers. ILG's businesses have established strong relationships with developers, members and managed property owners pursuant to contractual arrangements, although there are no assurances that these historical relationships will continue beyond their contractual term in the future.

**International Operations**

ILG continues to seek to expand its vacation ownership membership services business abroad, especially in the Middle East and Asia. International revenue grew approximately 15% in 2007 from 2006. However, as a percentage of total ILG revenue, international revenue was approximately 16% in 2007 and approximately 18% in both 2006 and 2005. This decrease is due to domestic revenue growing at a faster rate during this time period primarily due to the acquisition of RQH in 2007.

**Economic and Other Trends and Events; Industry Specific Factors**

Growth in the vacation ownership membership services industry is driven primarily by the number of vacation interests sold to new purchasers. In 2007, the number of U.S.-based households owning vacation interests increased to approximately 4.4 million, an increase of approximately 300,000 households, from the number reported for 2006. Continued growth is expected to be driven by: (i) increased consumer awareness and acceptance of the value and benefits of the ownership of vacation interests (ii) adoption of constructive legislation and regulations internationally that improve consumer protection and allow businesses to operate profitably; (iii) the entry of additional independent developers and brand-name hospitality companies into the vacation ownership industry, which will increase the number of vacation interests available for sale; and (iv) reported demand for vacation ownership products in the U.S., whereby an estimated 5% of all adult leisure travelers familiar with the concept of vacation ownership have expressed an interest in acquiring a vacation interest at some point before February 2010 which equates to an estimated potential market consisting of approximately 6.0 million potential purchasers. The vacation ownership membership services industry growth is also driven by the continued development and offering of new vacation ownership accommodations and alternative vacation ownership related products.

ILG believes that the overall supply of vacation rental properties has been increasing as a result of the growth in second/vacation home ownership and the increasing desire among many owners to rent their properties for additional income. An increasing percentage of second/vacation home (including condominiums and shared ownership properties) purchasers have cited the ability to generate rental income as a motivating factor for their purchase decision. Property management and vacation rental companies facilitate the rental process by handling most, if not all, aspects of interaction with vacationers. Growth in the marketplace is due, in some part, to the numbers of resorts entering the condo space as a means to capitalize on overall property construction through the upfront sales of vacation condos. Additionally, consumer reasoning with regard to the usage of vacation property as an investment to rent, for supplemental income, may be a stimulus for market growth. Condominium accommodations typically provide substantial value to the consumer seeking more than a nightly stay, as they offer families greater space and convenience than a traditional hotel room by offering separate living, sleeping and eating quarters. Continued growth in leisure travel, as well as improved product awareness and customer convenience through direct and indirect online distribution channels, is also expected to drive this growth.

***Results of Operations for the Years Ended December 31, 2007, 2006 and 2005***

***Revenue***

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | (Dollars in thousands) | | | | |
| Interval | $ 318,370 | 10% | $ 288,646 | 11% | $ 260,843 |
| RQH | 42,037 | N/A | N/A | N/A | N/A |
| Total revenue | $ 360,407 | 25% | $ 288,646 | 11% | $ 260,843 |

Revenue in 2007 increased $71.8 million, or 25%, from 2006 primarily due to the acquisition of RQH on May 31, 2007, which contributed $42.0 million to ILG's revenue in 2007. Excluding RQH, revenue grew 10%. This was driven by a 13% growth in revenue from confirmed vacations and a 10% increase in membership revenue. Confirmed vacations revenue, which includes transactional fees paid for exchange and Getaway transactions (i.e. vacations), increased due to a 6% increase in volume, as well as a higher average fee compared to the prior year. Membership revenue grew due to a 6% increase in active members reflecting strong new member growth combined with a sustained retention rate. Total active members increased by 0.1 million from 2006 to approximately 2.0 million.

Revenue in 2006 increased $27.8 million, or 11%, from 2005 primarily due to a 5% increase in confirmed vacations and higher average fees in the vacation ownership membership services business. Total active members increased 4% to nearly 1.9 million.

ILG cannot say with certainty how an additional increase in fees for vacations in 2008 would impact growth of vacation ownership interests. Historically, when ILG has increased fees its active members and confirmed vacations have continued to increase.

***Cost of Sales***

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | (Dollars in thousands) | | | | |
| Cost of sales | $100,799 | 52% | $66,293 | 9% | $60,794 |
| As a percentage of total revenue | 28% | 500 bp | 23% | (34) bp | 23% |
| Gross margins | 72% | (500) bp | 77% | 34 bp | 77% |

Cost of sales consists primarily of compensation and other employee-related costs (including stock-based compensation) for personnel engaged in servicing Interval's members as well as the cost of rental inventory for confirmed vacations. In 2007, due to the acquisition of RQH, cost of sales also includes compensation and other employee-related costs for personnel engaged in providing services to property owners and/or guests.

Cost of sales in 2007 increased $34.5 million from 2006, primarily due to the acquisition of RQH, which contributed $29.6 million to ILG's cost of sales. Gross margins decreased 6% principally due to the inclusion of RQH. Excluding the impact of RQH, cost of sales increased $4.9 million in 2007 primarily due to an increase of $4.6 million in the cost of rental inventory in order to fulfill confirmed vacations.

Cost of sales in 2006 increased $5.5 million from 2005, primarily due to an increase of $2.3 million in the cost of rental inventory for confirmed vacations and an increase of $1.9 million in compensation and other employee-related costs associated, in part, with an increase in contract labor related to outsourced home-based call center agents.

***Selling and marketing expense***

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | (Dollars in thousands) | | | | |
| Selling and marketing expense | $45,835 | 10% | $41,635 | 8% | $38,424 |
| As a percentage of total revenue | 13% | (171) bp | 14% | (31) bp | 15% |

Selling and marketing expense consists primarily of commission expense, advertising and promotional expenditures and compensation and other employee-related costs (including stock-based compensation) for personnel engaged in sales and sales support functions. Advertising and promotional expenditures primarily include printing and postage costs of directories and magazines, promotions, tradeshows and agency fees.

Selling and marketing expense in 2007 increased $4.2 million from 2006, primarily due to the acquisition of RQH, which contributed $2.0 million to ILG's selling and marketing expense. Excluding the impact of RQH, selling and marketing expense increased $2.2 million in 2007 primarily due to an increase in compensation and other employee-related costs, partially offset by lower advertising and promotional expenditures.

Selling and marketing expense in 2006 increased $3.2 million from 2005, primarily due to increases of $2.1 million in commission expense and $0.9 million in compensation and other employee-related costs. The increase in commission expense is principally driven by the increase in revenue described above.

***General and administrative expense***

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | (Dollars in thousands) | | | | |
| General and administrative expense | $71,913 | 17% | $61,538 | 9% | $56,213 |
| As a percentage of total revenue | 20% | (137) bp | 21% | (23) bp | 22% |

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

General and administrative expense in 2007 increased $10.4 million from 2006, primarily due to an increase in compensation and other employee-related costs, as well as the impact of the RQH acquisition in 2007, which contributed $2.9 million to ILG's general and administrative expense. Excluding the impact of RQH, general and administrative expense increased $7.5 million in 2007 primarily due to an increase of $6.2 million in compensation and other employee-related costs associated, in part, with an 8% increase in headcount. ILG expects to incur increased costs related to the additional financial and legal requirements associated with being a separate public company, as well as increased non-cash compensation associated with the modification of existing stock-based compensation awards in connection with the spin-off and the grant of new awards post spin-off.

General and administrative expense in 2006 increased $5.3 million from 2005, primarily due to increases of $2.9 million in compensation and other employee-related costs, $0.5 million in facility costs and $0.5 million in professional fees. The increase in compensation and other employee-related costs is primarily due to an increase of $1.7 million in non-cash compensation expense. This non-cash compensation expense is related to equity awards granted by IAC to employees of ILG and is recorded over the vesting period of the awards.

Effective January 1, 2006, ILG adopted Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), using the modified prospective transition method. There was no impact to the amount of stock-based compensation recorded in the consolidated statements of operations as ILG had previously adopted the expense recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). The majority of stock-based compensation expense is reflected in general and administrative expense. As of December 31, 2007, there was approximately $14.0 million of unrecognized compensation cost, net of estimated forfeitures, related to all equity-based awards, which is expected to be recognized over a weighted average period of approximately 3.0 years.

***Depreciation***

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2007** | **% Change** | **2006** | **% Change** | **2005** |
| | (Dollars in thousands) | | | | |
| Depreciation | $8,415 | 7% | $7,832 | 6% | $7,368 |
| As a percentage of total revenue | 2% | (38) bp | 3% | (11) bp | 3% |

Depreciation in 2007 increased $0.6 million from 2006, primarily due to the acquisition of RQH. Excluding the impact of RQH, depreciation in 2007 was relatively flat.

Depreciation in 2006 increased $0.5 million from 2005, primarily due to the incremental depreciation associated with certain information technology projects that were placed in service during late 2005 and 2006.

***Operating Income Before Amortization***

Operating Income Before Amortization is a Non-GAAP measure and is defined in "ILG's Principles of Financial Reporting".

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2007** | **% Change** | **2006** | **% Change** | **2005** |
| | (Dollars in thousands) | | | | |
| Operating Income Before Amortization | $137,074 | 20% | $114,634 | 15% | $99,303 |
| As a percentage of total revenue | 38% | (168) bp | 40% | 164 bp | 38% |

Operating Income Before Amortization in 2007 increased $22.4 million from 2006, growing at a slower rate than revenue due primarily to the inclusion of the results of RQH in 2007. Excluding the impact of RQH, Operating Income Before Amortization grew to $129.9 million. This increase is due to the higher revenue noted above and lower advertising and promotional expenditures, partially offset by increases of $7.5 million in general and administrative expense and $4.9 million in cost of sales.

For full-year 2007 compared to 2006, RQH's Operating Income Before Amortization was $12.8 million in 2007 compared to $12.4 million in 2006, relatively unchanged as expenses increased in line with revenue.

Operating Income Before Amortization in 2006 increased $15.3 million from 2005, primarily due to the higher revenue noted above and, to a lesser extent, improved operating efficiencies. Vacations confirmed online were 24% during 2006 compared with 21% in 2005. Operating Income Before Amortization was also impacted by increases of $5.3 million in general and administrative expense and $2.3 million in advertising and promotional expenditures.

*Operating income*

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | (Dollars in thousands) | | | | |
| Operating income | $106,566 | 24% | $86,128 | 18% | $72,824 |
| As a percentage of total revenue | 30% | (27) bp | 30% | 192 bp | 28% |

Operating income in 2007 increased $20.4 million from 2006, primarily due to the increase in Operating Income Before Amortization described above, partially offset by an increase of $1.7 million in amortization of intangibles and an increase in non-cash compensation expense. RQH contributed $4.1 million to ILG's operating income in 2007. The increase in amortization of intangibles results from the acquisition of RQH, partially offset by certain intangible assets being fully amortized in 2007.

Operating income in 2006 increased $13.3 million from 2005, primarily due to the increase in Operating Income Before Amortization described above, partially offset by an increase of $2.0 million in non-cash compensation expense.

*Other income (expense)*

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | (Dollars in thousands) | | | | |
| Other income (expense): | | | | | |
| Interest income | $ 10,345 | 16% | $ 8,914 | 37% | $ 6,518 |
| Interest expense | (205) | 43% | (357) | 43% | (623) |
| Other expense | (606) | 22% | (774) | (185)% | (272) |

Interest income in 2007 increased $1.4 million from 2006, primarily due to higher receivable balances due from IAC and subsidiaries, as well as increased interest earned on higher average cash balances in 2007. Interest income in 2006 increased $2.4 million from 2005 primarily due to higher receivable balances due from IAC and subsidiaries. The increase in the receivable balance is principally due to cash transfers to IAC in connection with IAC's centrally managed U.S. treasury function.

*Income tax provision*

ILG recorded income tax provisions of $45.0 million, $35.9 million and $29.2 million, for the years ended December 31, 2007, 2006 and 2005, respectively, which represents effective tax rates of 39%, 38% and 37%, respectively. These tax rates are higher than the federal statutory rate of 35% due principally to state and local income taxes partially offset by foreign income taxed at lower rates.

ILG adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" ("FIN 48") effective January 1, 2007. The cumulative effect of the adoption resulted in an increase of $0.2 million to retained earnings. As of January 1, 2007 and December 31, 2007, ILG had unrecognized tax benefits of approximately $4.0 million and $7.3 million, respectively, which included accrued interest of $1.0 million and $1.6 million, respectively.

By virtue of previously filed separate company and consolidated tax returns with IAC, ILG is routinely under audit by federal, state, local and foreign authorities in the area of income tax. These audits include questioning the timing and the amount of deductions and the allocation of income among various tax jurisdictions. Income taxes payable include amounts considered sufficient to pay assessments that may result from examination of prior year returns; however, the amount paid upon resolution of issues raised may differ from the amount provided. Differences between the reserves for tax contingencies and the amounts owed by ILG are recorded in the period they become known.

The Internal Revenue Service ("IRS") is currently examining the IAC consolidated tax returns for the years ended December 31, 2001 through 2003, which includes the operations of Interval from September 24, 2002, its date of acquisition by IAC. The statute of limitations for these years has been extended to December 31, 2008. Tax filings in various state, local and foreign jurisdictions are currently under examination, the most significant of which are Florida, New York state and New York City, for various tax years after December 31, 2001. These examinations are expected to be completed by late 2008. ILG believes that it is reasonably possible that its unrecognized tax benefits could decrease by approximately $2.9 million within twelve months of the current reporting date due primarily to the reversal of deductible temporary differences which will result in a corresponding increase in net deferred tax liabilities. An estimate of other changes in unrecognized benefits cannot be made, but are not expected to be significant.

Under the terms of the tax sharing agreement, which will be executed in connection with the spin-off, IAC will generally retain the liability related to federal and state tax returns filed on a consolidated or unitary basis for all periods prior to the spin-off.

## FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2007, ILG had $72.9 million of cash and cash equivalents and restricted cash and cash equivalents, $64.8 million of which is held in foreign jurisdictions, principally the United Kingdom, and is subject to changes in foreign exchange rates. The majority of ILG's cash is in the United Kingdom due to its participation in IAC's centrally managed treasury function in the U.S., its European businesses operating through licensing arrangements with its United Kingdom entity and the reinvestment of the related earnings in the United Kingdom. ILG conducts business in one foreign country where a currency restriction exists. At December 31, 2007 ILG had $5.1 million of cash which can only be repatriated upon the approval of that country's government. ILG has requested approval for a portion of the cash to be repatriated. This request is currently pending.

Net cash provided by operating activities was $125.6 million and $106.4 million in 2007 and 2006, respectively. The increase of $19.2 million in net cash provided by operating activities is principally due to higher net income and increased deferred revenue. These items were partially offset by increases in accounts receivable and prepaid expenses and other current assets.

Net cash used in investing activities in 2007 of $208.9 million primarily resulted from acquisitions, net of cash acquired, of $114.1 million, cash transfers to IAC of $84.5 million and capital expenditures of $10.3 million. The cash transfers to IAC relate to IAC's centrally managed U.S. treasury function. Net cash used in investing activities in 2006 of $110.2 was primarily related to cash transfers to IAC of $103.6 million and capital expenditures of $6.7 million.

Net cash provided by financing activities in 2007 of $112.2 million was primarily due to capital contributions of $114.1 million from IAC to fund ILG's 2007 acquisitions. Cash used in financing activities in 2006 of $0.5 million was primarily due to excess tax benefits from stock-based awards.

## CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

| Contractual Obligations | Total | Less Than 1 Year | 1-3 Years | 3-5 Years | More Than 5 Years |
|---|---|---|---|---|---|
| | Payments Due by Period | | | | |
| | (In thousands) | | | | |
| Purchase obligations(a) | $ 10,587 | $ 4,177 | $ 3,150 | $ 2,173 | $ 1,087 |
| Operating leases | 74,943 | 9,333 | 14,592 | 12,429 | 38,589 |
| Total contractual cash obligations | $ 85,530 | $ 13,510 | $ 17,742 | $ 14,602 | $ 39,676 |

(a) The purchase obligations primarily relate to future space purchases.

| Other Commercial Commitments* | Total Amounts Committed | Less Than 1 Year | 1-3 Years | 3-5 Years | More Than 5 Years |
|---|---|---|---|---|---|
| | Amount of Commitment Expiration Per Period | | | | |
| | (In thousands) | | | | |
| Guarantees, surety bonds and letters of credit | $ 32,612 | $ 25,040 | $ 3,722 | $ 1,806 | $ 2,044 |

* Commercial commitments are funding commitments that could potentially require performance in the event of demands by third parties or contingent events, such as under lines of credit extended or under guarantees.

### *Off-Balance Sheet Arrangements*

Other than the items described above, ILG does not have any off-balance sheet arrangements as of December 31, 2007.

***Results of Operations for the Three Months Ended March 31, 2008 Compared to the Three Months Ended March 31, 2007***

***Revenue***

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | | (Dollars in thousands) | |
| Interval | $ 96,834 | 12% | $ 86,433 |
| RQH | 19,103 | N/A | N/A |
| Total revenue | $ 115,937 | 34% | $ 86,433 |

Revenue in 2008 increased $29.5 million, or 34%, from 2007 primarily due to the acquisition of RQH on May 31, 2007, which contributed $19.1 million to ILG's revenue in 2008. Excluding RQH, revenue grew 12%. This was driven by a 13% growth in revenue from confirmed vacations and a 9% increase in membership revenue. Confirmed vacations revenue, which includes transactional fees paid for exchange and Getaway transactions (i.e. vacations), increased due to a 6% increase in volume as well as a higher average fee compared to the prior year period. Membership revenue grew due to a 4% increase in active members in addition to an increase in average fee. Total active members increased by 0.1 million from 2007 to approximately 2.0 million.

***Cost of sales***

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | | (Dollars in thousands) | |
| Cost of sales | $36,033 | 90% | $18,944 |
| As a percentage of total revenue | 31% | 916 bp | 22% |
| Gross margins | 69% | (916) bp | 78% |

Cost of sales consists primarily of compensation and other employee-related costs (including stock-based compensation) for personnel engaged in servicing Interval's members as well as the cost of rental inventory for confirmed vacations. Beginning in the second quarter of 2007, due to the acquisition of RQH, cost of sales also includes compensation and other employee-related costs for personnel engaged in providing services to property owners and/or guests.

Cost of sales in 2008 increased $17.1 million from 2007, primarily due to the acquisition of RQH, which contributed $12.7 million to ILG's cost of sales. Gross margins decreased 7% principally due to the inclusion of RQH. Excluding the impact of RQH, cost of sales increased $4.4 million in 2008 primarily due to increases of $1.9 million in compensation and other employee-related costs and $1.3 million in the cost of rental inventory in order to fulfill confirmed vacations. The increase in compensation and other employee-related costs is due in part to an increase in contract labor related to both in-house and outsourced home-based call center agents.

***Selling and marketing expense***

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | | (Dollars in thousands) | |
| Selling and marketing expense | $12,263 | 5% | $11,662 |
| As a percentage of total revenue | 11% | (292) bp | 13% |

Selling and marketing expense consists primarily of commission expense, advertising and promotional expenditures and compensation and other employee-related costs (including stock-based compensation) for personnel engaged in sales and sales support functions. Advertising and promotional expenditures primarily include printing and postage costs of directories and magazines, promotions, tradeshows and agency fees.

Selling and marketing expense in 2008 increased $0.6 million from 2007, due to the acquisition of RQH, which contributed $1.0 million to ILG's selling and marketing expense. Excluding the impact of RQH, selling and marketing expense decreased $0.4 million in 2008 primarily due to decreased advertising and promotional expenditures, partially offset by an increase in compensation and other employee-related costs. The decrease in advertising and promotional expenditures is due in part to the timing of an industry tradeshow.

***General and administrative expense***

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | | (Dollars in thousands) | |
| General and administrative expense | $19,965 | 26% | $15,805 |
| As a percentage of total revenue | 17% | (106) bp | 18% |

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

General and administrative expense in 2008 increased $4.2 million from 2007, primarily due to an increase in compensation and other employee-related costs, as well as the impact of the RQH acquisition in 2007, which contributed $1.4 million to ILG's general and administrative expense. Excluding the impact of RQH, general and administrative expense increased $2.8 million in 2008 primarily due to an increase of $2.1 million in compensation and other employee-related costs associated, in part, with a 6% increase in headcount. ILG expects to incur increased costs related to the additional financial and legal requirements associated with being a separate public company, as well as increased non-cash compensation associated with the modification of existing stock-based compensation awards in connection with the spin-off and the grant of new awards in connection with and subsequent to the spin-off.

General and administrative expense includes non-cash compensation expense of $1.2 million in 2008 compared with $0.3 million in 2007. The increase in non-cash compensation expense is primarily due to equity grants issued subsequent to the first quarter of 2007. As of March 31, 2008, there was approximately $16.4 million of unrecognized compensation cost, net of estimated forfeitures, related to all equity-based awards, which is currently expected to be recognized over a weighted average period of approximately 3.3 years (exclusive of the impact of the modification related to the spin-off, which consists of the accelerated vesting of certain unvested restricted stock units).

***Depreciation***

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | | (Dollars in thousands) | |
| Depreciation | $2,235 | 18% | $1,888 |
| As a percentage of total revenue | 2% | (26) bp | 2% |

Depreciation in 2008 increased $0.3 million from 2007, primarily due to the incremental depreciation associated with capital expenditures made after the first quarter 2007 and the acquisition of RQH. Excluding the impact of RQH, depreciation increased $0.2 million in 2008.

***Operating Income Before Amortization***

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | | (Dollars in thousands) | |
| Operating Income Before Amortization | $46,836 | 22% | $38,499 |
| As a percentage of total revenue | 40% | (414) bp | 45% |

Operating Income Before Amortization in 2008 increased $8.3 million from 2007, growing at a slower rate than revenue due primarily to the inclusion of the results of RQH in 2008. Excluding the impact of RQH, Operating Income Before Amortization grew to $42.9 million. This increase is due to the higher revenue noted above and lower advertising and promotional expenditures, partially offset by increases of $4.4 million in cost of sales and $2.8 million in general and administrative expense.

***Operating income***

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | | (Dollars in thousands) | |
| Operating Income | $38,964 | 22% | $31,829 |
| As a percentage of total revenue | 34% | (322) bp | 37% |

Operating income in 2008 increased $7.1 million from 2007, primarily due to the increase in Operating Income Before Amortization described above, partially offset by an increase of $1.0 million in non-cash compensation expense and an increase of $0.2 million in amortization of intangibles. RQH contributed $2.6 million to ILG's operating income in 2008.

***Income tax provision***

For the three months ended March 31, 2008 and 2007, ILG recorded tax provisions of $15.6 million and $13.2 million, respectively, which represent effective tax rates of 39% and 38%, respectively. The tax rates for the three months ended March 31, 2008 and 2007 are higher than the federal statutory rate of 35% due principally to state and local income taxes partially offset by foreign income taxed at lower rates.

As of December 31, 2007 and March 31, 2008, ILG had unrecognized tax benefits of approximately $5.7 million. Included in unrecognized tax benefits at March 31, 2008 is approximately $4.9 million for tax positions included in IAC's consolidated tax return filings that will remain a liability of IAC after the spin-off. ILG recognizes interest and, if applicable, penalties related to unrecognized tax benefits in income tax expense. There were no material accruals for interest for 2008. At March 31, 2008, ILG has accrued $1.7 million for the payment of interest. There are no material accruals for penalties.

By virtue of previously filed separate ILG and consolidated tax returns with IAC, ILG is routinely under audit by federal, state, local and foreign authorities in the area of income tax. These audits include questioning the timing and the amount of deductions and the allocation of income among various tax jurisdictions. Income taxes payable include amounts considered sufficient to pay assessments that may result from examination of prior year returns; however, the amount paid upon resolution of issues raised may differ from the amount provided. Differences between the reserves for tax contingencies and the amounts owed by ILG are recorded in the period they become known. ILG believes that it is reasonably possible that its unrecognized tax benefits could decrease by approximately $2.9 million within twelve months of the current reporting date due primarily to the reversal of deductible temporary differences which will result in a corresponding increase in net deferred tax liabilities. An estimate of other changes in unrecognized tax benefits cannot be made, but are not expected to be significant.

Under the terms of the tax sharing agreement, which will be executed in connection with the spin-off, IAC will generally retain the liability related to federal and state returns filed on a consolidated or unitary basis for all periods prior to the spin-off.

## FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2008, ILG had $77.6 million of cash and cash equivalents and restricted cash and cash equivalents, $69.0 million of which is held in foreign jurisdictions, principally the United Kingdom, and is subject to changes in foreign exchange rates. ILG conducts business in a foreign country where currency restriction exists. At March 31, 2008 ILG had $5.5 million of cash which can only be repatriated upon the approval of that country's government. ILG has requested approval for a portion of the cash to be repatriated. This request is currently pending.

Net cash provided by operating activities declined from $39.0 million in 2007 to $36.5 million in 2008. This decline was due principally to a greater increase in accounts receivable related to various renegotiated contracts in 2008, an increase in prepaid membership costs and a smaller contribution from deferred revenue, partially offset by higher net income.

Net cash used in investing activities in 2008 of $35.0 million primarily resulted from cash transfers to IAC of $32.6 million and capital expenditures of $2.4 million. The cash transfers to IAC relate to IAC's centrally managed U.S. treasury function. Net cash used in investing activities in 2007 of $34.6 million was primarily related to cash transfers to IAC of $33.0 million and capital expenditures of $1.6 million.

ILG anticipates that it will need to make capital and other expenditures in connection with the development and expansion of it operations.

In connection with the separation, ILG expects to raise $450 million through a combination of privately issued debt securities (the "Bonds") and secured credit facilities (the "Term Loan"). In addition, ILG expects to negotiate a revolving credit facility (the "RCF"). The total costs expected to be incurred in connection with the issuance of the Bonds and borrowings under the Term Loan and establishing the RCF are $10.0 million. The net proceeds are expected to be approximately $440.0 million. In connection with the separation, ILG is expected to distribute the net proceeds of the financing to IAC except for $50 million which it will retain. ILG will also retain its international cash which is approximately $69.0 million as of March 31, 2008. To the extent that the net proceeds from the Bonds and Term Loans are less than $440.0 million there would be a corresponding reduction in the transfer of cash to IAC. ILG will describe the terms of these new credit facilities and other indebtedness once ILG has negotiated such terms. Upon completion of the spin-off, intercompany receivable balances will be extinguished.

ILG's ability to fund its cash and capital needs will be affected by its ongoing ability to generate cash from operations, the overall capacity and terms of its financing arrangements as discussed above, and access to the equity markets. Given the volatility in the financial markets, IAC and ILG continue to monitor the markets closely and will take steps to maintain financial flexibility and an appropriate capital structure.

## CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

| Contractual Obligations | Payments Due by Period<br>Total | Less Than 1 Year | 1-3 Years | 3-5 Years | More Than 5 Years |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Purchase obligations(a) | $ 10,165 | $ 3,925 | $ 2,979 | $ 2,174 | $ 1,087 |
| Operating leases | 73,957 | 9,194 | 15,184 | 12,522 | 37,057 |
| Total contractual cash obligations | $ 84,122 | $ 13,119 | $ 18,163 | $ 14,696 | $ 38,144 |

(a) The purchase obligations primarily relate to future space purchases.

## ILG'S PRINCIPLES OF FINANCIAL REPORTING

ILG reports Operating Income Before Amortization as a supplemental measure to generally accepted accounting principles ("GAAP"). This measure is one of the primary metrics by which ILG evaluates the performance of its businesses, on which its internal budgets are based and by which management is compensated. ILG believes that investors should have access to the same set of tools that it uses in analyzing its 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. ILG provides and encourages investors to examine the reconciling adjustments between the GAAP and non-GAAP measure which are discussed below.

**Definition of ILG's Non-GAAP Measure**

*Operating Income Before Amortization* is defined as operating income excluding, if applicable: (1) non-cash compensation expense, (2) amortization of intangibles and goodwill impairment, (3) pro forma adjustments for significant acquisitions, and (4) one-time items. ILG believes this measure is useful to investors because it represents the operating results from the ILG Businesses, taking into account depreciation, which ILG believes is an ongoing cost of doing business, but excluding the effects of any other non-cash expenses. Operating Income Before Amortization has certain limitations in that it does not take into account the impact to ILG's statement of operations of certain expenses, including non-cash compensation, and acquisition-related accounting. ILG endeavors to compensate for the limitations of the non-GAAP measure presented by also providing the comparable GAAP measure with equal or greater prominence and descriptions of the reconciling items, including quantifying such items, to derive the non-GAAP measure.

**Pro Forma Results**

ILG will only present Operating Income Before Amortization on a pro forma basis if it views a particular transaction as significant in size or transformational in nature. For the periods presented in this report, there are no transactions that ILG has included on a pro forma basis.

**One-Time Items**

Operating Income Before Amortization is presented before one-time items, if applicable. These items are truly one-time in nature and 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 one-time items.

**Non-Cash Expenses That Are Excluded From ILG's Non-GAAP Measure**

*Non-cash compensation* expense consists principally of expense associated with the grants, including unvested grants assumed in acquisitions, of restricted stock, restricted stock units and stock options. These expenses are not paid in cash, and ILG will include the related shares in its future calculations of fully diluted shares outstanding. Upon vesting of restricted stock and restricted stock units and the exercise of certain stock options, the awards will be settled, at ILG's discretion, on a net basis, with ILG remitting the required tax withholding amount from its current funds.

*Amortization of intangibles* is a non-cash expense relating primarily to acquisitions. At the time of an acquisition, the intangible assets of the acquired company, such as customer relationships, purchase agreements and property management agreements are valued and amortized over their estimated lives. ILG believes that since intangibles represent costs incurred by the acquired company to build value prior to acquisition, they were part of transaction costs.

## RECONCILIATION OF OPERATING INCOME BEFORE AMORTIZATION

For a reconciliation of Operating Income Before Amortization to operating income for ILG's operating segments and to net income in total for the years ended December 31, 2007, 2006 and 2005, see Note 8 to the consolidated financial statements.

### Critical Accounting Policies and Estimates

The following disclosure is provided to supplement the descriptions of ILG's accounting policies contained in Note 2 to the consolidated financial statements in regard to significant areas of judgment. ILG's management is required to make certain estimates and assumptions during the preparation of its 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 income during any period. Actual results could differ from those estimates. Because of the size of the financial statement elements to which they relate, some of ILG's accounting policies and estimates have a more significant impact on its consolidated financial statements than others. What follows is a discussion of some of ILG's more significant accounting policies and estimates.

#### Recoverability of Goodwill and Indefinite-Lived Intangible Assets

In accordance with SFAS 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), ILG reviews the carrying value of goodwill and indefinite-lived intangible assets on an annual basis as of October 1 or earlier upon the occurrence of certain events or substantive changes in circumstances. ILG determines the fair value of its reporting units and indefinite-lived intangible assets based upon an evaluation of expected discounted cash flows. This discounted cash flow analysis utilizes an evaluation of historical and forecasted operating results. The determination of discounted cash flows is based upon forecasted operating results that may not occur. The annual assessment for 2007 did not identify any impairment charges. The value of goodwill and indefinite-lived intangible assets that is subject to assessment for impairment in accordance with SFAS 142 is $514.3 million and $33.3 million, respectively, at December 31, 2007.

#### Recoverability of Long-Lived Assets

ILG reviews the carrying value of all long-lived assets, primarily property and equipment and definite-lived intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may be impaired. In accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), impairment is considered to have occurred whenever the carrying value of a long-lived asset exceeds the sum of the undiscounted cash flows that is expected to result from the use and eventual disposition of the asset. The determination of cash flows is based upon assumptions that may not occur. The value of long-lived assets that is subject to assessment for impairment in accordance with SFAS 144 is $190.6 million at December 31, 2007.

#### Income Taxes

Estimates of deferred income taxes and the significant items giving rise to the deferred assets and liabilities are shown in Note 7, and reflect management's assessment of actual future taxes to be paid on items reflected in the consolidated financial statements, giving consideration to both timing and the probability of realization. As of December 31, 2007, the balance of deferred tax liabilities, net, is $66.5 million. Actual income taxes could vary from these estimates due to future changes in income tax law, state income tax apportionment or the outcome of any review of IAC's tax returns by the IRS, as well as actual operating results of ILG that vary significantly from anticipated results. Effective January 1, 2007, ILG adopted the provisions of FIN 48. As a result of the adoption of FIN 48, ILG recognizes liabilities for uncertain tax positions based on the two-step process prescribed by the interpretation. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. This measurement step is inherently difficult and requires subjective estimations of such amounts to determine the probability of various possible outcomes. ILG considers many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes.

**Seasonality**

Revenue at ILG is influenced by the seasonal nature of planned family travel with the first quarter generally experiencing the strongest bookings and the fourth quarter generally experiencing weaker bookings.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Foreign Currency Exchange Risk

ILG conducts business in certain foreign markets, primarily in the United Kingdom and the European Union. ILG's primary exposure to foreign currency risk relates to its investments in foreign subsidiaries that transact business in a functional currency other than the U.S. Dollar, primarily the British Pound Sterling and Euro. However, the exposure is mitigated as ILG has generally reinvested profits from its international operations. ILG is also exposed to foreign currency risk related to its assets and liabilities denominated in a currency other than the functional currency.

As currency exchange rates change, translation of the income statements of ILG's international businesses into U.S. dollars affects year-over-year comparability of operating results. Historically, ILG has not hedged translation risks because cash flows from international operations were generally reinvested locally. Foreign exchange net losses for the years ended December 31, 2007, 2006 and 2005 were $0.6 million, $0.5 million and $0.2 million, respectively. Foreign exchange net losses for the three months ended March 31, 2008 and 2007 were $0.5 million and $0.1 million, respectively.

As ILG increases its operations in international markets it becomes increasingly exposed to potentially volatile movements in currency exchange rates. The economic impact of currency exchange rate movements on ILG is often linked to variability in real growth, inflation, interest rates, governmental actions and other factors. These changes, if material, could cause ILG to adjust its financing, operating and hedging strategies.

## Management of ILG

### ILG Board of Directors and Executive Officers

The following table sets forth information as to persons who are expected to serve as ILG directors and executive officers following the spin-offs. The ILG Board of Directors, the composition of which will comply with the independence requirements under the current standards imposed by the Marketplace Rules, is currently expected to consist of directors.

| Name | Age | Position(s) |
| --- | --- | --- |
| Craig Nash | 54 | Chairman, President, Chief Executive Officer and Director of ILG |
| John Galea | 52 | Chief Financial Officer of ILG |
| Jeanette Marbert | 51 | Chief Operating Officer of ILG |
| Marie Lee | 52 | Chief Information Officer of ILG |
| Victoria Kincke | 52 | General Counsel of ILG |

### Directors

Background information about those individuals who are expected to serve as directors of ILG appears below.

*Craig M. Nash*, age 54, will serve as Chairman, President, Chief Executive Officer and director of ILG upon completion of the spin-offs and has served as President and Chief Executive Officer of Interval since June 1999. Prior to assuming this role, Mr. Nash served in a series of increasingly significant roles with Interval, including as General Counsel and Vice President of Regulatory Affairs. Mr. Nash joined Interval in 1982. Mr. Nash also provides management oversight to the RQH businesses. Mr. Nash serves on the Board of Directors of the American Resort Development Association and is also a member of its Executive Committee.

### Executive Officers

Background about ILG's executive officers who are not expected to serve as directors appears below.

*John A. Galea,* age 52, will serve as Chief Financial Officer of ILG upon completion of the spin-offs and has served in such capacity for Interval since October 2006. Prior to his tenure as Chief Financial Officer, Mr. Galea served as Interval's Vice President of Accounting and Corporate Controller since 2000. Mr. Galea also provides management oversight to the RQH businesses.

*Jeanette E. Marbert*, age 51, will serve as Chief Operating Officer of ILG upon completion of the spin-offs and has served in such capacity for Interval since June 1999. Prior to her tenure as Chief Operating Officer, Ms. Marbert served as General Counsel of Interval from 1994 to 1999. Ms. Marbert joined Interval in 1984.

*Marie A. Lee,* age 52, will serve as Chief Information Officer of ILG upon completion of the spin-offs and since May 2005 has served as Chief Information Officer and Senior Vice President, U.S. Operations of Interval. Prior to this time, Ms. Lee served as Chief Information Officer of Interval from January 2004 and Senior Vice President, Information Technology of Interval from May 2000 to December 2003.

*Victoria J. Kincke*, age 52, will serve as General Counsel of ILG upon completion of the spin-offs and has served as Senior Vice President and General Counsel of Interval since May 2005. Prior to this time, Ms. Kincke served as General Counsel of Interval from July 1999. Ms. Kincke joined Interval in 1997. Ms. Kincke also provides management oversight to the RQH businesses.

**Committees of the Board of Directors**

Concurrent with the completion of the spin-offs, the ILG Board of Directors will establish the following committees, with committee membership to be determined: the Audit Committee, the Compensation and Human Resources Committee, the Nominating Committee and the Executive Committee.

***Audit Committee.*** The Audit Committee of the ILG Board of Directors will consist of three persons and the composition of the committee will satisfy the independence requirements under the current standards imposed by the rules of the SEC and the Marketplace Rules. The ILG Board of Directors will determine which member of the Audit Committee is an "audit committee financial expert," as such term is defined in applicable SEC rules.

The Audit Committee will function pursuant to a written charter adopted by the ILG Board of Directors, pursuant to which it will be granted the responsibilities and authority necessary to comply with Rule 10A-3 of the Securities Exchange Act of 1934, as amended. The Audit Committee will be appointed by the ILG Board of Directors to assist the ILG Board with a variety of matters, including monitoring (1) the integrity of ILG's financial statements, (2) the effectiveness of ILG's internal control over financial reporting, (3) the qualifications and independence of ILG's independent registered public accounting firm, (4) the performance of ILG's internal audit function and independent registered public accounting firm and (5) the compliance by ILG with legal and regulatory requirements.

***Compensation and Human Resources Committee.*** The Compensation and Human Resources Committee will be authorized to exercise all of the powers of the ILG Board of Directors with respect to matters pertaining to compensation and benefits, including, but not limited to, salary matters, incentive/bonus plans, stock compensation plans, retirement programs and insurance plans. The composition of this committee will satisfy the independence requirements under the current standards imposed by the Marketplace Rules, as well as applicable SEC and Internal Revenue Service rules.

***Nominating Committee.*** The Nominating Committee will be responsible for identifying individuals qualified to become members of ILG's Board of Directors, recommending to the Board director nominees for the annual meeting of shareholders and otherwise on an as needed basis. The composition of this committee will satisfy the independence requirements under the current standards imposed by the Marketplace Rules.

***Executive Committee.*** The Executive Committee will have all the power and authority of the ILG Board of Directors, except those powers specifically reserved to the ILG Board of Directors by Delaware law or ILG's organizational documents.

***Other Committees.*** In addition to the foregoing committees, the ILG Board of Directors, by resolution, may from time to time establish other committees of the ILG Board of Directors, consisting of one or more of its directors.

**Director Compensation**

***Non-Employee Director Arrangements.*** Each member of the ILG Board of Directors will receive an annual retainer in the amount of $50,000. Each member of the Audit and Compensation and Human Resources Committees (including their respective chairs) will receive an additional annual retainer in the amount of $10,000. Each member of the Nominating Committee will receive an additional annual retainer in the amount of $5,000. Lastly, the chair of each of the Audit and Compensation and Human Resources Committees will receive an additional annual chairperson retainer in the amount of $15,000.

In addition, each non-employee director will receive a grant of restricted stock units with a dollar value of $100,000 upon his or her initial election to the ILG Board of Directors and annually thereafter upon re-election on the date of ILG's annual meeting of stockholders. The terms of these restricted stock units provide for (i) vesting in two equal annual installments commencing on the first anniversary of the grant date, (ii) cancellation and forfeiture of unvested units in their entirety upon termination of service with the ILG Board of Directors and (iii) full acceleration of vesting upon a change in control of ILG. Non-employee directors are also reimbursed for all reasonable expenses incurred in connection with attendance at ILG Board and Committee meetings.

The Compensation and Human Resources Committee will have primary responsibility for establishing non-employee director compensation arrangements, which are designed to provide competitive compensation necessary to attract and retain high quality non-employee directors and to encourage ownership of ILG stock to further align directors' interests with those of ILG's stockholders. When considering non-employee director compensation arrangements, ILG management will provide the Compensation and Human Resources Committee with information regarding various types of non-employee director compensation arrangements and practices of select peer companies.

***Deferred Compensation Plan for Non-Employee Directors.*** Under ILG's Deferred Compensation Plan for Non-Employee Directors, non-employee directors will be able to defer all or a portion of their Board and Board Committee fees. Eligible directors who defer all or any portion of these fees can elect to have such fees applied to the purchase of share units, representing the number of shares of ILG common stock that could have been purchased on the relevant date, or credited to a cash fund. If any dividends are paid on ILG common stock, dividend equivalents will be credited on the share units. The cash fund will be credited with deemed interest at an annual rate equal to the weighted average prime lending rate of JPMorgan Chase Bank. After a director ceases to be a member of the ILG Board of Directors, he or she will receive (i) with respect to share units, such number of shares of ILG common stock as the share units represent and (ii) with respect to the cash fund, a cash payment in an amount equal to deferred amounts, plus accrued interest. These payments will be made in either one lump sum or up to five installments, as previously elected by the eligible director at the time of the related deferral election.

**Director Independence**

Under the Marketplace Rules, ILG's Board will have a responsibility to make an affirmative determination that those members of its Board that serve as independent directors do not have any relationships with the ILG and its businesses that would impair their independence. In connection with these determinations, ILG's Board will review information regarding transactions, relationships and arrangements involving ILG and its businesses and each director that it deems relevant to independence, including those required by the Marketplace Rules. This information is obtained from director responses to a questionnaire circulated by ILG management, ILG records and publicly available information. Following these determinations, ILG management will monitor those transactions, relationships and arrangements that are relevant to such determinations, as well as solicit updated information potentially relevant to independence from internal personnel and directors, to determine whether there have been any developments that could potentially have an adverse impact on ILG's prior independence determinations.

**Compensation Committee Interlocks and Insider Participation**

ILG's Board of Directors will have a Compensation and Human Resources Committee. It is expected that none of the members of this Committee will be or will have been in the past an officer or employee of ILG or any of its businesses at the time of their respective service on the Committee.

**ILG Executive Compensation**

***Compensation Discussion and Analysis***

***Roles and Responsibilities***

To date, the compensation of ILG's executive officers has been predominantly determined by IAC, acting in effect as ILG's compensation committee. IAC's compensation process is principally driven by IAC's General Counsel, who has primary responsibility for administering compensation and making compensation recommendations, with all specific decisions approved by IAC's Chairman and Chief Executive Officer and, where appropriate, the Compensation Committee of IAC's Board of Directors (specifically with respect to all awards of IAC equity).

This Compensation Discussion and Analysis deals exclusively with historical information while ILG has been a part of IAC. Following the spin-off, ILG will have an independent board of directors, which will in turn have a compensation committee with responsibility for establishing ILG's compensation philosophy and programs and determining appropriate payments and awards to its executive officers. Because ILG's compensation committee has not yet been established, ILG cannot predict what compensation philosophies and programs will be adopted following the spin-off, and therefore this historical report is not necessarily indicative of the practices it will follow when it is an independent public company.

In general, IAC has been responsible for establishing bonus pools and equity pools for ILG, and then such pools are allocated throughout ILG, with IAC directly establishing all compensation elements for ILG's CEO, while the CEO makes the determinations for ILG's other executive officers, though subject to IAC's review and approval.

Neither ILG nor IAC has an ongoing relationship with any particular compensation consulting firm, though IAC has from time to time retained the services of consultants on specific occasions regarding broad-based IAC compensation programs. At no time has a consultant been engaged with respect to compensation of any ILG executive officers.

***Philosophy and Objectives***

ILG's executive officer compensation program is designed to increase long-term stockholder value by attracting, retaining, motivating and rewarding leaders with the competence, character, experience and ambition necessary to enable ILG to meet its growth objectives.

When establishing compensation packages for a given executive, ILG has followed a flexible approach, and has made decisions based on a host of factors particular to a given executive situation, including ILG's firsthand experience with the competition for recruiting and retaining executives, negotiation and discussion with the relevant individual, competitive survey data, internal equity considerations and other factors deemed relevant at the time. ILG's primary approach has been to pay base salaries at or around market levels while rewarding annual profit growth through an annual bonus program and long-term value creation through equity participation.

***Compensation Elements***

ILG's compensation packages for executive officers have primarily consisted of salary, annual bonuses, long term incentives (typically equity awards), perquisites and other benefits. Prior to making specific decisions related to any particular element of compensation, ILG typically reviews the total compensation of each executive, evaluating the executive's total near and long-term compensation in the aggregate. ILG determines which element or combinations of compensation elements (salary, bonus or equity) can be used most effectively to further our compensation objectives. However, all such decisions are subjective, and made on a facts and circumstances basis without any prescribed relationship between the various elements of the total compensation package.

*Salary*

*General.* ILG typically negotiates a new executive officer's starting salary upon arrival, based on the executive's prior compensation history, prior compensation levels for the particular position within ILG, ILG's location, salary levels of other executives within ILG, salary levels available to the individual in alternative opportunities, reference to certain survey information and the extent to which we desire to secure the executive's services. Mr. Nash's salary has been established through negotiations with IAC.

Once established, salaries can increase based on a number of factors, including the assumption of additional responsibilities, internal equity, periodic market checks and other factors which demonstrate an executive's increased value to ILG.

ILG utilizes various salary surveys depending upon the position to determine a market relevant range of salaries for each position. At least two surveys are used in each analysis. ILG uses the following surveys: Towers Perrin Executive Compensation Data Bank, Radford Executive Survey, and the Mercer Premium Executive Remuneration Survey.

*2007.* Mr. Nash entered into a new employment agreement with IAC under which his salary was increased from $568,788 to $650,000 through negotiation. Ms. Marbert received a salary increase from $300,000 to $350,000 based on discussions between Ms. Marbert and Mr. Nash, and Mr. Nash's views of internal equity. Mr. Galea also received a salary increase from $200,000 to $250,000 based on reviews of market data and internal equity considerations. Ms. Lee and Ms. Kincke both received ordinary course salary increases of approximately 5% effective January 1, 2007.

*2008.* Mr. Nash and Ms. Marbert each entered into new employment agreements which will become effective upon the spin-off (the "New Nash Employment Agreement" and the "New Marbert Employment Agreement", respectively). Under these agreements, Mr. Nash receives a base salary of $750,000, arrived at by negotiation with Mr. Nash and a recognition by the Company of his increased responsibilities as the Chairman and Chief Executive Officer of a public company. Ms. Marbert will receive a base salary of $400,000, negotiated by Mr. Nash, which again reflects increased public company responsibilities. Additionally, Ms. Kincke received a raise to $250,000 to reflect her increased responsibilities as General Counsel of a public company.

*Annual Bonuses*

*General.* ILG's bonus program is designed to reward performance on an annual basis. Because of the variable nature of the bonus program, and because in any given year bonuses have the potential to make up a significant amount of an executive's total compensation, it provides an important incentive tool to achieve ILG's annual objectives.

IAC establishes the bonus of the CEO based on its view of corporate performance, based on a target level of 100% of salary. In large part, corporate performance has been measured based on ILG's growth in year over year profitability, generally as measured by Operating Income Before Amortization ("OIBA"), although achievement of strategic objectives is also taken into account. Mr. Nash's employment agreement also provides for a minimum bonus of $350,000 in the event certain modest OIBA targets are achieved, but these targets are expected to be met, and a subjective determination of corporate performance is the true driver of Mr. Nash's bonus.

After consultation with ILG management, IAC establishes the annual bonus pool for ILG based on its assessment of ILG's performance for the applicable year.

Mr. Nash then allocates the pool to the rest of the company, including to the other executive officers based on individual and corporate success.

ILG generally pays bonuses shortly after year-end following finalization of financial results for the prior year.

*2007.* In 2007, ILG experienced another solid year of profit growth. IAC paid Mr. Nash a bonus of $800,000, based both on the OIBA growth of ILG and ILG's successful acquisition of the Resort Quest business. While in 2007 Ms. Marbert's employment agreement expired, ILG paid her bonus based primarily on the formula that had been set forth in that employment agreement, which provided for a target bonus of 100% of salary, with incremental bonus paid to the extent OIBA exceeded the Company's plan. Ms. Marbert was paid a bonus of $360,000, slightly more than target. Mr. Galea, Ms. Kincke and Ms. Lee received bonuses based on Mr. Nash's view of corporate performance and individual contributions, including, in the case of Mr. Galea and Ms. Kincke, in connection with the Resort Quest acquisition.

*2008.* ILG has agreed to guarantee the 2008 bonuses for Mr. Nash, Ms. Marbert, Ms. Kincke and Mr. Galea at 100%, 100%, 40% and 40% of salary, respectively, presuming continued employment. This decision was made in light of the strong performance of ILG through May and the significant effort expended by these individuals in connection with the spin-off transaction.

*Long-Term Incentives*

*General.* IAC believes that ownership shapes behavior, and that by providing a meaningful portion of an executive officer's compensation in stock, his or her incentives are aligned with our stockholders' interests in a manner that drives better performance over time. As part of IAC, that led to each ILG executive officer receiving IAC equity awards on a regular basis.

In setting particular award levels, the predominant objectives are providing the person with effective retention incentives, appropriate reward for past performance and incentives for strong future performance. Appropriate levels to meet these goals may vary from year to year, and from individual to individual, based on a variety of factors.

The annual corporate performance factors relevant to setting bonus amounts that were discussed above, while taken into account, are generally less relevant in setting annual equity awards, as the awards tend to be more forward looking, and are a longer-term retention and reward instrument than our annual bonuses.

Awards to the CEO are made by IAC. Additionally, IAC establishes a pool for annual equity awards which the CEO allocates to the Company's employees, including the executive officers, subject to IAC's approval. In establishing the equity pool for ILG, IAC has taken into account historical practices, its view of market compensation generally, the dilutive impact of equity grants across IAC, and other relevant factors. Additionally, IAC approves any equity grants recommended to be made to ILG executives outside of the annual process. Executive officers receive grants that are subjectively determined based on the CEO's view of how best to allocate the equity pool for retention, reward and motivation based on a host of subjective factors (including past contribution, retention risk, contribution potential, and market data), with grants equal to annual salary being a basic guideline.

Except where otherwise noted, equity awards are made following year-end after financial results for the prior year have been finalized. The meeting of the Compensation and Human Resources Committee of the IAC Board at which the awards are made is generally scheduled months in advance and without regard to the timing of the release of earnings or other material information.

*Restricted Stock Units.* IAC has used restricted stock units, or RSUs, as its exclusive equity compensation tool for ILG executive officers. Through 2006, these awards generally vested in equal annual installments over five years (annual-vesting RSUs), or cliff vested at the end of five years (cliff-vesting RSUs). Annual awards were intended to provide frequent rewards and near-term retention incentives, while cliff-vesting RSUs provided more of a long-term retention mechanism.

In February 2007, IAC implemented a new equity instrument, Growth Shares, which were RSU grants that cliff vest at the end of three years in varying amounts depending upon growth in IAC's publicly reported metric, Adjusted Earnings Per Share, with certain modifications.

These awards were introduced throughout IAC to more closely link long-term reward with IAC's overall performance and to provide greater retentive effect by providing the opportunity to earn greater amounts through increased IAC performance. However, in connection with the spin-off, these awards will be converted into three-year cliff-vesting awards at the "target" value (or 50% of the shares actually granted), without variability based on performance. For information regarding the reasons behind this conversion, see "The Separation—Treatment of Outstanding IAC Compensatory Equity-Based Awards."

*2007.* In February of 2007, our executive officers generally received a mix of Growth Shares and annual-vesting RSUs. Ms. Marbert received grants twice the size of ILG's other executive officers due to her senior position as COO of the company.

Mr. Nash received an award of Growth Shares and annual-vesting RSUs as part of the annual grant process, and then in connection with his entering into a new employment agreement in July, Mr. Nash received two additional RSU grants, each cliff vesting at the end of four years. One award was for 100,000 RSUs and the other was for up to 75,000 RSUs, with the actual amount to vest dependent on growth in ILG over the period, however, this performance-based award will be cancelled at the time of the spin-off pursuant to the New Nash Employment Agreement. These awards were determined by negotiation with Mr. Nash.

*2008.* In February 2008, Ms. Marbert received 20,000 RSUs, Ms. Kincke and Mr. Galea each received 6,000 RSUs and Ms. Lee received 4,800 RSUs. These grants were larger than those of prior years principally because the overall ILG equity pool was larger than in the past. The larger pool resulted from IAC's determination that key ILG employees had smaller equity holdings than did comparable individuals at other IAC companies.

Additionally, under the New Nash Employment Agreement and the New Marbert Employment Agreement, Mr. Nash and Ms. Marbert will receive RSU grants at the time of the spin-off worth $8 million and $2 million, respectively, with 75% of the award vesting annually over four years and 25% of the award vesting at the end of four years. These amounts were negotiated between IAC and Mr. Nash, and were given in contemplation of, and become effective upon, the spin-off.

*Spin-Off Adjustments.* In the spin-off, equity awards denominated in IAC stock will be adjusted as described in "The Separation—Treatment of Outstanding IAC Compensatory Equity-Based Awards."

Presuming the spin-off transactions occur prior to February 2009, the following table reflects the effect of these adjustments on all equity awards held by ILG's executive officers:

| Name | RSUs that will vest upon completion of spin-off transactions (#) | RSUs that will be converted exclusively into RSUs of ILG and vest on regular schedule (#) | RSUs that will be split among the post-transaction companies and vest after February 2009 on regular schedule (#) | Options outstanding at December 31, 2007—all of which will be split among the post-transaction companies (#) |
|---|---|---|---|---|
| Craig Nash(1) | 40,649 | 103,007(1) | 53,715 | — |
| Jeanette Marbert(2) | 17,971 | 28,565 | 8,362 | — |
| John Galea(3) | 3,852 | 11,081 | 3,344 | — |
| Marie Lee(4) | 11,802 | 13,333 | 2,508 | — |
| Victoria Kincke(5) | 2,921 | 9,446 | 2,508 | — |

* Excludes 9,727, 4,962, 2,502, 3,129, and 2,167 RSUs that vested since December 31, 2007 or will vest prior to August 1, 2008 for Mr. Nash, Ms. Marbert, Mr. Galea, Ms. Lee and Ms. Kincke, respectively.

(1) Excludes 75,000 performance based RSUs that will be cancelled at the time of the spin-offs pursuant to the New Nash Employment Agreement.

***Change of Control and Severance***

ILG believes that providing executives with severance and change of control protection is critical to allowing executives to fully value the forward looking elements of their compensation packages, and therefore limit retention risk during uncertain times. Accordingly, ILG employment arrangements and equity awards generally provide for salary continuation in the event of certain employment terminations beyond the control of the executive, as well as varying degrees of accelerated vesting in the event of a change of control of the company.

***Other Compensation***

Under other limited circumstances, ILG executive officers have received non-cash and non-equity compensatory benefits. The values of these benefits are reported under the heading "Other Annual Compensation" in this filing pursuant to applicable rules. The executive officers do not participate in any deferred compensation or retirement program other than IAC's 401(k) plan.

***Tax Deductibility***

IAC's practice has been to structure ILG's compensation program in such a manner so that the compensation is deductible by IAC for federal income tax purposes. However, because ILG executive officers will now be subject to the limitations on deductibility under Section 162(m) of the Internal Revenue Code of 1986, as amended, and were not previously, certain compensatory arrangements established prior to the spin-off but that will be paid following the spin-off may not result in deductible compensation for ILG.

***Summary Compensation Table***

| Name and Principal Position | Year | Salary ($) | Bonus ($) | Stock Awards ($)(1) | All Other Compensation ($)(2) | Total ($) |
|---|---|---|---|---|---|---|
| Craig Nash<br>Chairman, President and CEO | 2007 | 593,063 | 800,000 | 1,416,685 | 38,384 | 2,848,132 |
| Jeanette Marbert<br>Chief Operating Officer | 2007 | 308,077 | 360,000 | 352,269 | 6,750 | 1,027,096 |
| Marie Lee<br>Chief Information Officer | 2007 | 220,000 | 80,000 | 176,147 | 3,388 | 479,735 |
| Victoria Kincke<br>General Counsel | 2007 | 215,000 | 86,000 | 107,148 | 3,116 | 411,264 |
| John Galea<br>Chief Financial Officer | 2007 | 208,079 | 85,000 | 146,643 | 4,258 | 443,980 |

(1) Reflects the dollar amount recognized by IAC for financial statement reporting purposes for the fiscal year ended December 31, 2007, in accordance with SFAS 123R, for IAC restricted stock units ("RSUs") awarded in and prior to 2007 under IAC's stock and annual incentive plans. These amounts do not, therefore, represent the value of IAC equity compensation awarded or realized in 2007. For further discussion of IAC's accounting for its equity compensation plans, see Note 4 of IAC's audited financial statements for the fiscal year ended December 31, 2007 included in its Annual Report on Form 10-K filed with the SEC on February 29, 2008. For information on awards made and realized in 2007, see the Grants of Plan-Based Awards and Option Exercises and Stock Vested tables.

(2) See the table below for additional information on amounts for 2007. Pursuant to SEC rules, perquisites and personal benefits are not reported for any named executive for whom such amounts were less than $10,000 in aggregate for the fiscal year.

| | Craig Nash | Jeanette Marbert | Marie Lee | Victoria Kincke | John Galea |
|---|---|---|---|---|---|
| Supplemental disability insurance | $ 19,484 | — | — | — | — |
| Automobile allowance | 14,400 | — | — | — | — |
| 401(k) plan company match | 4,500 | $ 6,750 | $ 3,388 | $ 3,116 | $ 4,258 |
| Total All Other Compensation | $ 38,384 | $ 6,750 | $ 3,388 | $ 3,116 | $ 4,258 |

### *Grants of Plan-Based Awards*

The table below provides information regarding IAC equity awards granted to our named executives in 2007.

| Name | Grant Date | Estimated Future Payouts Under Equity Incentive Plan Awards(1)(2)(3) Threshold (#) | Target (#) | Maximum (#) | All other stock awards: Number of shares of stock or units (#)(3) | Grant Date Fair Value of Stock and Option Awards ($)(4) |
|---|---|---|---|---|---|---|
| Craig Nash | 2/16/07 | 1,046 | 18,820 | 37,640 | 6,274 | 999,996 |
| | 9/12/07 | 1 | 75,000 | N/A | 100,000 | 4,840,500 |
| Jeanette Marbert | 2/16/07 | 697 | 12,546 | 25,092 | 2,509 | 599,942 |
| Marie Lee | 2/16/07 | 209 | 3,763 | 7,526 | 1,255 | 199,968 |
| Victoria Kincke | 2/16/07 | 209 | 3,763 | 7,526 | 1,255 | 199,968 |
| John Galea | 2/16/07 | 279 | 5,018 | 10,036 | 1,255 | 249,979 |

(1) Equity incentive plan awards with a grant date of 2/16/07 reflect performance based RSU awards which cliff vest at the end of three years in varying amounts depending upon growth in IAC's publicly reported metric, Adjusted Earnings Per Share, with certain modifications. The threshold amount represents 5.56% of the target payout, which amount would vest upon achieving the minimum growth threshold. These awards will be converted into three year cliff-vesting awards in the spin-offs as described under "The Separation—Treatment of Outstanding IAC Compensatory Equity-Based Awards."

(2) The equity incentive plan award to Mr. Nash with a grant date of 9/12/07 reflects a performance award which cliff vests in four years in varying amounts depending on the compounded annual growth rate in the value of ILG (as agreed between the executive and IAC) during the valuation period. If the minimum growth rate is not achieved, the RSUs are forfeited, while increasing numbers of shares vest depending on higher levels in the growth rate. In all, the number of shares vesting can range from 0% to 100% of the initial "target" award, with one share vesting upon achieving the minimum growth rate threshold. This award will be cancelled in the spin-off.

(3) RSU award recipients would be credited with amounts for cash dividends paid on IAC common stock, with such additional amounts vesting concurrently with the related RSU award. For information on the treatment of RSU awards granted to ILG's named executives upon a termination of employment or a change in control, see the discussion under Potential Payments Upon Termination or Change in Control.

(4) The fair value of equity incentive plan awards is based on the target amount.

### *Outstanding Equity Awards at Fiscal Year-End*

The table below provides information regarding various IAC equity awards held by ILG's named executives as of December 31, 2007. The market value of these awards is based on the closing price of IAC common stock as of December 31, 2007 ($26.92), the last trading day of 2007.

| | Stock Awards(1)(2)(3) | | | |
|---|---|---|---|---|
| Name | Number of shares or units of stock that have not vested (#) | Market value of shares or units of stock that have not vested ($) | Equity incentive plan awards: Number of unearned shares, units or other rights that have not vested (#) | Equity incentive plan awards: Market or payout value of unearned shares, units or other rights that have not vested ($) |
| Craig Nash | 188,277 | 5,068,417 | 1,047 | 28,185 |
| Jeanette Marbert | 27,314 | 735,293 | 697 | 18,763 |
| Marie Lee | 16,278 | 438,204 | 209 | 5,626 |
| Victoria Kincke | 7,279 | 195,951 | 209 | 5,626 |
| John Galea | 9,761 | 262,766 | 279 | 7,511 |

(1) For a discussion regarding how these IAC equity awards will be treated in the spin-offs, see "The Separation—Treatment of Outstanding IAC Compensatory Equity-Based Awards."

(2) Amounts shown for equity incentive plan awards are based on achieving the minimum threshold growth level of the relevant performance criteria in accordance with SEC rules.

(3) The table below provides the following information regarding RSU awards held by ILG's named executives as of December 31, 2007: (i) the grant date of each award, (ii) the number of RSUs outstanding (on an aggregate and grant-by-grant basis), (iii) the market value of RSUs outstanding as of December 31, 2007, (iv) the vesting schedule for each award and (v) the total number of RSUs that vested or are scheduled to vest in each of the fiscal years ending December 31, 2008, 2009, 2010, 2011 and 2012.

| | Number of Unvested RSUs as of 12/31/07 | Market Value of Unvested RSUs as of 12/31/07 | Vesting Schedule (#) | | | | |
|---|---|---|---|---|---|---|---|
| Grant Date | (#) | ($) | 2008 | 2009 | 2010 | 2011 | 2012 |
| Craig Nash | | | | | | | |
| 2/4/04(a) | 4,484 | 120,709 | 2,241 | 2,243 | — | — | — |
| 2/10/05(a) | 7,919 | 213,179 | 2,639 | 2,639 | 2,641 | — | — |
| 2/10/05(b) | 28,278 | 761,244 | — | — | 28,278 | — | — |
| 2/6/06(a) | 14,373 | 386,921 | 3,593 | 3,593 | 3,593 | 3,594 | — |
| 2/6/06(b) | 26,949 | 725,467 | — | — | — | 26,949 | — |
| 2/16/07(a) | 6,274 | 168,896 | 1,254 | 1,255 | 1,255 | 1,255 | 1,255 |
| 2/16/07(c) | 18,820 | 506,634 | — | — | 18,820 | — | — |
| 9/12/07(d) | 100,000 | 2,692,000 | — | — | — | 100,000 | — |
| 9/12/07(e) | 75,000 | 2,019,000 | — | — | — | 75,000 | — |
| *Total* | 282,097 | 7,594,051 | 9,727 | 9,730 | 54,587 | 206,798 | 1,255 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Jeanette Marbert | | | | | | | |
| 2/4/04(a) | 2,655 | 71,473 | 1,327 | 1,328 | — | — | — |
| 2/10/05(a) | 5,091 | 137,050 | 1,697 | 1,696 | 1,698 | — | — |
| 2/10/05(b) | 11,310 | 304,465 | — | — | 11,310 | — | — |
| 2/6/06(a) | 5,749 | 154,763 | 1,437 | 1,437 | 1,437 | 1,438 | — |
| 2/16/07(a) | 2,509 | 67,542 | 501 | 502 | 502 | 502 | 502 |
| 2/16/07(c) | 12,546 | 337,738 | — | — | 12,546 | — | — |
| *Total* | 39,860 | 1,073,031 | 4,962 | 4,963 | 27,493 | 1,940 | 502 |
| Marie Lee | | | | | | | |
| 2/4/04(a) | 1,770 | 47,648 | 885 | 885 | — | — | — |
| 2/10/05(a) | 2,263 | 60,920 | 1,131 | 1,131 | 1,132 | — | — |
| 2/10/05(b) | 7,541 | 203,004 | — | — | 7,541 | — | — |
| 2/6/06(a) | 3,449 | 92,847 | 862 | 862 | 862 | 863 | — |
| 2/16/07(a) | 1,255 | 33,785 | 251 | 251 | 251 | 251 | 251 |
| 2/16/07(c) | 3,763 | 101,300 | — | — | 3,763 | — | — |
| *Total* | 20,041 | 539,504 | 3,129 | 3,129 | 13,549 | 1,114 | 251 |
| Victoria Kincke | | | | | | | |
| 2/4/04(a) | 885 | 23,824 | 442 | 443 | — | — | — |
| 2/10/05(a) | 2,264 | 60,947 | 755 | 753 | 756 | — | — |
| 2/6/06(a) | 2,875 | 77,395 | 719 | 718 | 719 | 719 | — |
| 2/16/07(a) | 1,255 | 33,785 | 251 | 251 | 251 | 251 | 251 |
| 2/16/07(c) | 3,763 | 101,300 | — | — | 3,763 | — | — |
| *Total* | 11,042 | 297,251 | 2,167 | 2,165 | 5,489 | 970 | 251 |
| John Galea | | | | | | | |
| 2/4/04(a) | 1,181 | 31,793 | 590 | 591 | — | — | — |
| 2/10/05(a) | 2,828 | 76,130 | 942 | 943 | 943 | — | — |
| 2/6/06(a) | 2,875 | 77,395 | 719 | 718 | 719 | 719 | — |
| 12/6/06(a) | 1,622 | 43,664 | 405 | 406 | 405 | 406 | — |
| 2/16/07(a) | 1,255 | 33,785 | 251 | 251 | 251 | 251 | 251 |
| 2/16/07(c) | 5,018 | 135,085 | — | — | 5,018 | — | — |
| *Total* | 14,779 | 397,851 | 2,907 | 2,909 | 7,336 | 1,376 | 251 |

(a) These awards vest in five equal annual installments on each of the first five anniversaries of the grant date, subject to continued employment.

(b) These awards vest in one lump sum installment on the fifth anniversary of the grant date, subject to continued employment.

(c) Represents the initial "target" awards. See the Grants of Plan-Based Awards table and footnote (1) thereto.

(d) This award vests in one lump sum installment on July 1, 2011, subject to continued employment.

(e) Represents the initial "target" award. See the Grants of Plan-Based Awards table and footnote (2) thereto.

***Option Exercises and Stock Vested***

The table below provides information regarding the number of shares acquired by ILG's named executives in 2007 upon the vesting of RSU awards and the related value realized, excluding the effect of any applicable taxes. The dollar value realized upon vesting of RSUs represents the closing price of IAC common stock on the applicable vesting date multiplied by the number of RSUs so vesting. No named executive officer exercised any stock options during 2007.

| | Stock Awards | |
|---|---|---|
| **Name** | **Number of Shares Acquired on Vesting (#)** | **Value Realized on Vesting ($)** |
| Craig Nash | 8,473 | 332,224 |
| Jeanette Marbert | 4,460 | 174,889 |
| Marie Lee | 2,877 | 112,810 |
| Victoria Kincke | 1,913 | 75,104 |
| John Galea | 2,655 | 100,242 |

***Potential Payments Upon Termination or Change in Control***

Change of Control

Pursuant to the terms of IAC's (and, following the spin-off, ILG's) equity compensation plans and the award agreements thereunder, upon a change of control the named executive officers are generally entitled to accelerated vesting of (i) equity awards made prior to 2006 and (ii) equity awards made thereafter if, following such change in control, their employment is terminated by the Company for any reason other than death, disability or cause (as defined in the relevant employment agreement), or by the executive for good reason (as defined in the relevant employment agreement or plan document) (a "Qualifying Termination"). Additionally, under the New Nash Employment Agreement and the New Marbert Employment Agreement, Mr. Nash and Ms. Marbert will be entitled to two-years forward vesting of the RSUs granted under those agreements (including pro ration two years forward on the cliff vesting portions of those awards).

Severance

Cash. Upon a Qualifying Termination, ILG executive officers are entitled to salary continuation of, with respect to Mr. Nash and Ms. Marbert , twenty-four months, with respect to Mr. Galea and Ms. Kincke, 12 months, and with respect to Ms. Lee, 6 months. Additionally, under the New Nash Employment Agreement and New Marbert Employment Agreement, Mr. Nash and Ms. Marbert are entitled to pro rated portions of the bonus they would otherwise earn during the year in which the Qualifying Termination occurs, payable at the time such bonus would otherwise be determined.

Equity. Upon a Qualifying Termination, Mr. Nash and Ms. Marbert will receive two-year's forward vesting of their RSUs granted under those agreements (including pro ration two years forward on the cliff vesting portions of those awards).

Obligations. The amounts payable upon a Qualifying Termination are all subject to the execution of a general release and to compliance with confidentiality, non-compete, non-solicitation of employees and non-solicitation of customer covenants set forth in the relevant employment agreements. Salary continuation payments will be offset by the amount of any compensation earned by an executive from other employment during the severance payment period.

The amounts shown in the table assume that the termination or change in control was effective as of December 31, 2007 and that the price of IAC common stock on which certain calculations are based was the closing price of $26.92 on The Nasdaq Stock Market on that date. These amounts are estimates of the incremental amounts that would have been paid out to the executive upon such terminations/change in control, and do not take into account equity grants made, and contractual obligations entered into, after December 31, 2007. The actual amounts to be paid out can only be determined at the time the event actually occurs.

| Name and Benefit | Termination without cause | Resignation for good reason | Change in Control | Termination w/o cause or for good reason in connection with Change in Control | Termination in connection with Sale of Interval |
|---|---|---|---|---|---|
| **Craig Nash** | | | | | |
| Cash Severance (salary) | 1,300,000 | 1,300,000 | 0 | 1,300,000 | 1,300,000 |
| RSUs (vesting accelerated) | 0 | 0 | 1,770,663 | 5,575,051 | 673,000(1) |
| Total estimated value | 1,300,000 | 1,300,000 | 1,770,663 | 6,875,051 | 1,973,000 |
| **Jeanette Marbert** | | | | | |
| Cash Severance (salary) | 350,000 | — | — | 350,000 | — |
| RSUs (vesting accelerated) | — | — | 512,988 | 1,073,031 | — |
| Total estimated value | 350,000 | — | 512,988 | 1,423,031 | — |
| **Marie Lee** | | | | | |
| Cash Severance (salary) | 110,100 | — | — | 110,100 | — |
| RSUs (vesting accelerated) | — | — | 311,572 | 539,504 | — |
| Total estimated value | 110,100 | — | 311,572 | 649,604 | — |
| **Victoria Kincke** | | | | | |
| Cash Severance (salary) | 107,500 | — | — | 107,500 | — |
| RSUs (vesting accelerated) | — | — | 84,771 | 297,251 | — |
| Total estimated value | 107,500 | — | 84,771 | 404,751 | — |
| **John Galea** | | | | | |
| Cash Severance (salary) | 125,000 | — | — | 125,000 | — |
| RSUs (vesting accelerated) | — | — | 107,922 | 397,851 | — |
| Total estimated value | 125,000 | — | 107,922 | 522,851 | — |

(1) Represents the acceleration of 25% of Mr. Nash's Cliff RSUs. The determination of the number of Mr. Nash's Performance RSUs (which will be cancelled in their entirety at the time of the spin-off) that would have vested would be based on the compounded annual growth rate in the value of Interval (as agreed between the executive and IAC) during the valuation period, which would have been measured at June 30, 2011. Upon the sale of Interval, the sale price would be deemed the agreed value. The treatment of Mr. Nash's Performance RSUs upon a sale of Interval in the absence of the spin-off is described above. No value is presented in the table above for accelerated vesting of the Performance RSUs as the value is neither determinable nor estimable, given that such value would be based on a sale price for Interval, which would be determined by arms' length negotiations between IAC and the acquirer.

**ILG Security Ownership of Certain Beneficial Owners and Management**

As of the date hereof, all of ILG's outstanding shares of common stock are owned by IAC. After the distribution, IAC will no longer own any shares of ILG common stock. The following table presents information relating to the expected beneficial ownership of shares of ILG common stock, assuming completion of the distribution as if it occurred on [ ], 2008, by (i) each individual or entity expected to own beneficially more than 5% of the outstanding shares of ILG common stock, assuming that there are 278,735,546 shares of common stock and Class B common stock of IAC outstanding immediately prior to the spin-offs and a distribution ratio of one-fifth of a share of ILG common stock for every share of IAC common stock and/or Class B common stock, (ii) each director of ILG, (iii) the Chief Executive Officer, the Chief Financial Officer and the other three named executive officers in the ILG summary compensation table (see "ILG Executive Compensation") and (iv) all of ILG's executive officers and directors as a group.

Unless otherwise indicated, beneficial owners listed here may be contacted at ILG's corporate headquarters at 6262 Sunset Drive, Miami, FL 33143. For each listed person, the number of shares of ILG common stock and percent of such class listed assumes the conversion or exercise of any ILG equity securities owned by such person that are or will become convertible or exercisable, and the exercise of stock options and the vesting of restricted stock units, if any, that will vest, within 60 days of April 30, 2008, but does not assume the conversion, exercise or vesting of any such equity securities owned by any other person.

The share amounts for each beneficial owner listed here are based on each such individual's beneficial ownership of shares of IAC common stock and/or Class B common stock as of April 30, 2008, and assuming a distribution ratio of one fifth of a share of ILG common stock for every share of IAC common stock and/or Class B common stock. To the extent that ILG directors and executive officers own shares of IAC common stock at the time of the distribution, they will participate in the distribution on the same terms as other holders of IAC common stock. In addition, following the distribution, ILG expects that all IAC stock-based awards held by these individuals will be adjusted to become awards relating to common stock of all five companies resulting from the spin-offs. Those awards that will relate to ILG common stock are reflected in the table below based upon the expected adjustment formula described under the caption "The Separation—Treatment of Outstanding IAC Compensatory Equity-Based Awards."

The actual number of shares of ILG capital stock outstanding as of the date of the distribution may differ due, among other things, to the exercise of stock options or warrants or the vesting of restricted stock units, in each case, between April 30, 2008 and the date of the distribution and to the extent the other assumptions set forth above differ from actual developments.

| | ILG Common Stock | |
| --- | --- | --- |
| **Name and Address of Beneficial Owner** | **Shares** | **%** |
| Clearbridge Advisors, LLC, *et al*(1)(2)<br>399 Park Avenue<br>New York, NY 10022 | 2,651,312 | 4.75 |
| Lord Abbett & Co. LLC(1)(2)<br>90 Hudson Street, 11th Floor<br>Jersey City, NJ 07302 | 7,839,768 | 14.06 |
| Liberty Media Corporation(3)(4)<br>12300 Liberty Boulevard<br>Englewood, CO 80112 | 16,643,961 | 29.86 |
| John Galea | | |
| Victoria Kincke | | |
| Marie Lee | | |
| Jeanette Marbert | | |
| Craig Nash | | |
| All executive officers and directors as a group (persons) | | |

(1) We have not been able to determine the person or persons controlling the fund through publicly available information.

(2) Based upon information regarding IAC holdings reported on a Schedule 13G, as amended, which was filed with the SEC on February 14, 2008, and a distribution ratio of one-fifth of a share of ILG common stock for every share of IAC common stock and/or Class B common stock.

(3) Liberty Media Corporation is a publicly traded corporation. According to Liberty Media Corporation's Schedule 14A, filed April 24, 2008, Liberty's chairman, John C. Malone, controls 33% of the voting power of Liberty Media Corporation.

(4) Based on 58,796,381 shares of IAC common stock held by Liberty and 4,000,000, 15,618,230, 4,005,190 and 800,006 shares of IAC Class B common stock held by each of BDTV Inc., BDTV II Inc., BDTV III Inc. and BDTV IV Inc., respectively, and a distribution ratio of one-fifth of a share of ILG common stock for every share of IAC common stock and/or Class B common stock.

# CERTAIN INFORMATION WITH RESPECT TO TICKETMASTER

## BUSINESS OF TICKETMASTER

When used with respect to any periods prior to the spin-offs, the term "Ticketmaster" refers to IAC's ticketing and ticketing-related businesses, subsidiaries and investments. When used with respect to any periods following the spin-offs, "Ticketmaster" refers to Ticketmaster, a Delaware corporation, which will hold IAC's ticketing and ticketing-related businesses, subsidiaries and investments (other than ReserveAmerica and *Active.com*), together with IAC's investment in Front Line Management, Inc., following the spin-offs. The following disclosure regarding Ticketmaster's business assumes the completion of the spin-offs.

For information regarding the results of operations of Ticketmaster on a historical basis, see the Combined Financial Statements of Ticketmaster and the disclosure set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations of Ticketmaster." For information regarding the results of operations of Ticketmaster on a pro forma basis to give effect to the completion of the spin-offs, see "Unaudited Pro Forma Condensed Combined Financial Statements" of Ticketmaster.

### Who We Are

As the world's leading live entertainment ticketing and marketing company, Ticketmaster connects the world to live entertainment. Ticketmaster currently operates in 20 countries worldwide, providing ticket sales, ticket resale services, marketing and distribution through *www.ticketmaster.com*, one of the largest e-commerce sites on the internet, and related proprietary internet and mobile channels, approximately 6,700 independent sales outlets and 19 call centers worldwide. Established in 1976, in 2007, Ticketmaster sold tickets on behalf of more than 10,000 clients worldwide, including venues, promoters, sports leagues and teams and musuem and cultural institutions, among other clients, across multiple live event categories, providing exclusive ticketing services for leading arenas, stadiums, amphitheaters, music clubs, concert promoters, professional sports franchises and leagues, college sports teams, performing arts venues, museums and theaters. In 2007, Ticketmaster brands and businesses sold approximately 141 million tickets valued at over $8.3 billion.

### History

Ticketmaster's predecessor companies, Ticketmaster Group, Inc. and its subsidiaries, were organized for the primary purpose of developing stand-alone automated ticketing systems for license to individual facilities. Since then, Ticketmaster's business has grown through continued improvements in its technology, the continued expansion of its service and product offerings, as well as its client base, and the acquisition of and investment in ticketing and technology companies, as well as a number of entertainment-related businesses, both in the United States and abroad. In January 2003, IAC, at that time the majority owner of Ticketmaster, acquired the outstanding shares of Ticketmaster that it did not previously own, after which Ticketmaster became a wholly-owned subsidiary of IAC.

### What We Do

#### Primary (Initial Sale) Ticketing Services

*Overview.* "Primary" sales of tickets refers to the original sale of tickets to an event by or on behalf of an event presenter. For the year ended December 31, 2007, the substantial majority of Ticketmaster's revenues were attributable to primary ticket sale services. Ticketmaster provides primary ticket sale services to the following types of clients:

- *Venues*—many of the most well-known arenas, stadiums, theaters, universities, colleges, clubs and festivals in the United States and abroad, ranging in size from 100,000+ seat stadiums to small clubs, including Madison Square Garden (New York City), Staples Center (Los Angeles), The 02 (London), the University of Michigan and the University of California, Los Angeles;

- *Promoters*—promoters of live events, from worldwide concert tours to single, local events, including AEG Live, Jam Productions and MCD Productions;

- *Sports Leagues, Teams and Events*—professional sports teams, leagues, franchises and clubs and special sporting events, including Major League Baseball Advanced Media and many Major League Baseball, National Football League, National Basketball Association, National Hockey League, Rugby Football Union and Premier League teams, as well as the 2008 Olympic Games; and

- *Museums, Cultural Institutions and Historic Sites*—including the Guggenheim Museum (New York City) and the Getty Museum and Getty Villa (Los Angeles).

When providing primary ticket sale services to clients in the U.S. and abroad (other than in the United Kingdom), Ticketmaster generally serves as the exclusive ticket sales agent for primary sales of individual tickets sold to the general public outside of facility box offices. In the United Kingdom, Ticketmaster is typically a non-exclusive ticket sales agent for its clients and instead is guaranteed a certain minimum allocation of the tickets for each event. For any particular event, Ticketmaster works with clients to identify those tickets that will be made available for sale through Ticketmaster's various distribution channels (see "—Distribution"), as well as facility box offices. To enable most or all tickets for a given event to be offered for sale simultaneously and sold through these channels, Ticketmaster licenses the Ticketmaster System and related equipment to clients and installs this system at their facility box offices. The provision of primary ticket sale services to clients is generally governed by individual, multi-year agreements between Ticketmaster and its clients.

Consumers who purchase tickets through Ticketmaster pay an amount equal to the initial ticket face price, plus a per ticket convenience charge, a per order "order processing" fee and, if applicable, a premium delivery charge. Ticketmaster remits the entire face value of the ticket to the client, plus, in most cases, royalties in an amount specified in the written agreement between Ticketmaster and the client.

*Client Relationships.* Ticketmaster generally enters into written agreements with individual clients to provide primary ticket sale services for specified multi-year periods, typically ranging from 3 to 5 years. Pursuant to these agreements, clients generally determine what tickets will be available for sale, when such tickets will go on sale to the public and at what initial ticket face price. Agreements with venue clients generally grant Ticketmaster the right to sell tickets for all events presented at the relevant venue for which tickets are made available to the general public. Agreements with promoter clients generally grant Ticketmaster the right to sell tickets for all events presented by a given promoter at any venue, unless that venue is already covered by an existing exclusive agreement with Ticketmaster or another ticketing service provider. Under Ticketmaster's exclusive contracts, clients may not utilize, authorize or promote the services of third party ticketing companies or technologies while under contract with Ticketmaster. While Ticketmaster generally has the right to sell a substantial portion of its clients' tickets, venues and promoters often handle group sales and season tickets in-house, as well as allocate certain tickets for artist use. Ticketmaster also generally allows clients to make a certain limited number of tickets available for sale through fan or other similar clubs, from which Ticketmaster generally derives no revenues unless selected by the club to facilitate such sales. As a result, Ticketmaster does not sell all of its clients' tickets and the amount of tickets that it sells varies from client to client and from event to event, and varies as to any single client from year to year.

Convenience charges, which are heavily negotiated, mutually agreed upon and set forth in written agreements between Ticketmaster and its clients, vary based upon numerous factors, including: the scope and nature of the services to be rendered, the amount and cost of equipment to be installed at the client's venue location, the amount of advertising and/or promotional allowances to be provided, the type of event and the distribution channel in which the ticket is to be sold. Client agreements also provide how and when, and by how much and with what frequency, changes may be made to per ticket convenience charges and per order "order processing" fees during the term. During the year ended December 31, 2007, per ticket convenience charges generally ranged from $2.50 to $15.00 and average revenue per ticket (which primarily includes per ticket convenience charges and per order "order processing" fees, as well as certain other revenue sources directly related to the sale of tickets) was $7.63.

Most written agreements provide for the payment of royalties to clients, which are heavily negotiated, in an amount equal to a mutually agreed upon portion of related per ticket convenience charges on all tickets sold through all Ticketmaster distribution channels and per order "order processing" fees on all tickets sold online and by telephone. In many cases, written agreements also require Ticketmaster to advance royalties to clients, which advances are usually recoupable by Ticketmaster out of the future rights of clients to participations. In limited instances, clients have the right to receive an upfront, non-recoupable payment from Ticketmaster as an incentive to enter into the ticketing service agreement. Written agreements also specify the additional systems, if any, that may be used and purchased by clients during their relationship with Ticketmaster.

Ticketmaster generally does not buy tickets from its clients for sale or resale to the public and typically assumes no financial risk for unsold tickets, other than indirect risk associated with its ability to recoup advances and guarantees made to clients. If an event is canceled, Ticketmaster refunds the per ticket convenience charges (but not per order "order processing" fees), except in certain European jurisdictions, where Ticketmaster is required by law to do so. Refunds of ticket prices for canceled event are funded by clients, which have historically fulfilled these obligations on a timely basis with few exceptions. Clients routinely agree by contract to include Ticketmaster's name, logos and the applicable Ticketmaster website address and charge-by-phone number in advertisements in all forms of media promoting the availability of their tickets. Ticketmaster brand names and logos are also prominently displayed on printed tickets, ticket envelopes and e-mail alerts about upcoming events that Ticketmaster sends to its customers. Ticketmaster also provides primary ticketing solutions for clients who wish to perform these functions in-house on a private label or other basis through its Paciolan and Ticketmaster VISTA brands and businesses, which license the requisite software or other rights to clients for license and per transaction fees in the case of Paciolan and per ticket fees in the case of Ticketmaster VISTA. Ticketmaster also currently licenses its name and technology exclusively to a third party that provides primary ticketing services to clients in the Washington, D.C./Baltimore area, as well as to third parties and joint ventures in certain jurisdictions abroad.

**Ticket Resale Services**

The "resale" of tickets refers to the sale of tickets by a holder who originally purchased the tickets from a venue, promoter or other entity or a ticketing services provider selling on behalf of such venue, promoter or other entity. Ticketmaster currently offers ticket resale services through TicketsNow, which Ticketmaster acquired in February 2008, its TicketExchange service, which Ticketmaster launched in January 2002, and GetMeIn!, which Ticketmaster acquired in February 2008.

TicketsNow is a leading consumer-facing marketplace for the resale of event tickets in the United States and Canada. TicketsNow enters into listing agreements with licensed ticket resellers to post ticket inventory for sale through TicketsNow at a purchase price equal to the initial ticket price determined by the relevant ticket resellers, plus an amount equal to a percentage of the initial ticket price and a service fee. TicketsNow remits the reseller-determined initial ticket price to the ticket resellers and retains the remainder of the purchase price. TicketsNow also licenses point-of-sale business management software to ticket resellers for a fee, which allows them to manage their ticket inventory and operate their businesses. While TicketsNow does not generally acquire tickets for sale on its own behalf, it may do so from time to time on a limited basis.

Ticketmaster also facilitates the resale of tickets through its TicketExchange service, which is accessible to consumers through *www.ticketmaster.com*. Through TicketExchange, consumers may resell and purchase tickets online that were initially sold for Ticketmaster clients in the United States, Europe and Canada who elect to participate in the TicketExchange service. Sellers and buyers each pay Ticketmaster a fee that has been negotiated with the relevant client, a portion of which is shared with such client. Consumers in the United Kingdom, Germany and the Netherlands may buy and sell tickets to live entertainment events through Get Me In!, which charges sellers a commission and buyers a processing fee.

**Marketing, Promotional and Related Services**

Ticketmaster is a leading marketer of live entertainment to fans in the markets in which it operates. For example, Ticketmaster informs fans about upcoming live events for which tickets will be available through Ticketmaster in their area through its TicketAlert email service. Fans can customize TicketAlerts to inform them about upcoming events for particular performers, teams or venues, as well as events in specified categories (music, sports, theater and family entertainment). Ticketmaster sent approximately 1.3 billion TicketAlert e-mails in 2007, reaching an average of approximately 28 million consumers per week. Ticketmaster also provides rich content on its various websites to promote events that it tickets, including artist pages that feature video content, biographical material and, through an arrangement with Apple, the ability to link to iTunes to purchase music from the artist's catalogue. Ticketmaster's commercial arrangement with Apple also allows Ticketmaster to offer consumers purchasing a ticket the opportunity to download songs for free from iTunes.

Ticketmaster continues to develop and introduce new initiatives, as well as enter into new relationships, in an effort to help its clients sell more tickets in more markets. For example, Ticketmaster acquired a 25% interest in Evolution Artists (which does business under the brand name "iLike"), a leading, online social music discovery service that facilitates the sharing of playlists, new music and concerts, and has entered into arrangements with iLike to provide features designed to enhance the overall consumer experience on *www.ticketmaster.com*. Ticketmaster also offers a suite of dynamic pricing tools, such as online auctions, pursuant to which consumers bid on tickets being sold by Ticketmaster and purchases them at a price equal to the highest winning bid. For auction sales, in addition to per order "order processing" fees, Ticketmaster receives fees based on a percentage of the prices at which tickets are ultimately sold.

Ticketmaster provides promotional and other related services to artists, such as the sale of tickets to members of artist fan clubs and the sale of artist fan club memberships, through its Echo business. Ticketmaster is also seeking to secure and strengthen its relationships with promoters and artists through its investment in Front Line Management, Inc., an artist management company that represents leading artists. Ticketmaster has also established a presence as a promoter in China through its Emma Entertainment business, a ticketing company and significant promoter of live entertainment events in China.

**Distribution**

Ticketmaster sells tickets online, through independent sales outlets, call centers and via mobile channels. During the year ended December 31, 2007, 70%, 17%, 13% and less than 1% of primary ticket sales channels were transacted through these channels, respectively.

*Online.* Ticketmaster owns and operates various branded websites, both in the U.S. and abroad, which are customized to reflect services offered in each jurisdiction. Ticketmaster's primary online ticketing website, *www.ticketmaster.com*, together with its other branded ticketing websites, are designed to promote ticket sales for live events and disseminate event and related merchandise information online. Consumers can access *www.ticketmaster.com* directly, from affiliated websites and through numerous direct links from banners and event profiles hosted by approved third party websites.

*Independent Sales Outlets.* As of December 31, 2007, Ticketmaster had approximately 6,700 "Ticket Center" independent sales outlets worldwide, approximately 2,000 of which were in the United States and approximately 4,700 of which were in various jurisdictions abroad. The majority of these independent sales outlets are located in major department, grocery and music stores, malls and, in Europe, post offices. While Ticketmaster installs and maintains the hardware and software necessary for these independent sales outlets to sell tickets, the outlets are generally responsible for staffing, daily operations and related costs. Ticketmaster pays independent sales outlets a commission, the amount of which ranges from approximately 17% to 20% of Ticketmaster's convenience charge.

*Call Centers.* As of December 31, 2007, Ticketmaster operated 19 call centers worldwide, through which consumers can generally purchase tickets by telephone or by way of an interactive voice response system, seven days a week, for at least 20 hours per day. Ticketmaster's domestic telephone system can channel all or a portion of incoming calls from any city to a selected call center in another city or region to accommodate the commencement of sales activity for a major event in a given region, as well as provide back-up capabilities in the event that a call center experiences operating difficulties.

**International Operations**

Ticketmaster provides primary ticket sale services in Australia, Canada, Ireland, New Zealand and the United Kingdom, primarily under the Ticketmaster brand name, and through other brand names in various other jurisdictions abroad, including China (Emma Ticketmaster), Denmark (BILLETNet), Finland (Lippupalvelu), Germany (Kartenhaus), the Netherlands (Ticket Service), Norway (billettservice.no), Spain (Tic Tack Ticket), Sweden (Ticnet) and Turkey (Biletix). Ticketmaster also provides resale ticket services in Canada through TicketsNow and in the United Kingdom, Germany and the Netherlands through GetMeIn!.

In addition to the businesses listed above, which it owns and operates, Ticketmaster is a party to joint ventures with third parties to provide ticket distribution services in Mexico and to supply ticketing services for the 2008 Beijing Olympic Games. In the case of the 2008 Beijing Olympic Games joint venture, Ticketmaster licenses the Ticketmaster System to the joint venture and receives a fee based on the number of tickets the joint venture sells or distributes through the system. Ticketmaster also licenses its technology in Brazil, Argentina and Chile.

Ticket sales and revenues attributable to international operations represented approximately 41% and 34%, respectively, of total ticket sales and revenues in 2007.

**Technology**

Ticketmaster's core proprietary operating system and software (the "Ticketmaster System") is designed for scalability, can be customized to satisfy a full range of client requirements and its capacity can be increased through investment in additional hardware. The entire Ticketmaster distribution network, including the Ticketmaster System, provides a single, centralized inventory control and management system capable of tracking total ticket inventory for all events, whether sales are made on a season, subscription, group or individual ticket basis. Ticketmaster believes that the Ticketmaster System enables clients to sell tickets and adapt to emerging and changing trends in the live entertainment industry in a more efficient and cost-effective manner than they could do on their own.

In areas of Europe outside of the United Kingdom and Ireland, Ticketmaster's operating businesses generally use localized versions of Ticketmaster's software or their own software, all of which are also proprietary to Ticketmaster. In limited cases abroad, Ticketmaster licenses ticketing systems from third parties. Ticketmaster has migrated certain of its international brands and businesses to the Ticketmaster System and intends to continue to do so over the next several years.

The Ticketmaster System, which includes both hardware and software, is typically located in one of the multiple data centers managed by Ticketmaster staff, with the hardware and software required for use being installed at all points of sale. Ticketmaster takes significant measures to prevent outages in the case of the Ticketmaster System and related systems.

**Ticketing Industry Overview**

The ticketing services industry has experienced significant changes over the past decade due to the advent of online commerce. As consumers increasingly choose to purchase tickets online and through mobile channels, sales through phone, outlet and box office channels have diminished in relative importance. As online ticket purchases increase, related ticketing costs generally decrease, which has made it easier for clients to manage and facilitate ticket sales in-house, as well as for technology-based companies to offer primary ticketing services and stand-alone, automated ticketing systems that enable clients to do their own ticketing or utilize self-ticketing systems. The advent of online commerce has also contributed to the growth of resale ticketing services and the consolidation of the resale industry, which historically has been more fragmented, consisting of a significant number of local resellers with limited inventory selling through traditional storefronts. The internet has allowed fans and other ticket resellers to reach a vastly larger audience through the aggregation of inventory on online resale websites and marketplaces, and has provided consumers with more convenient access to tickets for a larger number and greater variety of events. These changes have significantly altered the competitive landscape, in that they have resulted in a broader and more differentiated group of industry participants offering increasingly more innovative ticketing products and services.

**Competition**

Live event content providers (such as owners or operators of live event venues, promoters of concerts and sports teams, among others) generally contract directly with primary ticketing service providers to sell tickets. Ticketmaster experiences substantial competition from other national, regional and local primary ticketing service providers to secure new and retain existing clients on a continuous basis. Ticketmaster also faces significant and increasing competition from companies that sell self-ticketing systems, as well as from clients, who are increasingly choosing to self-ticket through the integration of self-ticketing systems into their existing operations or the acquisition of primary ticket service providers and by increasing sales through facility box offices and season, subscription or group sales. Ticketmaster also faces competition in the resale of tickets from online auction websites and marketplaces, as well as other ticket resellers with online distribution capabilities. Ticketmaster believes that it competes on the basis of the breadth and quality of the products and services it provides, as well as the tickets it makes available for sale, the capabilities of the Ticketmaster System and related systems and its distribution network, reliability and price.

**Employees**

As of December 31, 2007, Ticketmaster employed approximately 3,600 full-time and 2,600 part-time employees worldwide. Ticketmaster believes that it generally has good employee relationships, including those with employees represented by unions or other similar organizations.

**Properties**

Ticketmaster's corporate offices are located at 8800 W. Sunset Blvd., West Hollywood, California, where it currently leases approximately 70,000 square feet from IAC. Ticketmaster also leases office space in various cities throughout the United States and in the various jurisdictions abroad in which it has operations pursuant to short- and long-term leases of adequate duration. In addition, Ticketmaster owns a small office in Vancouver, Canada and a small plot of land outside of Albuquerque, New Mexico. Ticketmaster believes that its facilities are adequate in the locations where it currently does business.

**Ticketmaster Legal Proceedings**

In the ordinary course of business, Ticketmaster and its subsidiaries are parties to litigation involving property, personal injury, contract, intellectual property and other claims. The amounts that may be recovered in such matters may be subject to insurance coverage. Ticketmaster does not believe that such ordinary course litigation will have a material effect on its business, financial condition or results of operations. For a discussion of litigation reserves, see "Management Overview—Results of Operations for the Years Ended December 31, 2007, 2006 and 2005—General and Administrative Expense."

Rules of the Securities and Exchange Commission require the description of material pending legal proceedings, other than ordinary, routine litigation incident to the registrant's business, and advise that proceedings ordinarily need not be described if they primarily involve damage claims for amounts (exclusive of interest and costs) not exceeding 10% of the current assets of the registrant and its subsidiaries on a consolidated basis. In the judgment of management, none of the pending litigation matters which Ticketmaster and its subsidiaries are defending, including those described below, involves or is likely to involve amounts of that magnitude. However, the pending litigation matters described below could involve substantial amounts, which could have an adverse effect on Ticketmaster's business, financial condition and results of operations.

**UPS Consumer Class Action Litigation**

***Curt Schlessinger et al. v. Ticketmaster*, No. BC304565 (Superior Court, Los Angeles County).** On October 21, 2003, a purported representative action was filed in California state court, challenging Ticketmaster's charges to online customers for UPS ticket delivery. The complaint alleged in essence that it is unlawful for Ticketmaster not to disclose on its website that the fee it charges to online customers to have their tickets delivered by UPS contains a profit component. The complaint asserted a claim for violation of Section 17200 of the California Business and Professions Code and sought restitution or disgorgement of the difference between (i) the total UPS delivery fees charged by Ticketmaster in connection with online ticket sales during the applicable statute of limitations period, and (ii) the amount Ticketmaster paid to UPS for that service.

On December 31, 2004, the court denied Ticketmaster's motion for summary judgment. On April 1, 2005, the court denied the plaintiffs' motion for leave to amend their complaint to include UPS-delivery fees charged in connection with ticket orders placed by telephone. Citing Proposition 64, a California ballot initiative that outlawed so-called "representative" actions brought on behalf of the general public, the court ruled that since the named plaintiffs did not order their tickets by telephone, they lacked standing to assert a claim based on telephone ticket sales. The plaintiffs were granted leave to file an amended complaint that would survive application of Proposition 64.

On August 31, 2005, the plaintiffs filed an amended class-action and representative-action complaint alleging (i) as before, that Ticketmaster's website disclosures in respect of its charges for UPS ticket delivery violate Section 17200 of the California Business and Professions Code, and (ii) for the first time, that Ticketmaster's website disclosures in respect of its ticket order-processing fees constitute false advertising in violation of Section 17500 of the California Business and Professions Code. On this latter claim, the amended complaint seeks restitution or disgorgement of the entire amount of order-processing fees charged by Ticketmaster during the applicable statute of limitations period.

On September 1, 2005, in light of the newly pleaded claim based upon order-processing fees, Ticketmaster removed the case to federal court pursuant to the recently enacted federal Class Action Fairness Act. *See Curt Schlessinger et al. v. Ticketmaster*, No. 05-CV-6515 (U.S. District Court, Central District of California). On October 3, 2005, the plaintiffs filed a motion to remand the case to state court, which Ticketmaster opposed. On March 23, 2006, the federal district court issued an order granting the plaintiffs' motion to remand the case to state court. On April 4, 2006, Ticketmaster filed a petition for leave to appeal the district court's order to the United States Court of Appeals for the Ninth Circuit, which the plaintiffs opposed. On May 25, 2006, the federal court of appeals issued an order denying Ticketmaster's petition; as a result, the case was remanded to state court.

On August 14, 2006, the plaintiffs filed a motion for class certification, which Ticketmaster opposed. On September 25, 2006, Ticketmaster filed a motion for judgment on the pleadings, which the plaintiffs opposed. On November 21, 2006, Ticketmaster requested that the court stay the case pending the California Supreme Court's decisions in two cases (*In re Tobacco II Cases*, 142 Cal. App. $4^{th}$ 891, and *Pfizer Inc. v. Superior Court (Galfano)*, 141 Cal. App. $4^{th}$ 290) that present issues concerning the interpretation of Proposition 64 that are directly pertinent to both of the pending motions. The plaintiffs opposed Ticketmaster's request. On November 29, 2006, the court ordered that the case be stayed pending the California Supreme Court's ruling on the two cases referenced above.

On July 11, 2007, the court lifted its stay of the action for the limited purpose of allowing the plaintiffs to proceed with their motion for class certification. The parties thereafter submitted supplemental briefing in support of their respective positions and argued the motion at a September 20 hearing. On December 19, 2007, the court issued an order denying the plaintiffs' motion for class certification without prejudice. The court also issued an order staying the action for an additional 180 days or until the California Supreme Court issues a ruling in the *Tobacco II* and *Pfizer* appeals.

Ticketmaster believes that the claims in this putative class action lack merit and will continue to defend itself vigorously.

**Securities Class Action Litigation**

***In re Ticketmaster Online-CitySearch, Inc. Initial Public Offering Securities Litigation*, Case No. 01 Civ. 10822 (S.D.N.Y.).** On November 30, 2001, a purported securities class action was filed against Ticketmaster and other defendants in the U.S. District Court for the Southern District of New York. Plaintiff's suit was brought on behalf of purchasers of Ticketmaster common stock during the period from the date of its initial public offering through December 6, 2000, and alleged violations by Ticketmaster of Section 10(b) of the Securities Exchange Act of 1934 and Section 11 of the Securities Act of 1933. Plaintiff alleged that Ticketmaster failed to disclose that its underwriters were to receive undisclosed and excessive compensation and had agreed to allocate shares in the IPO to customers in exchange for agreements to purchase shares in the aftermarket at pre-determined prices. This action was later consolidated with hundreds of similar actions against issuers and underwriters in the U.S. District Court for the Southern District of New York in *In re Initial Public Offering Securities Litigation*, No. 21 MC 92 (S.D.N.Y.). On February 19, 2003, the court granted a motion to dismiss the Section 10(b) claim against Ticketmaster, but denied the motion as to the Section 11 claim against Ticketmaster.

On October 13, 2004, the district court granted a motion for class certification in the six so-called class certification "focus" cases in the consolidated litigation. (Ticketmaster is not a party in any of these focus cases.) On December 5, 2006, the U.S. Court of Appeals for the Second Circuit reversed the trial court's decision. On August 14, 2007, plaintiffs filed amended complaints containing new class definitions in the six class certification focus cases. On September 27, 2007, plaintiffs moved for certification of the classes in these cases. On November 13, 2007, the issuer defendants filed a motion to dismiss the amended complaints in the focus cases. On March 26, 2008, the district court granted this motion in part and denied it in part. Accordingly, this action remains pending against Ticketmaster.

On June 10, 2004, plaintiffs and the issuer and individual defendants in the consolidated litigation had submitted to the district court for approval a proposed settlement that had previously been approved by various insurers of the issuer defendants. Approval of the proposed settlement would have resulted in the dismissal of all claims against Ticketmaster with no material impact on the company. However, in the wake of the appellate reversal of the district court's class-certification order, the proposed settlement was withdrawn on June 25, 2007.

Ticketmaster believes the claims in this putative class action lack merit and will continue to defend itself vigorously.

**Risk Factors Relating to the Business of Ticketmaster Following the Spin-Offs**

Ticketmaster's business, financial condition and results of operations are subject to certain risks that are described below and in the section "Risk Factors" beginning on page [      ]. You should carefully consider these risks and uncertainties. The risks and uncertainties described below and elsewhere in this information statement are not the only ones facing Ticketmaster and its businesses. While Ticketmaster believes that the risks and uncertainties described below and elsewhere in this information statement include the most significant risk factors that should be considered by Ticketmaster's investors, these risks and uncertainties are not the only ones facing Ticketmaster and its businesses.

***Live Entertainment Industry and General Economic Trends—The success of Ticketmaster is dependent, in significant part, on entertainment, sporting and leisure events and factors adversely affecting such events could have a material adverse effect on its business, financial condition and results of operations.***

Ticketmaster sells tickets to live entertainment, sporting and leisure events at arenas, stadiums, theaters and other facilities, and accordingly, its business, financial condition and results of operations are directly affected by the popularity, frequency and location of such events. Ticket sales are sensitive to fluctuations in the number and pricing of entertainment, sporting and leisure events and activities offered by promoters, teams and facilities, and adverse trends in the entertainment, sporting and leisure event industries could adversely affect Ticketmaster's business, financial condition and results of operations. Ticketmaster relies on third parties to create and perform live entertainment, sporting and leisure events and to price tickets to such events. Accordingly, Ticketmaster's success depends, in part, upon the ability of these third parties to correctly anticipate public demand for particular events and the prices that the public is willing to pay to attend such events, as well as the availability of popular artists, entertainers and teams.

In addition, general economic conditions, consumer trends, work stoppages, natural disasters and terrorism could have a material adverse effect on Ticketmaster's business, financial condition and results of operations. Entertainment-related expenditures are particularly sensitive to business and personal discretionary spending levels, which tend to decline during general economic downturns.

***Third Party Relationships—Ticketmaster depends on relationships with clients and any adverse changes in these relationships could adversely affect Ticketmaster's business, financial condition and results of operations.***

Ticketmaster's success is dependent, in significant part, on the ability of Ticketmaster businesses to maintain and renew relationships with existing clients and to establish new client relationships. Ticketmaster anticipates that for the foreseeable future, the substantial majority of its revenues will be derived from online and offline sales of tickets. Ticketmaster also expects that revenues from primary ticketing services, which consist primarily of per ticket convenience charges and per order "order processing" fees, will continue to comprise the substantial majority of its consolidated revenues. For the year ended December 31, 2007, Ticketmaster businesses provided primary ticketing services to over 9,000 clients.

Securing the right to sell tickets depends, in substantial part, on the ability of Ticketmaster businesses to enter into, maintain and renew client contracts on favorable terms. Revenue attributable to Ticketmaster's largest client, Live Nation (including its subsidiary, House of Blues), represented approximately 17% of its total revenue in 2007. This client relationship consists of four agreements, two with Live Nation (a worldwide agreement (other than England, Scotland and Wales) that expires on December 31, 2008 and an agreement covering England, Scotland and Wales that expires on December 31, 2009) and two with House of Blues (a U.S. agreement that expires on December 31, 2009 and a Canadian agreement that expires on March 1, 2010). Revenue attributable to the worldwide agreement and the agreement covering England, Scotland and Wales represented approximately 11% and 3%, respectively, of Ticketmaster's total revenues in 2007. Each party has the right to terminate the agreement covering England, Scotland and Wales as of December 31, 2008, in which case Live Nation would be obligated to pay Ticketmaster a termination fee in an amount equal to 1.25 times the average of Ticketmaster's annual net profits under the agreement for 2007 and 2008. Ticketmaster anticipates that none of these agreements will be renewed. In addition, Live Nation has publicly announced that it will launch its own ticketing business in 2009 and that it intends to ticket Live Nation events and compete with Ticketmaster for third party clients.

Ticketmaster cannot provide assurances that its businesses will continue to be able to maintain other existing client contracts, or enter into or maintain new client contracts, on acceptable terms, if at all, and the failure to do so could have a material adverse affect on Ticketmaster's business, financial condition and results of operations. In addition, facilities, promoters and other potential clients are increasingly electing to self-ticket and/or distribute a growing number of tickets through client direct or other new channels, which could adversely impact the ability of Ticketmaster businesses to secure renewals and new client contracts. The non-renewal or termination of an agreement with a major client or multiple agreements with a combination of smaller clients could have a material adverse effect on Ticketmaster's business, financial condition and results of operations.

Another important component of Ticketmaster's success is the ability of Ticketmaster businesses to maintain existing and build new relationships with third party distribution channels and service providers, including providers of credit card processing and delivery services, as well as advertisers, among other parties. Any adverse changes in these relationships, including the inability of these parties to fulfill their obligations to Ticketmaster businesses for any reason, could adversely affect Ticketmaster's business, financial condition and results of operations.

***Brand Recognition—Failure to maintain brand recognition and attract and retain customers in a cost-effective manner could adversely affect Ticketmaster's business, financial condition and results of operations.***

Maintaining and promoting the Ticketmaster and *ticketmaster.com* (and related international) brand names and, to a lesser extent, the *ticketsnow.com*, *ticketweb.com*, *museumtix.com* and *tmvista.com* (and related international) brand names, is critical to the ability of Ticketmaster businesses to attract consumers and business customers to their respective websites and other distribution channels.

Ticketmaster believes that the importance of brand recognition will increase, given the growing number of online ticketing services due to relatively low barriers to entry to providing internet online content and services. Accordingly, Ticketmaster businesses have spent, and expect to continue to spend, increasing amounts of money on, and devote greater resources to, branding and other marketing initiatives, including search engine optimization techniques and paid search engine marketing, neither of which may be successful or cost-effective. Ticketmaster believes that rates for desirable online advertising and marketing are likely to increase in the foreseeable future. The failure of Ticketmaster businesses to maintain the recognition of their respective brands and to attract and retain consumers in a cost-effective manner could adversely affect Ticketmaster's business, financial condition and results of operations.

***Acquisitions—Ticketmaster may experience operational and financial risks in connection with acquisitions. In addition, some of the businesses acquired by Ticketmaster may incur significant losses from operations or experience impairment of carrying value.***

Ticketmaster's growth may depend upon future acquisitions and depends, in part, on its ability to successfully integrate historical acquisitions. Ticketmaster may experience operational and financial risks in connection with acquisitions. To the extent that Ticketmaster continues to grow through acquisitions, it will need to:

- successfully integrate the operations, as well as the accounting, financial controls, management information, technology, human resources and other administrative systems, of acquired businesses with existing operations and systems;
- retain the clients of the acquired businesses;
- retain senior management and other key personnel at acquired businesses; and
- successfully manage acquisition-related strain on the management, operations and financial resources of Ticketmaster and/or acquired businesses.

Ticketmaster may not be successful in addressing these challenges or any others encountered in connection with historical and future acquisitions and the failure to do so could adversely affect its business, financial condition and results of operations. The anticipated benefits of one or more acquisitions may not be realized and future acquisitions could result in potentially dilutive issuances of equity securities and/or contingent liabilities. Also, the value of goodwill and other intangible assets acquired could be impacted by one or more unfavorable events or trends, which could result in impairment charges. The occurrence of any of these events could adversely affect Ticketmaster's business, financial condition and results of operations.

Through certain recent (and potentially future) acquisitions, such as the acquisitions of TicketsNow, Emma Entertainment, Echo and GetMeIn!, Ticketmaster entered (or may enter) into aspects of the ticketing and/or entertainment industries in which it has not previously participated directly. Acquisitions of this nature could adversely affect relationships with new and potential clients to the extent that clients view the interests of acquired businesses, or those of Ticketmaster overall following the completion of any such acquisitions, as competing with or diverging from their own, which could adversely impact Ticketmaster's relationships with its clients and its ability to attract new clients, which would adversely affect its business, financial condition and results of operations.

***International Presence and Expansion—Ticketmaster businesses operate in international markets in which they have limited experience. Ticketmaster businesses may not be able to successfully expand into new, or further into existing, international markets.***

Ticketmaster provides services in various jurisdictions abroad through a number of brands and businesses that it owns and operates, as well as through joint ventures, and expects to continue to expand its international presence. See "Business of Ticketmaster—International Operations." Ticketmaster faces, and expects to continue to face, additional risks in the case of its existing and future international operations, including:

- political instability and unfavorable economic conditions in the markets in which it currently has international operations or into which its brands and businesses may expand;
- more restrictive or otherwise unfavorable government regulation of the live entertainment and ticketing industries, including the regulation of the provision of primary ticketing and ticket resale services, as well promotional, marketing and other related services, which could result in increased compliance costs and/or otherwise restrict the manner in which Ticketmaster businesses provide services and the amount of related fees charged for such services;
- limitations on the enforcement of intellectual property rights, which would preclude Ticketmaster from building the brand recognition upon which it has come to rely in many jurisdictions;
- limitations on the ability of foreign subsidiaries to repatriate profits or otherwise remit earnings to Ticketmaster;
- adverse tax consequences;
- limitations on technology infrastructure, which could limit the ability of Ticketmaster to migrate international operations to the Ticketmaster System, which would result in increased costs;
- lower levels of internet usage, credit card usage and consumer spending in comparison to those in the United States; and
- difficulties in managing operations and adapting to consumer desires due to distance, language and cultural differences, including issues associated with management and operational systems and infrastructures, including internal financial control and reporting systems and functions, staffing and managing foreign operations, which Ticketmaster might not be able to do effectively, or if so, on a cost-effective basis.

Ticketmaster's ability to expand its international operations into new, or further into existing, jurisdictions, will depend, in significant part, on its ability to identify potential acquisition candidates, joint venture or other partners, and enter into arrangements with these parties on favorable terms, as well as its ability to make continued investments to maintain and grow existing international operations. If the revenues generated by international operations are insufficient to offset expenses incurred in connection with the maintenance and growth of these operations, Ticketmaster's business, financial condition and results of operations could be materially and adversely affected. In addition, in an effort to make international operations in one or more given jurisdictions profitable over the long term, significant additional investments that are not profitable over the short term could be required over a prolonged period.

In addition, the ticketing industry in many jurisdictions abroad is more fragmented and local than it is in the United States. Ticketmaster's success in these markets will depend on the ability of its businesses to create economies of scale by consolidating within each market geographically, which would most likely occur over a prolonged period, during which significant investments in technology and infrastructure would be required. In the case of expansion through organic growth, Ticketmaster would face substantial barriers to entry in new, and expansion into existing, markets due primarily to the risks and concerns discussed above, among others.

Lastly, to the extent that costs and prices for services are established in local currencies and adjusted to U.S. dollars based on then-current exchange rates, Ticketmaster will be exposed to foreign exchange rate fluctuations. After accounting for such fluctuations, Ticketmaster may be required to record significant gains or losses, the amount of which will vary based on then current exchange rates, which could cause Ticketmaster's results to differ materially from expectations. As Ticketmaster continues to expand its international presence, its exposure to exchange rate fluctuations will increase.

***Changing Customer Requirements and Industry Standards—Ticketmaster businesses may not be able to adapt quickly enough to changing customer requirements and industry standards.***

The e-commerce industry is characterized by evolving industry standards, frequent new service and product introductions and enhancements and changing customer demands. Ticketmaster businesses may not be able to adapt quickly enough and/or in a cost-effective manner to changes in industry standards and customer requirements and preferences, and their failure to do so could adversely affect the business, financial condition and results of operations of Ticketmaster. In addition, the continued widespread adoption of new internet or telecommunications technologies and devices or other technological changes could require Ticketmaster businesses to modify or adapt their respective services or infrastructures. The failure of Ticketmaster businesses to modify or adapt their respective services or infrastructures in response to these trends could render their existing websites, services and proprietary technologies obsolete, which could adversely affect Ticketmaster's business, financial condition and results of operations.

In addition, Ticketmaster is currently in the process of migrating its international brands and businesses to the Ticketmaster System in an attempt to provide consistent and state-of-the-art services across its businesses and to reduce the cost and expense of maintaining multiple systems, which it may not be able to complete in a timely or cost-effective manner. Delays or difficulties in implementing the Ticketmaster System, as well as any new or enhanced systems, may limit Ticketmaster's ability to achieve the desired results in a timely manner. Also, Ticketmaster may be unable to devote financial resources to new technologies and systems in the future, which could adversely affect its business financial condition and results of operations.

***Compliance and Changing Laws, Rules and Regulations—Ticketmaster's failure to comply with existing laws, rules and regulations as well as changing laws, rules and regulations and legal uncertainty, could adversely affect Ticketmaster's business, financial condition and results of operations.***

Since Ticketmaster businesses sell tickets and provide related services to consumers through a number of different online and offline channels, they are subject to a wide variety of statutes, rules, regulations, policies and procedures in various jurisdictions in the United States and abroad, which are subject to change at any time. For example, Ticketmaster businesses conduct marketing activities via the telephone and/or through online marketing channels, which activities are governed by numerous federal and state regulations, such as the Telemarketing Sales Rule, state telemarketing laws and the CAN-SPAM Act, among others. Ticketmaster businesses are also subject to laws, rules and regulations applicable to providers of primary ticketing and ticket resale services, which in some cases regulate the amount of transaction and other fees that they may be charged in connection with primary ticketing sales and/or the ticket prices that may be charged in the case of ticket resale services, and new legislation of this nature is introduced from time to time in various (and is pending in certain) jurisdictions in which Ticketmaster businesses sell tickets and provide services. For example, several U.S. states and cities, Canadian provinces, the United Kingdom and European countries prohibit the resale of tickets at prices greater than the original face price (in the case of certain jurisdictions, without the consent of the venue) and/or prohibit the resale of tickets to certain types of events. The failure of Ticketmaster businesses to comply with these laws and regulations could result in fines and/or proceedings against Ticketmaster by governmental agencies and/or consumers, which if material, could adversely affect Ticketmaster's business, financial condition and results of operations. In addition, the promulgation of new laws, rules and regulations that restrict or otherwise unfavorably impact the ability or manner in which Ticketmaster businesses provide primary ticketing and ticket resale services would require Ticketmaster businesses to change certain aspects of their business, operations and client relationships to ensure compliance, which could decrease demand for services, reduce revenues, increase costs and/or subject Ticketmaster to additional liabilities.

In addition, the application of various domestic and international sales, use, value-added and other tax laws, rules and regulations to the historical and new products and services of Ticketmaster is subject to interpretation by applicable taxing authorities. While Ticketmaster believes that it is compliant with current tax provisions, taxing authorities may take a contrary position and such positions may adversely affect Ticketmaster's business, financial condition and results of operations.

From time to time, federal, state and local authorities and/or consumers commence investigations, inquiries or litigation with respect to compliance by Ticketmaster and its businesses with applicable consumer protection, advertising, unfair business practice, antitrust (and similar or related laws) and other laws. Ticketmaster businesses have historically cooperated with authorities in connection with these investigations and have satisfactorily resolved each such material investigation, inquiry or litigation. Ticketmaster has incurred significant legal expenses in connection with the defense of governmental investigations and litigation in the past and may be required to incur additional expenses in the future should investigations and litigation be instituted. In the case of antitrust (and similar or related) matters, any adverse outcome could limit or prevent Ticketmaster businesses from engaging in the ticketing business generally (or in a particular market thereof) or subject them to potential damage assessments, all of which could have a material adverse effect on Ticketmaster's business, financial condition and results of operations.

# CAPITALIZATION

The following table presents Ticketmaster's cash and cash equivalents and capitalization as of March 31, 2008 on an historical basis and on an unaudited pro forma basis for the separation and the financing. Pro forma for the separation and the financing includes the $750 million in indebtedness that Ticketmaster expects to hold at separation. In connection with the separation, Ticketmaster is expected to distribute the net proceeds of the financing to IAC and will retain its client cash and its international cash which total approximately $468.1 million as of March 31, 2008. The separation of Ticketmaster and the related financing transactions are described in the notes to the Unaudited Pro Forma Condensed Combined Balance Sheet under the Unaudited Pro Forma Condensed Combined Financial Statements as if the separation and the related transactions and events had been consummated on March 31, 2008.

The assumptions used and pro forma adjustments derived from such assumptions are based on currently available information and Ticketmaster believes such assumptions are reasonable under the circumstances. Such adjustments are subject to change based upon the finalization of the terms of the separation and financing.

This table should be read in conjunction with "Selected Historical Financial Data," "Transfers to IAC and Financing," "Description of Capital Stock of the Spincos," "Management's Discussion and Analysis of Financial Condition and Results of Operations of Ticketmaster," the combined financial statements of Ticketmaster and the "Unaudited Pro Forma Condensed Combined Financial Statements" and accompanying notes included in this information statement.

The table below is not necessarily indicative of Ticketmaster's cash and cash equivalents and capitalization had the separation and the related financing transactions been completed on the date assumed. The capitalization table below may not reflect the capitalization or financial condition which would have resulted had Ticketmaster been operating as an independent, publicly-traded company at that date and is not necessarily indicative of Ticketmaster's future capitalization or financial condition.

| | As of March 31, 2008 | |
|---|---|---|
| | Historical | Unaudited Pro Forma for the Separation and Financing |
| | (In millions) | |
| Cash and cash equivalents | $ 502 | $ 468 |
| Long-term debt: | | |
| Bank credit facility and notes | $ — | $ 750 |
| Total long-term debt | — | 750 |
| Invested equity | 2,049 | 1,284 |
| Total capitalization | $ 2,049 | $ 2,034 |

## SELECTED HISTORICAL FINANCIAL DATA

The following table presents summary selected historical combined financial information for Ticketmaster. This data was derived, in part, from the historical combined financial statements of Ticketmaster included elsewhere in this document and reflects the operations and financial position of Ticketmaster at the dates and for the periods indicated. The information in this table should be read in conjunction with the combined financial statements and accompanying notes and other financial data pertaining to Ticketmaster included herein. However, this financial information does not necessarily reflect what the historical financial position and results of operations of Ticketmaster would have been had Ticketmaster been a stand-alone company during the periods presented.

| | Year Ended December 31, | | | | | Three Months Ended March 31, | |
|---|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2004 (unaudited) | 2003 (unaudited) | 2008 (unaudited) | 2007 (unaudited) |
| | (In thousands) | | | | | | |
| **Statement of Operations Data:** | | | | | | | |
| Revenue | $ 1,240,477 | $ 1,062,672 | $ 928,704 | $ 747,838 | $ 723,524 | $ 348,981 | $ 303,577 |
| Operating income | 216,316 | 224,891 | 166,015 | 112,404 | 98,804 | 46,790 | 61,488 |
| Net income | 169,351 | 176,701 | 117,699 | 69,023 | 82,221 | 32,707 | 42,925 |

| | December 31, | | | | | March 31, |
|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2004 (unaudited) | 2003 (unaudited) | 2008 (unaudited) |
| | (In thousands) | | | | | |
| **Balance Sheet Data (end of period):** | | | | | | |
| Working capital | $ 269,917 | $ 59,642 | $ 96,477 | $ 63,222 | $ 3,753 | $ 151,765 |
| Total assets | 2,306,534 | 1,815,711 | 1,772,430 | 1,593,879 | 1,484,926 | 2,809,949 |
| Minority interest | 7,812 | 669 | — | 3,485 | 2,355 | 7,766 |
| Invested equity | 1,739,177 | 1,357,837 | 1,353,045 | 1,270,899 | 1,188,671 | 2,048,618 |

**TICKETMASTER AND SUBSIDIARIES**

**UNAUDITED PRO FORMA**
**CONDENSED COMBINED FINANCIAL STATEMENTS**

The following Unaudited Pro Forma Condensed Combined Financial Statements of Ticketmaster and subsidiaries ("Ticketmaster") reflect adjustments to the historical combined financial statements of Ticketmaster to give effect to the separation and related transactions described in the notes to the Unaudited Pro Forma Condensed Combined Financial Statements as of March 31, 2008 for the Unaudited Pro Forma Condensed Combined Balance Sheet and as of January 1, 2007 and January 1, 2008 for the Unaudited Pro Forma Condensed Combined Statement of Operations for the year ended December 31, 2007 and the three months ended March 31, 2008, respectively.

The assumptions used and pro forma adjustments derived from such assumptions are based on currently available information and Ticketmaster believes such assumptions are reasonable under the circumstances. While at this time Ticketmaster does not expect material changes to the terms of the separation, the finalization of the financing described in the notes hereto is still subject to credit market conditions at the time that the financing actually occurs. Given the volatility in the credit markets, it is possible that material changes may occur with respect to the financing.

The following Unaudited Pro Forma Condensed Combined Financial Statements should be read in conjunction with the historical combined financial statements of Ticketmaster and "Management's Discussion and Analysis of Financial Condition and Results of Operations" of Ticketmaster included in this information statement.

These Unaudited Pro Forma Condensed Combined Financial Statements are not necessarily indicative of Ticketmaster's results of operations or financial condition had the separation and related transactions been completed on the dates assumed. Also, they may not reflect the results of operations or financial condition which would have resulted had Ticketmaster been operating as an independent publicly-traded company during such periods. In addition, they are not necessarily indicative of Ticketmaster's future results of operations or financial condition.

These Unaudited Pro Forma Condensed Combined Financial Statements are forward looking information within the meaning of "Forward-Looking Statements" as described on pages 2-3 of this Information Statement.

## TICKETMASTER AND SUBSIDIARIES

## UNAUDITED PRO FORMA
## CONDENSED COMBINED BALANCE SHEET

## MARCH 31, 2008

| | Historical | Pro Forma Adjustments | Notes | Pro Forma |
|---|---|---|---|---|
| | (In thousands, except per share data) | | | |
| **ASSETS** | | | | |
| Cash and cash equivalents | $ 501,752 | $ 731,468 | (a) | $ 468,132 |
| | | (765,088) | (b) | |
| Other current assets | 306,684 | — | | 306,684 |
| Total current assets | 808,436 | (33,620) | | 774,816 |
| Non-current assets | 2,001,513 | 18,532 | (a) | 2,020,045 |
| **TOTAL ASSETS** | $ 2,809,949 | $ (15,088) | | $ 2,794,861 |
| **LIABILITIES AND INVESTED EQUITY** | | | | |
| **LIABILITIES:** | | | | |
| Current liabilities | $ 656,671 | $ — | | $ 656,671 |
| Long-term debt | — | 750,000 | (a) | 750,000 |
| Other long-term liabilities | 96,894 | — | | 96,894 |
| Minority interest | 7,766 | — | | 7,766 |
| **INVESTED EQUITY:** | | | | |
| Common shares, $0.01 par value,—authorized; 55,747,109 issued and outstanding on a pro forma basis | — | 557 | (b) | 557 |
| Additional paid-in capital | — | 1,229,899 | (b) | 1,229,899 |
| Invested capital | 2,599,884 | (2,599,884) | (b) | — |
| Receivables from IAC and subsidiaries | (604,340) | 604,340 | (b) | — |
| Accumulated other comprehensive income | 53,074 | — | | 53,074 |
| Total invested equity | 2,048,618 | (765,088) | | 1,283,530 |
| **TOTAL LIABILITIES AND INVESTED EQUITY** | $ 2,809,949 | $ (15,088) | | $ 2,794,861 |

The accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements are an integral part of these statements.

## TICKETMASTER AND SUBSIDIARIES

## UNAUDITED PRO FORMA
## CONDENSED COMBINED STATEMENT OF OPERATIONS

## THREE MONTHS ENDED MARCH 31, 2008

| | Historical | Pro Forma Separation Adjustments | Notes | Pro Forma for the Separation | Pro Forma Financing Adjustments | Notes | Final Pro Forma for the Separation and Financing |
|---|---|---|---|---|---|---|---|
| | (In thousands, except per share data) | | | | | | |
| Revenue | $ 348,981 | $ — | | $ 348,981 | $ | | $ |
| Operating expenses | 302,191 | 1,223 | (c) | 303,730 | | | |
| | | 316 | (d) | | | | |
| Operating income | 46,790 | (1,539) | | 45,251 | | | |
| Other income (expense): | | | | | | | |
| Interest income | 3,290 | (1,699) | (e) | 1,591 | | | |
| Interest expense | (735) | — | | (735) | | (f) | |
| Equity in income of uncombined affiliates | 666 | — | | 666 | | | |
| Other income | 944 | — | | 944 | | | |
| Total other income, net | 4,165 | (1,699) | | 2,466 | | | |
| Earnings before income taxes and minority interest | 50,955 | (3,238) | | 47,717 | | | |
| Income tax provision | (18,821) | 1,250 | (g) | (17,571) | | (g) | |
| Minority interest in losses of combined subsidiaries | 573 | — | | 573 | | | |
| **Net income** | $ 32,707 | $ (1,988) | | $ 30,719 | $ | | $ |
| Pro forma earnings per share:(h) | | | | | | | |
| Basic earnings per share | | | | | | | $ |
| Diluted earnings per share | | | | | | | $ |

The accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements are an integral part of these statements.

## TICKETMASTER AND SUBSIDIARIES

## UNAUDITED PRO FORMA
## CONDENSED COMBINED STATEMENT OF OPERATIONS

## YEAR ENDED DECEMBER 31, 2007

| | Historical | Pro Forma Separation Adjustments | Notes | Pro Forma for the Separation | Pro Forma Financing Adjustments | Notes | Final Pro Forma for the Separation and Financing |
|---|---|---|---|---|---|---|---|
| | | | | (In thousands, except per share data) | | | |
| Revenue | $ 1,240,477 | $ — | | $ 1,240,477 | $ | | $ |
| Operating expenses | 1,024,161 | 5,363<br>1,264 | (c)<br>(d) | 1,030,788 | | | |
| Operating income | 216,316 | (6,627) | | 209,689 | | | |
| Other income (expense): | | | | | | | |
| Interest income | 33,065 | (27,719) | (e) | 5,346 | | | |
| Interest expense | (1,003) | — | | (1,003) | | (f) | |
| Equity in income of uncombined affiliates | 6,301 | — | | 6,301 | | | |
| Other income | 1,120 | — | | 1,120 | | | |
| Total other income, net | 39,483 | (27,719) | | 11,764 | | | |
| Earnings before income taxes and minority interest | 255,799 | (34,346) | | 221,453 | | | |
| Income tax provision | (89,007) | 13,261 | (g) | (75,746) | | (g) | |
| Minority interest in losses of combined subsidiaries | 2,559 | — | | 2,559 | | | |
| **Net income** | $ 169,351 | $ (21,085) | | $ 148,266 | $ | | $ |
| Pro forma earnings per share:(h) | | | | | | | |
| Basic earnings per share | | | | | | | $ |
| Diluted earnings per share | | | | | | | $ |

The accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements are an integral part of these statements.

**NOTES TO UNAUDITED PRO FORMA**
**CONDENSED COMBINED FINANCIAL STATEMENTS**

(a) In connection with the separation, Ticketmaster expects to raise $750 million through a combination of privately issued debt securities (the "Bonds") and raise $ million through secured credit facilities (the "Term Loans"). In addition, Ticketmaster expects to negotiate a $ million revolving credit facility (the "RCF"). The total costs expected to be incurred in connection with the issuance of the Bonds and borrowings under the Term Loans and the issuance of the RCF are $18.5 million. The net proceeds are therefore expected to be approximately $731.5 million. The Bonds are expected to have a maturity of years from the date of issuance and the Term Loans are expected to have a term of years. The RCF is expected to have a term of years. The interest rate on the Bonds is estimated to be % and LIBOR plus % for the Term Loans. The RCF is expected to have a fee of % for the unused portion.

(b) To effect the terms of the separation as follows:

(i) The transfer of approximately $765.1 million in cash to IAC prior to Ticketmaster's separation from IAC, which includes $731.5 million from the financing referred to in note (a) above, Ticketmaster will retain its client cash as well as its international cash, which totals approximately $468.1 million as of March 31, 2008;

(ii) The extinguishment of the receivable from IAC and subsidiaries; and

(iii) The issuance of 55.7 million shares to effect the transfer of the ownership of Ticketmaster from IAC to IAC's shareholders based upon an expected exchange ratio of $^{1}/_{5}$th a share of Ticketmaster for each share of IAC and the number of IAC common shares outstanding as of March 31, 2008 before giving effect to the 1 for 2 reverse stock split of IAC shares that is expected to be effected in connection with the separation.

To the extent that the net proceeds from the Bonds and Term Loan are less than $731.5 million, as described in note (a) above, there would be a corresponding reduction in the transfer of cash to IAC.

(c) Ticketmaster expects to incur additional costs related to being a stand-alone, public company. These costs have been estimated to be $8.9 million on an annual basis. These costs relate to the following:

- additional personnel including accounting, tax, treasury, internal audit and legal personnel;
- professional fees associated with audits, tax and other services;
- increased insurance premiums;
- increased health and welfare benefit costs;
- costs associated with a board of directors;
- increased franchise taxes, stock exchange listing fees, fees for preparing and distributing periodic filings with the Securities and Exchange Commission; and
- other administrative costs and fees.

The total costs referred to above were compared to the corporate allocations from IAC for the three months ended March 31, 2008 and for the year ended December 31, 2007 in order to determine the incremental costs expected to be incurred for each period as follows:

| | Three Months Ended March 31, 2008 | Year Ended December 31, 2007 |
|---|---|---|
| | (In thousands) | |
| Estimated stand-alone public company costs | $ 2,167 | $ 8,891 |
| Less: corporate allocations | (944) | (3,528) |
| Incremental costs of being a stand-alone, public company | $ 1,223 | $ 5,363 |

The significant assumptions involved in arriving at these estimates include:

- the number of additional personnel required to operate as a public company and the compensation level with respect to each position;
- the level of additional assistance Ticketmaster will require from professional service providers;
- the increase in insurance premiums as a stand-alone public company;
- the increase in health and welfare costs as a stand-alone entity; and
- the type and level of other costs expected to be incurred in connection with being a stand-alone public company.

This amount excludes the $1.1 million of estimated one-time recruiting fees; professional fees for legal and tax services (e.g. initial benefit plan design); and other costs (e.g. initial stock exchange listing fees) expected to be incurred in initially establishing Ticketmaster as a stand-alone public company. These costs are therefore not expected to recur.

(d) To reflect the additional compensation expense associated with equity-based awards that will be granted only upon consummation of the separation.

The awards related to the consummation of the separation are expected to be granted to the President and Chief Executive Officer of Ticketmaster in the form of stock options and restricted stock units ("RSUs"). The issuance of these awards is contingent upon the consummation of the separation. The expense related to these awards is included as a pro forma adjustment because they will vest over four years and will therefore have an impact on the ongoing operations of Ticketmaster. The amount was determined using a Black Scholes calculation for the stock option portion of the award and an assumed value for the RSU portion of the award. The aggregate estimated value of the awards is being amortized to expense on a straight-line basis over the four year vesting period of the awards. This does not reflect non-recurring compensation expense related to modifications of existing equity-based awards that will be made in connection with the separation described below.

Vested stock options to purchase shares of IAC common stock will be modified as follows in connection with the separation:

Each option will convert into an option to purchase shares of common stock of all five companies, with adjustments to the number of shares subject to each option and the option exercise prices based on the relative values of IAC and the other four companies following the separation, with the intent to generally maintain equivalent value immediately pre and post the transaction.

A calculation of the estimated value of the vested options immediately prior to the separation and immediately after the separation was performed using the Black Scholes model. The incremental charge of $2 thousand resulted from the higher estimated value of the vested stock options after the separation. This higher value is due to higher estimated weighted average expected volatility of the stock price of the five companies after the separation than the expected volatility of IAC's stock price. The expense is a one-time charge because the options are fully vested and there is no future service requirement.

The modification related to IAC issued RSUs relates to the accelerated vesting, upon the consummation of the separation, of all RSUs granted prior to August 8, 2005 and all awards that were scheduled to vest prior to February 28, 2009. The estimated expense of $6.6 million is the previously unrecognized expense associated with these awards. The expense is treated as non-recurring because after the separation no future service is required with respect to these awards.

There may be additional stock-based awards granted in connection with the separation but the amount of such awards, if any, has not yet been determined and no expense with respect thereto has been reflected herein.

(e) To reflect the elimination of intercompany interest income allocated by IAC to Ticketmaster.

(f) This reflects the incremental interest expense related to the financing referred to in note (a) above. It includes interest expense at an assumed rate of % on the Bonds and LIBOR plus % on the Term Loans, LIBOR is assumed to be %, the aggregate assumed rate is therefore %. It also reflects expense at % on the RCF which is assumed to be unused. The interest expense calculation includes the amortization of debt issuance costs over the applicable term of each portion of the financing. An assumed 25 basis point change in the interest rate would result in an increase or decrease to interest expense by $ million for the Bonds and $ million for the Term Loans.

(g) To reflect the tax effect of the pro forma adjustments at an assumed effective tax rate of 38.6% which represents a federal statutory rate of 35% and a state effective statutory rate of 3.6%.

(h) Earnings per share and weighted average shares outstanding reflect the historical number of common shares used to calculate IAC's earnings per share, adjusted based on an expected exchange ratio of $^{1}/_{5}{}^{th}$ of a share of Ticketmaster for each share of IAC. These amounts reflect the portion of outstanding equity-based awards that were included in IAC's dilutive earnings per share calculation. Pro forma earnings per share is calculated using the following:

| | Three Months Ended March 31, 2008 | Year Ended December 31, 2007 |
|---|---|---|
| | (In thousands) | |
| Net income | $ | $ |
| Basic shares outstanding—weighted average shares | 55,753 | 57,137 |
| Other dilutive securities including stock options, warrants and restricted stock and share units | 1,496 | 2,729 |
| Diluted shares outstanding—weighted average shares | 57,249 | 59,866 |

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF TICKETMASTER

*The following discussion describes the financial condition and results of operations of Ticketmaster as though Ticketmaster were a separate company as of the dates and for the periods presented and includes the businesses, assets and liabilities that will comprise Ticketmaster following the spin-off.*

### Spin-Off

On November 5, 2007, IAC/InterActiveCorp ("IAC") announced that its Board of Directors approved a plan to separate IAC into five publicly traded companies, identifying Ticketmaster as one of those five companies. We refer to the separation transaction herein as the "spin-off." Upon completion of the spin-off, Ticketmaster will consist of the businesses that formerly comprised IAC's Ticketmaster segment, which consists of its domestic and international ticketing and ticketing related businesses, subsidiaries and investments, excluding its ReserveAmerica subsidiary and its investment in Active.com. Ticketmaster will include IAC's investment in Front Line Management Group, Inc. ("Front Line"). The businesses to be operated by Ticketmaster following the spin-off are referred to herein as the "Ticketmaster Businesses."

### Basis of Presentation

The historical combined financial statements of Ticketmaster and its subsidiaries and the disclosure set forth in this Management's Discussion and Analysis of Financial Condition and Results of Operations of Ticketmaster reflect the historical financial position, results of operations and cash flows of the Ticketmaster Businesses since their respective dates of acquisition by IAC, and the allocation to Ticketmaster of certain IAC corporate expenses relating to the Ticketmaster Businesses based on the historical consolidated financial statements and accounting records of IAC and using the historical results of operations and historical bases of the assets and liabilities of the Ticketmaster Businesses. However, for the purposes of these financial statements, income taxes have been computed for Ticketmaster on an as if stand-alone, separate tax return basis. These financial statements are prepared on a combined, rather than a consolidated, basis because they exclude ReserveAmerica and the investment in Active.com that were owned, and include the investment in Front Line that was not owned, either directly or indirectly, by legal entities that comprise the Ticketmaster Businesses. The ownership of ReserveAmerica and the investment in Active.com will be retained by IAC after the spin-off. These combined financial statements present IAC's and its subsidiaries net investment in the Ticketmaster Businesses as invested equity in lieu of shareholders' equity. Intercompany transactions and accounts have been eliminated.

In the opinion of Ticketmaster's management, the assumptions underlying the historical combined financial statements of Ticketmaster are reasonable. However, this financial information does not necessarily reflect what the historical financial position, results of operations and cash flows of Ticketmaster would have been had Ticketmaster been a stand-alone company during the periods presented.

## MANAGEMENT OVERVIEW

Ticketmaster is the world's leading live entertainment ticketing and marketing company, providing ticket sales, ticket resale services, marketing and distribution through www.ticketmaster.com, one of the largest e-commerce sites on the internet, approximately 6,700 independent sales outlets and 19 call centers worldwide. Ticketmaster serves leading arenas, stadiums, amphitheaters, music clubs, concert promoters, professional sports franchises and leagues, college sports teams, performing arts venues, museums and theaters in the United States and abroad, including Australia, Canada, China, Denmark, Finland, Germany, Ireland, the Netherlands, New Zealand, Norway, Spain, Sweden, Turkey and the United Kingdom. Ticketmaster is also a party to joint ventures with third parties to provide ticket distribution services in Mexico and to supply ticketing services for the 2008 Beijing Olympic Games. Ticketmaster licenses its technology in Mexico, Argentina, Brazil, Chile, China and Belgium.

### Sources of Revenue

Ticketmaster earns a majority of its revenue from primary ticketing and resale ticket services on behalf of its clients. Ticketing operations revenue primarily consists of convenience and order processing fees generated primarily through ticket sales. The sale of tickets for an event often commences several months prior to the event performance date. Ticketmaster recognizes revenue from the sale of a ticket when the ticket is sold. Fluctuations in ticket operations revenue occur largely as a result of changes in the number of tickets sold and the average revenue per ticket. The number of tickets sold varies as a result of (i) additions or losses of clients serviced by Ticketmaster; (ii) fluctuations in the scheduling of events, particularly for popular performers; (iii) overall consumer demand for live entertainment events; and (iv) the percentage of tickets for events which are sold directly by clients. The average revenue per ticket varies as a result of the amount of convenience charges earned on each ticket. The amount of convenience charges typically varies based upon numerous factors, including the face price of the ticket, the type of event, whether the ticket is purchased at an independent sales outlet, through call centers or via Ticketmaster's websites, as well as the services to be rendered to the client.

### Operating Costs

Ticketmaster records ticket operations costs specifically associated with the distribution of tickets sold through its system. The largest components of these operating costs are royalties paid to clients as a share of convenience and order processing fees, credit card fees, payroll, telecommunication and data communication costs associated with its call centers, and commissions paid on tickets distributed through independent sales outlets away from the box office, and other expenses including ticket stock and postage. These costs are primarily variable in nature. Direct payroll costs relate to the Company's call centers. Outlet commissions are paid to music chains, department stores and other independent retail locations in exchange for their providing space and personnel to service ticket purchases. The participation, if any, by clients in Ticketmaster's revenue from convenience and order processing fees is set forth in Ticketmaster's contracts with its clients.

### Channels of Distribution; Marketing Costs

Ticketmaster sells tickets online, through independent sales outlets, call centers and via mobile. During the year ended December 31, 2007, 70%, 17%, 13% and less than 1% of primary tickets were sold through these channels, respectively.

Ticketmaster owns and operates various branded websites, both in the U.S. and abroad, which are customized to reflect services offered in each jurisdiction and designed to promote ticket sales for live events and disseminate event, performer and related merchandise information online. Consumers can access www.ticketmaster.com directly, from affiliated websites and through numerous direct links from banners and event profiles hosted by approved third party websites.

As of December 31, 2007, Ticketmaster had approximately 6,700 independent sales outlets worldwide, including approximately 2,000 in the United States and approximately 4,700 in various jurisdictions abroad. Ticketmaster pays independent sales outlets a commission, the amount of which ranges from approximately 17% to 20% of Ticketmaster's convenience charge.

As of December 31, 2007, Ticketmaster operated 19 call centers worldwide, through which consumers can generally purchase tickets by telephone, or by way of an interactive voice response system, seven days a week, for at least 20 hours per day.

Ticketmaster markets and offers services directly to customers through www.ticketmaster.com and its other branded websites allowing customers to transact directly with Ticketmaster in a convenient manner. Ticketmaster also pays to market and distribute services on third party distribution channels, such as internet portals and search engines. In addition, some of Ticketmaster's businesses manage affiliate programs, pursuant to which they pay commissions and fees to third parties based on revenue earned. Ticketmaster has made, and expects to continue to make, investments in online and offline advertising to build its brands and drive traffic to its businesses.

Clients routinely agree by contract to include Ticketmaster's name, logos, applicable website address and charge-by-phone number in advertisements in all forms of media promoting the availability of their tickets. The Ticketmaster brand name and logo are also prominently displayed on printed tickets, ticket envelopes and e-mail alerts about upcoming events that Ticketmaster sends to its customers.

**Access to Supply**

Ticketmaster's primary ticketing services, and to a lesser extent, its ticketing resale services, depend significantly upon its ability to secure ticketing inventory through existing clients and new clients. Ticketmaster believes that the ability of its ticketing clients to reach a large qualified audience through its brands and businesses, including through its multiple distribution channels, is a significant benefit. Ticketmaster seeks to maintain and renew client contracts, and enter into new client contracts, on a favorable basis. Revenue attributable to Ticketmaster's largest client, Live Nation (including its subsidiary, House of Blues), represented approximately 17% of its total revenue in 2007. This client relationship consists of four agreements, two with Live Nation (a worldwide agreement (other than England, Scotland and Wales) that expires on December 31, 2008 and an agreement covering England, Scotland and Wales that expires on December 31, 2009) and two with House of Blues (a U.S. agreement that expires on December 31, 2009 and a Canadian agreement that expires on March 1, 2010). Revenue attributable to the worldwide agreement and the agreement covering England, Scotland and Wales represented approximately 11% and 3%, respectively, of Ticketmaster's total revenue in 2007. Ticketmaster anticipates that none of these agreements will be renewed. Revenue generated from the four Live Nation agreements for the years ended December 31, 2007, 2006 and 2005 are provided in the table below:

| | | Years Ended December 31, | | |
|---|---|---|---|---|
| | Expiration Date | 2007 | 2006 | 2005 |
| | | (Dollars in thousands) | | |
| Live Nation—Worldwide agreement | 12/31/08 | $ 138,832 | $ 142,972 | $ 121,923 |
| Live Nation—England, Scotland, Wales agreement(a) | 12/31/09 | 34,935 | 33,575 | 27,616 |
| House of Blues—U.S. agreement | 12/31/09 | 24,960 | 24,866 | 24,229 |
| House of Blues—Canadian agreement | 3/1/10 | 7,704 | 7,027 | 8,570 |
| Total revenue under Live Nation agreements | | $ 206,431 | $ 208,440 | $ 182,338 |

(a) Each party has the right to terminate the agreement as of December 31, 2008, in which case Live Nation would be obligated to pay Ticketmaster a termination fee in an amount equal to 1.25 times the average of Ticketmaster's annual net profits under the agreement for 2007 and 2008. Ticketmaster currently expects that the agreement will not be terminated as of December 31, 2008.

**Economic and Other Trends and Events; Industry Specific Factors**

The ticketing services industry has experienced significant changes over the past decade due to the advent of online commerce. The increase in the number of online ticket sales as a percentage of all ticket sales has resulted in a general decrease in ticketing costs, making it easier for clients to manage ticket sales in-house, either using proprietary technology or stand-alone, automated ticketing systems licensed from a third party. The growth of online commerce has also contributed to the growth of resale ticketing services and the consolidation of those services, which historically has been very fragmented, consisting of a significant number of local brokers with limited inventory selling through traditional storefronts. In addition, entertainment-related expenditures such as ticket sales are sensitive to business and personal discretionary spending levels, which might tend to decline during general economic downturns.

Ticketmaster has taken steps to replace the revenue it expects to lose upon the expiration of its contract with Live Nation, Inc. at the end of 2008. These include a number of discrete investments including new acquisitions, efforts to gain scale in the market for ticket resale services and adding resources into growth efforts internationally which come with up front costs. These continuing investments, as well as higher royalty rates and general cost increases, are expected to impact results throughout 2008, with a continuation of faster revenue growth than profit growth, though not to the extent seen in the first quarter.

During the second quarter of 2008, Ticketmaster began a comprehensive review of its worldwide cost structure in light of significant investments that have been made through increased operating and capital expenditures, acquisitions in recent periods, and in advance of the termination of the Live Nation agreement in 2009. While the final conclusions and details of this review are still being determined, Ticketmaster intends to take a series of actions that are expected to result in a significant reduction of annual operating expenses. Such actions are likely to include more rapid integration of recently acquired companies, ticketing platform consolidation, rationalization of certain products and services, and other operating cost reductions. Achieving these expense reductions may require certain up-front costs including cash expenditure and could result in the write-down of certain assets. Ticketmaster expects these up-front costs to principally impact 2008 results, but the aggregate cash costs of these actions are not expected to materially impact Ticketmaster's overall financial position or liquidity.

**International Operations**

Ticketmaster's future growth depends in part on its ability to expand its brands and businesses abroad, including Europe and Asia, given the large consumer marketplace for the services that Ticketmaster's brands and businesses offer. Ticketmaster's ability to expand its international operations into jurisdictions where Ticketmaster does not currently operate depends in part on its ability to identify potential acquisition candidates, acquire them on favorable terms and successfully integrate their operations. In addition, in many countries abroad, access to ticketing inventory is fragmented and may require significant additional investment to achieve profitability levels consistent with Ticketmaster's established businesses. As a percentage of total Ticketmaster revenue, international operations represented approximately 34% in 2007, 29% in 2006 and 27% in 2005.

## Results of Operations for the Years Ended December 31, 2007, 2006 and 2005

### *Revenue*

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % change | 2006 | % change | 2005 |
| | (Dollars in thousands) | | | | |
| Domestic | $ 814,851 | 7% | $ 759,339 | 12% | $ 675,781 |
| International | 425,626 | 40% | 303,333 | 20% | 252,923 |
| Revenue | $ 1,240,477 | 17% | $ 1,062,672 | 14% | $ 928,704 |

Revenue in 2007 increased $177.8 million, or 17%, from 2006 driven by increases in both domestic and international revenue as worldwide tickets sold increased 11%, with a 5% increase in average revenue per ticket. Domestic revenue increased 7%, primarily due to a 5% increase in average revenue per ticket along with a 2% increase in the number of tickets sold. The increase in average domestic revenue per ticket resulted from higher convenience and processing fees due in part to annual contractual increases. International revenue increased by 40%, or 31% excluding the impact of foreign exchange, primarily due to a 26% increase in the number of tickets sold along with a 12% increase in average revenue per ticket. The increase in the number of tickets sold primarily resulted from increased ticket sales in the United Kingdom and Canada. International acquisitions contributed approximately $23.2 million to Ticketmaster's overall revenue growth in 2007.

Ticketmaster's largest client, Live Nation, Inc. ("Live Nation") (including its subsidiary House of Blues), represented approximately 17%, 20% and 20% of its combined revenue for the years ended December 31, 2007, 2006 and 2005, respectively. Refer to page 181, Access to Supply, for a description of Ticketmaster's client relationship with Live Nation.

Revenue in 2006 increased $134.0 million, or 14%, from 2005 driven by increases in both domestic and international revenue as total worldwide tickets sold increased by 7%, with a 6% increase in average revenue per ticket. Domestic revenue increased by 12%, primarily due to higher domestic concert ticket sales, along with a 6% increase in average domestic revenue per ticket. The increase in average domestic revenue per ticket resulted in part from a shift towards live music events. International revenue increased by 20%, or 17% excluding the impact of foreign exchange, primarily due to Ticketmaster's purchase of the remaining interest in its Australian joint venture in April 2005, along with increased revenue from the United Kingdom and Canada. International revenue reflects a 12% increase in the number of tickets sold along with a 9% increase in average revenue per ticket. International acquisitions contributed approximately $16.5 million to Ticketmaster's overall revenue growth in 2006.

### *Cost of Sales*

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | (Dollars in thousands) | | | | |
| Cost of sales | $766,538 | 20% | $637,152 | 14% | $561,060 |
| As a percentage of total revenue | 62% | 184 bp | 60% | (46) bp | 60% |
| Gross margins | 38% | (184) bp | 40% | 46 bp | 40% |

Cost of sales consists primarily of ticketing royalties, credit card processing fees and compensation and other employee-related costs (including stock-based compensation) for personnel engaged in call center functions. Ticketing royalties relate to Ticketmaster's clients' share of convenience and order processing charges.

Cost of sales in 2007 increased $129.4 million from 2006, primarily due to increases of $65.8 million in ticketing royalties, $20.1 million in compensation and other employee-related costs associated, in part, with a 12% increase in headcount, and $16.6 million in credit card processing fees which resulted from an increase in ticket revenue volume processed online. The increase in ticketing royalties is due to increased revenue and higher royalty rates. Royalties are driven in part by higher contractual royalty rates included in the renewal of contracts with various promoters and venue clients, and are usually based on a percentage of convenience and order processing revenue. Domestic and international ticketing royalties may continue to increase as a percentage of convenience and processing revenue.

Cost of sales in 2006 increased $76.1 million from 2005, primarily due to increases of $53.3 million in ticketing royalties resulting from increased revenue and higher royalty rates, $10.6 million in compensation and other employee-related costs and $7.8 million in credit card processing fees. The increase in credit card processing fees is due to higher revenue.

***Selling and marketing expense***

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | (Dollars in thousands) | | | | |
| Selling and marketing expense | $43,487 | 116% | $20,123 | 14% | $17,691 |
| As a percentage of total revenue | 4% | 161 bp | 2% | (1) bp | 2% |

Selling and marketing expense consists primarily of advertising and promotional expenditures and compensation and other employee-related costs (including stock-based compensation) for personnel engaged in customer service and sales functions. Advertising and promotional expenditures primarily include online marketing, including fees paid to search engines and distribution partners, as well as offline marketing, including sports sponsorship marketing and radio spending.

Selling and marketing expense in 2007 increased $23.4 million from 2006, primarily due to increased advertising and promotional expenditures of $17.4 million and increased compensation and other employee-related costs of $5.9 million associated, in part, with a 31% increase in headcount. The increase in advertising and promotional expenditures includes $6.3 million in expenses related to sports sponsorship agreements, primarily with National Football League teams, that were not incurred in the prior year period and online marketing, including fees paid to search engines and distribution partners. Sports sponsorship agreements are intended to promote Ticketmaster's ticket resale services.

Selling and marketing expense in 2006 increased $2.4 million from 2005, primarily due to an increase of $3.0 million in compensation and other employee-related costs, partially offset by a decrease of $0.2 million in advertising and promotional expenditures.

***General and administrative expense***

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | (Dollars in thousands) | | | | |
| General and administrative expense | $149,478 | 26% | $118,317 | (3)% | $121,695 |
| As a percentage of total revenue | 12% | 92 bp | 11% | (197) bp | 13% |

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

General and administrative expense in 2007 increased $31.2 million from 2006, primarily due to a payment of $8.7 million in settlement of litigation (in excess of prior reserves) compared to the prior year period which included a reduction of $5.8 million in certain litigation reserves due to more favorable settlements than previous reserves reflected. Also contributing to the increase in general and administrative expense is an increase of $9.7 million in compensation and other employee-related costs as Ticketmaster continues to build out its worldwide infrastructure, as well as increases of $2.1 million and $1.0 million in facilities costs and utilities expense, respectively. Ticketmaster expects to incur increased costs related to the additional financial and legal requirements associated with being a separate public company, as well as increased non-cash compensation associated with the modification of existing stock-based compensation awards in connection with the spin-off and the grant of new awards post spin-off.

General and administrative expense in 2006 decreased $3.4 million from 2005, primarily due to a $5.8 million reduction in litigation reserves, partially offset by an increase of $0.5 million in compensation and other employee-related costs. The increase in compensation and other employee-related costs is primarily due to higher personnel costs in 2006 associated with increased headcount from growth in the business, partially offset by a decrease in non-cash compensation expense resulting from a $7.9 million charge in 2005 related to the modification of vested stock options in connection with the Expedia spin-off from IAC.

Effective January 1, 2006, Ticketmaster adopted Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), using the modified prospective transition method. There was no impact to the amount of stock-based compensation recorded in the combined statement of operations for the years ended December 31, 2006 and 2005 as a result of adopting SFAS 123R. Ticketmaster has been recognizing expense for all stock-based grants since it became wholly owned by IAC on January 17, 2003, in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). The majority of stock-based compensation expense is reflected in general and administrative expense. As of December 31, 2007, there was approximately $29.2 million of unrecognized compensation cost, net of estimated forfeitures, related to all equity-based awards, which is expected to be recognized over a weighted average period of approximately 2.5 years.

***Depreciation***

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | (Dollars in thousands) | | | | |
| Depreciation | $38,458 | 10% | $35,080 | 5% | $33,495 |
| As a percentage of total revenue | 3% | (20) bp | 3% | (31) bp | 4% |

Depreciation in 2007 and 2006 increased $3.4 million and $1.6 million, respectively, primarily due to the incremental depreciation associated with capital expenditures made throughout 2006 and 2007 and various acquisitions, partially offset by certain fixed assets becoming fully depreciated during these periods.

***Operating Income Before Amortization***

Operating Income Before Amortization is a Non-GAAP measure and is defined in "Ticketmaster's Principles of Financial Reporting".

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | (Dollars in thousands) | | | | |
| Operating Income Before Amortization | $255,088 | (2%) | $259,839 | 21% | $215,068 |
| As a percentage of total revenue | 21% | (389) bp | 24% | 129 bp | 23% |

Operating Income Before Amortization in 2007 decreased $4.8 million from 2006, primarily due to increases in cost of sales, general and administrative expense and selling and marketing expense. The increase in these expenses was driven by higher overall royalty rates, international development and expansion, and increased marketing efforts, including ticket resale initiatives. Operating Income Before Amortization was negatively impacted by a payment of $8.7 million in settlement of litigation compared to the prior year period which included a reduction of $5.8 million in certain litigation reserves and the favorable resolution of claims and insurance settlements of $4.3 million.

Operating Income Before Amortization in 2006 increased $44.8 million from 2005, growing at a faster rate than revenue primarily due to increased average revenue per ticket and operational efficiencies resulting from increased online ticket volumes. Operating Income Before Amortization was further impacted by the reduction of $5.8 million in certain litigation reserves and the favorable resolution of claims and insurance settlements of $4.3 million in the current year period. These favorable impacts were partially offset by increased cost of sales and general and administrative expenses.

***Operating income***

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | | | (Dollars in thousands) | | |
| Operating income | $216,316 | (4%) | $224,891 | 35% | $166,015 |
| As a percentage of total revenue | 17% | (372) bp | 21% | 329 bp | 18% |

Operating income in 2007 decreased $8.6 million from 2006, primarily due to the decrease in Operating Income Before Amortization described above and a $4.7 million increase in non-cash compensation expense, partially offset by a decrease in amortization of intangibles.

Operating income in 2006 increased $58.9 million from 2005, primarily due to the increase in Operating Income Before Amortization described above, a $12.5 million decrease in non-cash compensation expense and a decrease in the amortization of intangibles.

***Other income (expense)***

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | | | (Dollars in thousands) | | |
| Other income (expense): | | | | | |
| Interest income | $33,065 | (3)% | $33,982 | 95% | $17,417 |
| Interest expense | (1,003) | (232)% | (302) | (368)% | (65) |
| Equity in income of unconsolidated affiliates | 6,301 | 110% | 2,997 | (12)% | 3,401 |
| Other income | 1,120 | 14% | 982 | 43% | 689 |

Interest income in 2007 decreased $0.9 million from 2006, primarily due to lower receivable balances due from IAC and subsidiaries, partially offset by interest earned on higher average international operating cash balances in 2007. Interest earned on the receivable balance is principally due to cash transfers to IAC in connection with IAC's centrally managed U.S. treasury function.

Equity in the income of unconsolidated affiliates in 2007 increased $3.3 million from 2006, primarily due to Ticketmaster's investments in Front Line and TM Mexico.

Interest income in 2006 increased $16.6 million from 2005, primarily due to higher receivable balances due from IAC and its subsidiaries, as well as increased interest earned on higher average operating cash balances in 2006.

Equity in the income of unconsolidated affiliates in 2006 decreased $0.4 million from 2005, primarily due to the absence of any equity income from Ticketmaster's investment in its Australian joint venture. Ticketmaster began to consolidate the results of its joint venture effective April 2005 when it acquired the interest it did not previously own.

***Income tax provision***

In 2007, Ticketmaster recorded an income tax provision of $89.0 million which represents an effective tax rate of 35%. The 2007 tax rate approximates the federal statutory rate of 35% as state and local income taxes were substantially offset by foreign income taxed at lower rates. In 2006, Ticketmaster recorded a tax provision of $86.0 million which represents an effective tax rate of 33%. The 2006 tax rate is lower than the federal statutory rate of 35% due principally to benefits associated with Ticketmaster's assertion that the earnings of certain foreign subsidiaries are permanently reinvested and foreign income taxed at lower rates, partially offset by state and local income taxes. In 2005, Ticketmaster recorded a tax provision of $68.3 million which represents an effective tax rate of 36%. The 2005 tax rate is higher than the federal statutory rate of 35% due principally to state and local income taxes partially offset by foreign income taxed at lower rates.

Ticketmaster adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" ("FIN 48") effective January 1, 2007. The cumulative effect of the adoption resulted in an increase of $1.3 million to invested capital. As of January 1, 2007 and December 31, 2007, Ticketmaster had unrecognized tax benefits of approximately $0.6 million and $6.3 million, respectively, which included accrued interest of $0.1 million and $0.8 million, respectively.

By virtue of previously filed separate company and consolidated tax returns with IAC, Ticketmaster is routinely under audit by federal, state, local and foreign authorities in the area of income tax. These audits include questioning the timing and the amount of deductions and the allocation of income among various tax jurisdictions. Income taxes payable include amounts considered sufficient to pay assessments that may result from examination of prior year returns; however, the amount paid upon resolution of issues raised may differ from the amount provided. Differences between the reserves for tax contingencies and the amounts owed by Ticketmaster are recorded in the period they become known.

The Internal Revenue Service ("IRS") is currently examining the IAC consolidated tax returns for the years ended December 31, 2001 through 2003, which includes the operations of Ticketmaster from January 17, 2003, the date which Ticketmaster joined the IAC consolidated tax return. The statute of limitations for these years has been extended to December 31, 2008. Tax filings in various state, local and foreign jurisdictions are currently under examinations, the most significant of which are Florida, New York state and New York City, for various tax years after December 31, 2001. These examinations are expected to be completed by late 2008. Ticketmaster believes that it is reasonably possible that its unrecognized tax benefits could decrease by approximately $3.6 million within twelve months of the current reporting date due to the reversal of deductible temporary differences which will result in a corresponding increase in net deferred tax liabilities. An estimate of other changes in unrecognized benefits cannot be made, but are not expected to be significant.

Under the terms of the tax sharing agreement, which will be executed in connection with the spin-off, IAC will generally retain the liability related to federal and state tax returns filed on a consolidated or unitary basis for all periods prior to the spin-off.

## FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2007, Ticketmaster had $569.3 million of cash and cash equivalents and restricted cash and cash equivalents, including $313.6 million in funds representing amounts equal to the face value of tickets sold on behalf of its clients. Ticketmaster's cash and cash equivalents and restricted cash and cash equivalents held in foreign jurisdictions is approximately $359.1 million at December 31, 2007, including $222.5 million in funds representing amounts equal to the face value of tickets sold on behalf of its clients, and is maintained principally in the United Kingdom, Australia and Canada.

Net cash provided by operating activities was $212.0 million and $230.7 million in 2007 and 2006, respectively. The decrease of $18.7 million in net cash provided by operating activities reflects an increase in contract deposits and accounts receivable, partially offset by an increased contribution from client funds of $69.5 million which is primarily due to timing of settlements with clients.

Net cash used in investing activities in 2007 of $13.0 million primarily resulted from capital expenditures of $47.5 million and acquisitions, net of cash acquired, of $29.4 million, partially offset by cash transfers from IAC of $64.5 million. The cash transfers from IAC relate to IAC's centrally managed U.S. treasury function. Net cash used in investing activities in 2006 of $189.1 million primarily resulted from cash transfers to IAC of $214.2 million, capital expenditures of $39.3 million, a net increase in long-term investments of $20.6 million and acquisitions, net of cash acquired, of $17.8 million. These uses of cash were partially offset by the net proceeds of $108.9 million related to the purchases, sales and maturities of marketable securities. The increase in long-term investments in 2006 is primarily due to Ticketmaster's equity investment in Evolution Artists, Inc. ("iLike").

During January and February 2008, Ticketmaster completed the acquisitions of Paciolan, Inc., GET ME IN! Ltd, and The V.I.P. Tour Company ("TicketsNow"). The aggregate consideration for these transactions was approximately $400 million and was funded by capital contributions from IAC. These companies are wholly-owned subsidiaries operating in the U.S. (Paciolan and TicketsNow) and United Kingdom (GET ME IN!).

Net cash provided by financing activities in 2007 and 2006 of $30.3 million and $20.6 million, respectively, were primarily due to capital contributions of $29.4 million and $17.8 million from IAC to fund Ticketmaster's 2007 and 2006 acquisitions, respectively.

## CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

| Contractual Obligations | Payments Due by Period: Total | Less Than 1 Year | 1-3 Years | 3-5 Years | More Than 5 Years |
|---|---|---|---|---|---|
| | (In thousands) | | | | |
| Purchase obligations(a) | $ 95,056 | $ 30,726 | $ 35,268 | $ 25,687 | $ 3,375 |
| Operating leases | 82,345 | 14,830 | 25,232 | 18,547 | 23,736 |
| Total contractual cash obligations | $ 177,401 | $ 45,556 | $ 60,500 | $ 44,234 | $ 27,111 |

(a) The purchase obligations primarily arise from sports sponsorship agreements intended to promote Ticketmaster's ticket resale services.

| Other Commercial Commitments* | Amount of Commitment Expiration Per Period: Total Amounts Committed | Less Than 1 Year | 1-3 Years | 3-5 Years | More Than 5 Years |
|---|---|---|---|---|---|
| | (In thousands) | | | | |
| Guarantees, surety bonds and letters of credit | $ 3,911 | $ 596 | $ 65 | $ 3,250 | $ — |

* Commercial commitments are funding commitments that could potentially require performance in the event of demands by third parties or contingent events, such as under letters of credit, surety bonds or under guarantees of debt.

***Off-Balance Sheet Arrangements***

Other than the items described above, Ticketmaster does not have any off-balance sheet arrangements as of December 31, 2007.

***Results of Operations for the Three Months Ended March 31, 2008 Compared to the Three Months Ended March 31, 2007***

***Revenue***

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % change | 2007 |
| | (Dollars in thousands) | | |
| Domestic | $ 239,707 | 15% | $ 209,077 |
| International | 109,274 | 16% | 94,500 |
| Total revenue | $ 348,981 | 15% | $ 303,577 |

Revenue in 2008 increased $45.4 million, or 15%, from 2007 driven by increases in both domestic and international revenue as worldwide tickets sold increased 3%, with a 7% increase in average revenue per ticket. Domestic revenue grew by 15%, primarily due to contributions from Paciolan, Inc. ("Paciolan") and The V.I.P. Tour Company ("TicketsNow"), acquired in January and February 2008, respectively, as well as a 7% increase in average revenue per ticket and a 1% increase in the number of tickets sold. The increase in average domestic revenue per ticket resulted from higher convenience and processing fees. International revenue grew by 16%, or 6% excluding the impact of foreign exchange, primarily due to an 8% increase in average revenue per ticket along with a 5% increase in the number of tickets sold. Both the increases in the average revenue per ticket and the number of tickets sold primarily resulted from increased revenue from Canada and Australia. Acquisitions contributed approximately $18.4 million to Ticketmaster's overall revenue growth in 2008.

Ticketmaster's largest client, Live Nation, Inc. (including its subsidiary House of Blues), represented approximately 15% and 17% of its combined revenue for the three months ended March 31, 2008 and 2007, respectively.

***Cost of sales***

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % change | 2007 |
| | (Dollars in thousands) | | |
| Cost of sales | $221,022 | 20% | $184,784 |
| As a percentage of total revenue | 63% | 246 bp | 61% |
| Gross margins | 37% | (246) bp | 39% |

Cost of sales consists primarily of ticketing royalties, credit card processing fees and compensation and other employee-related costs (including stock-based compensation) for personnel engaged in call center functions. Ticketing royalties relate to Ticketmaster's clients' share of convenience and order processing charges.

Cost of sales in 2008 increased $36.2 million from 2007, primarily due to increases of $12.7 million in ticketing royalties, $11.3 million in compensation and other employee-related costs associated, in part, with a 22% increase in headcount and $1.4 million in credit card processing fees. Included in these increases is the impact of acquisitions not in the year ago period, which contributed $0.7 million, $6.5 million and $0.7 million to ticketing royalties, compensation and other employee-related costs and credit card processing fees, respectively. Excluding the impact of acquisitions not in the year ago period, cost of sales increased $23.7 million, or 13%. The increase in ticketing royalties is due to increased revenue and higher royalty rates. Royalties are driven in part by higher contractual royalty rates included in the renewal of contracts with various promoters and venue clients, and are usually based on a percentage of convenience and order processing revenue. Domestic and international ticketing royalties may continue to increase as a percentage of convenience and processing revenue.

***Selling and marketing expense***

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % change | 2007 |
| | (Dollars in thousands) | | |
| Selling and marketing expense | $19,393 | 174% | $7,073 |
| As a percentage of total revenue | 6% | 323 bp | 2% |

Selling and marketing expense consists primarily of advertising and promotional expenditures and compensation and other employee-related costs (including stock-based compensation) for personnel engaged in customer service and sales functions. Advertising and promotional expenditures primarily include online marketing, including fees paid to search engines and distribution partners, as well as offline marketing, including sports sponsorship marketing and radio spending.

Selling and marketing expense in 2008 increased $12.3 million from 2007, primarily due to increased advertising and promotional expenditures of $8.2 million and increased compensation and other employee-related costs of $2.4 million as Ticketmaster continues to build out its worldwide infrastructure. Included in these increases is the impact of acquisitions not in the year ago period, which contributed $2.2 million and $1.3 million to advertising and promotional expenditures and compensation and other employee-related costs, respectively. Excluding the impact of acquisitions not in the year ago period, selling and marketing expense increased $7.7 million, or 108%. The increase in advertising and promotional expenditures is due in part to an increase in sports sponsorship agreements which are intended to promote Ticketmaster's resale ticket services such as ticket exchange.

***General and administrative expense***

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % change | 2007 |
| | (Dollars in thousands) | | |
| General and administrative expense | $41,853 | 22% | $34,258 |
| As a percentage of total revenue | 12% | 71 bp | 11% |

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

General and administrative expense in 2008 increased $7.6 million from 2007, primarily due to increases of $4.3 million in compensation and other employee-related costs and $1.5 million in professional fees. The increase in compensation and other employee-related costs is primarily due to an increase of $3.3 million associated with recent acquisitions not in the year ago period. Excluding the impact of acquisitions not in the year ago period, general and administrative expense increased $2.9 million, or 8%. Ticketmaster expects to incur increased costs related to the additional financial and legal requirements associated with being a separate public company, as well as increased non-cash compensation associated with the modification of existing stock-based compensation awards in connection with the spin-off and the grant of new awards in connection with and subsequent to the spin-off.

General and administrative expense includes non-cash compensation expense of $4.3 million in 2008 compared with $1.6 million in 2007. The increase in non-cash compensation expense is primarily due to equity grants issued and assumed in recent acquisitions as well as equity grants issued to Ticketmaster employees subsequent to the first quarter of 2007. As of March 31, 2008, there was approximately $48.9 million of unrecognized compensation cost, net of estimated forfeitures, related to all equity-based awards, which is currently expected to be recognized over a weighted average period of approximately 3.0 years (exclusive of the impact of the modification related to the spin-off, which primarily consists of the accelerated vesting of certain restricted stock units).

***Depreciation***

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % change | 2007 |
| | (Dollars in thousands) | | |
| Depreciation | $11,055 | 21% | $9,121 |
| As a percentage of total revenue | 3% | 16 bp | 3% |

Depreciation in 2008 increased $1.9 million from 2007, primarily due to acquisitions not in the year ago period and the incremental depreciation associated with capital expenditures made throughout 2007 and 2008, partially offset by certain fixed assets becoming fully depreciated during the period. Excluding the impact of acquisitions not in the year ago period, depreciation expense increased $0.5 million, or 5%.

***Operating Income Before Amortization***

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % change | 2007 |
| | (Dollars in thousands) | | |
| Operating Income Before Amortization | $60,423 | (14)% | $70,220 |
| As a percentage of total revenue | 17% | (582) bp | 23% |

Operating Income Before Amortization in 2008 decreased $9.8 million from 2007, primarily due to increases in cost of sales, selling and marketing expense and general and administrative expense. The increase in these expenses was driven by acquisitions and strategic investments, particularly in Germany and China, increased expenses associated with product and technology initiatives, and higher overall royalty rates. Operating Income Before Amortization was further impacted by discrete items benefiting the prior year period. Excluding the impact of acquisitions not in the year ago period, Operating Income Before Amortization decreased $6.7 million, or 10%.

***Operating income***

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % change | 2007 |
| | (Dollars in thousands) | | |
| Operating Income | $46,790 | (24)% | $61,488 |
| As a percentage of total revenue | 13% | (685) bp | 20% |

Operating income in 2008 decreased $14.7 million from 2007, primarily due to the decrease in Operating Income Before Amortization described above and increases of $2.9 million in non-cash compensation expense and $2.0 million in amortization of intangibles.

***Other income (expense)***

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % change | 2007 |
| | (Dollars in thousands) | | |
| Other income (expense): | | | |
| Interest income | $ 3,290 | (39)% | $ 5,378 |
| Interest expense | (735) | 177% | (266) |
| Equity in income of unconsolidated affiliates | 666 | (23)% | 865 |
| Other income | 944 | 1,048% | 83 |

Interest income in 2008 decreased $2.1 million from 2007 as average interest rates on the receivable balance from IAC and subsidiaries decreased year over year. Interest earned on the receivable balance is principally due to cash transfers to IAC in connection with IAC's centrally managed U.S. treasury function.

***Income tax provision***

For the three months ended March 31, 2008 and 2007, Ticketmaster recorded tax provisions of $18.8 million and $24.6 million, respectively, which represent effective tax rates of 37% and 36%, respectively. The tax rates for the three months ended March 31, 2008 and 2007 are higher than the federal statutory rate of 35% due principally to state taxes.

As of December 31, 2007 and March 31, 2008, Ticketmaster had unrecognized tax benefits of approximately $5.5 million. Included in unrecognized tax benefits at March 31, 2008 is approximately $4.6 million for tax positions included in IAC's consolidated tax return filings that will remain a liability of IAC after the spin-off. Ticketmaster recognizes interest and, if applicable, penalties related to unrecognized tax benefits in income tax expense. Included in income tax expense for 2008 is $0.1 million, net of related deferred taxes, for interest on unrecognized tax benefits. At March 31, 2008, Ticketmaster has accrued $1.0 million for the payment of interest. There are no material accruals for penalties.

By virtue of previously filed separate company and consolidated tax returns with IAC, Ticketmaster is routinely under audit by federal, state, local and foreign authorities in the area of income tax. These audits include questioning the timing and the amount of deductions and the allocation of income among various tax jurisdictions. Income taxes payable include amounts considered sufficient to pay assessments that may result from examination of prior year returns; however, the amount paid upon resolution of issues raised may differ from the amount provided. Differences between the reserves for tax contingencies and the amounts owed by Ticketmaster are recorded in the period they become known. Ticketmaster believes that it is reasonably possible that its unrecognized tax benefits could decrease by approximately $3.6 million within twelve months of the current reporting date due to the reversal of deductible temporary differences which will result in a corresponding increase in net deferred tax liabilities. An estimate of other changes in unrecognized tax benefits cannot be made, but are not expected to be significant.

Under the terms of the tax sharing agreement, which will be executed in connection with the spin-off, IAC will generally retain the liability related to federal and state returns filed on a consolidated or unitary basis for all periods prior to the spin-off.

## FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2008, Ticketmaster had $502.3 million of cash and cash equivalents and restricted cash and cash equivalents, including $338.9 million in funds representing amounts equal to the face value of tickets sold on behalf of its clients. Ticketmaster's cash and cash equivalents and restricted cash and cash equivalents held in foreign jurisdictions is approximately $349.6 million at March 31, 2008, including $220.3 million in funds representing amounts equal to the face value of tickets sold on behalf of its clients, and is maintained principally in Canada, the United Kingdom and Australia.

Net cash provided by operating activities was $65.8 million and $80.7 million in 2008 and 2007, respectively. The decrease of $14.9 million in net cash provided by operating activities reflects a decreased contribution from client funds of $24.3 million which is primarily due to timing of settlements with clients and an increase in prepaid expenses and other current assets, partially offset by an increase in accounts payable. The increase in accounts payable is primarily due to efforts to aggressively manage working capital.

Net cash used in investing activities in 2008 of $540.1 million primarily resulted from acquisitions, net of cash acquired, of $395.0 million, cash transfers to IAC of $135.5 million and capital expenditures of $9.5 million. The cash transfers to IAC relate to IAC's centrally managed U.S. treasury function. Acquisitions, net of cash acquired, in 2008 primarily relate to the acquisitions of Paciolan, TicketsNow and GET ME IN! Ltd. Net cash used in investing activities in 2007 of $21.0 million primarily resulted from acquisitions, net of cash acquired, of $10.2 million and capital expenditures of $9.3 million.

Net cash provided by financing activities in 2008 and 2007 of $394.7 million and $11.2 million, respectively, were primarily due to capital contributions of $395.0 million and $10.2 million from IAC to fund Ticketmaster's 2008 and 2007 acquisitions, respectively.

Ticketmaster anticipates that it will need to make capital and other expenditures in connection with the development and expansion of its operations.

In connection with the separation, Ticketmaster expects to raise $750 million through a combination of privately issued debt securities (the "Bonds") and secured credit facilities (the "Term Loans"). In addition, Ticketmaster expects to negotiate a revolving credit facility (the "RCF"). The total costs expected to be incurred in connection with the issuance of the Bonds and borrowings under the Term Loans and establishing the RCF is $18.5 million. The net proceeds are expected to be approximately $731.5 million. In connection with the separation, Ticketmaster is expected to distribute the net proceeds of the financing to IAC and will retain its client cash and its international cash which total approximately $468.1 million as of March 31, 2008. To the extent that the net proceeds from the Bonds and Term Loans are less than $731.5 million there would be a corresponding reduction in the transfer of cash to IAC. Ticketmaster will describe the terms of these new credit facilities and other indebtedness once Ticketmaster has negotiated such terms. Upon completion of the spin-off, intercompany receivable balances will be extinguished.

Ticketmaster's ability to fund its cash and capital needs will be affected by its ongoing ability to generate cash from operations, the overall capacity and terms of its financing arrangements as discussed above, and access to the equity markets. Given the volatility in the financial markets, IAC and Ticketmaster continue to monitor the markets closely and will take steps to maintain financial flexibility and an appropriate capital structure.

## CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

| Contractual Obligations | Payments Due by Period Total | Less Than 1 Year | 1-3 Years | 3-5 Years | More Than 5 Years |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Capital lease obligations | $ 4,490 | $ 2,274 | $ 2,216 | $ — | $ — |
| Purchase obligations(a) | 87,062 | 22,957 | 35,268 | 25,462 | 3,375 |
| Operating leases | 81,742 | 15,745 | 26,506 | 17,251 | 22,240 |
| Total contractual cash obligations | $ 173,294 | $ 40,976 | $ 63,990 | $ 42,713 | $ 25,615 |

(a) The purchase obligations primarily arise from sports sponsorship agreements intended to promote Ticketmaster's ticket resale services.

## TICKETMASTER'S PRINCIPLES OF FINANCIAL REPORTING

Ticketmaster reports Operating Income Before Amortization as a supplemental measure to generally accepted accounting principles ("GAAP"). This measure is one of the primary metrics by which Ticketmaster evaluates the performance of its businesses, on which its internal budgets are based and by which management is compensated. Ticketmaster believes that investors should have access to the same set of tools that it uses in analyzing its 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. Ticketmaster provides and encourages investors to examine the reconciling adjustments between the GAAP and non-GAAP measure which are discussed below.

### Definition of Ticketmaster's Non-GAAP Measure

*Operating Income Before Amortization* is defined as operating income excluding, if applicable: (1) non-cash compensation expense, (2) amortization of intangibles and goodwill impairment, (3) pro forma adjustments for significant acquisitions, and (4) one-time items. Ticketmaster believes this measure is useful to investors because it represents the operating results from the Ticketmaster Businesses, taking into account depreciation, which Ticketmaster believes is an ongoing cost of doing business, but excluding the effects of any other non-cash expenses. Operating Income Before Amortization has certain limitations in that it does not take into account the impact to Ticketmaster's statement of operations of certain expenses, including non-cash compensation, and acquisition-related accounting. Ticketmaster endeavors to compensate for the limitations of the non-GAAP measure presented by also providing the comparable GAAP measure with equal or greater prominence and descriptions of the reconciling items, including quantifying such items, to derive the non-GAAP measure.

### Pro Forma Results

Ticketmaster will only present Operating Income Before Amortization on a pro forma basis if it views a particular transaction as significant in size or transformational in nature. For the periods presented in this report, there are no transactions that Ticketmaster has included on a pro forma basis.

### One-Time Items

Operating Income Before Amortization is presented before one-time items, if applicable. These items are truly one-time in nature and 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 one-time items.

### Non-Cash Expenses That Are Excluded From Ticketmaster's Non-GAAP Measure

*Non-cash compensation* expense consists principally of expense associated with the grants, including unvested grants assumed in acquisitions, of restricted stock, restricted stock units and stock options. These expenses are not paid in cash, and Ticketmaster will include the related shares in its future calculations of fully diluted shares outstanding. Upon vesting of restricted stock and restricted stock units and the exercise of certain stock options, the awards will be settled, at Ticketmaster's discretion, on a net basis, with Ticketmaster remitting the required tax withholding amount from its current funds.

*Amortization of intangibles* is a non-cash expense relating primarily to acquisitions. At the time of an acquisition, the intangible assets of the acquired company, such as purchase and distribution agreements, are valued and amortized over their estimated lives. While it is likely that Ticketmaster will have significant intangible amortization expense as it continues to acquire companies, Ticketmaster believes that since intangibles represent costs incurred by the acquired company to build value prior to acquisition, they were part of transaction costs.

## RECONCILIATION OF OPERATING INCOME BEFORE AMORTIZATION

For a reconciliation of Operating Income Before Amortization to net income for the years ended December 31, 2007, 2006 and 2005, see Note 7 to the combined financial statements.

**Critical Accounting Policies and Estimates**

The following disclosure is provided to supplement the descriptions of Ticketmaster's accounting policies contained in Note 2 to the combined financial statements in regard to significant areas of judgment. Ticketmaster's management is required to make certain estimates and assumptions during the preparation of its combined 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 combined financial statements. They also impact the reported amount of net income during any period. Actual results could differ from those estimates. Because of the size of the financial statement elements to which they relate, some of Ticketmaster's accounting policies and estimates have a more significant impact on its combined financial statements than others. What follows is a discussion of some of Ticketmaster's more significant accounting policies and estimates.

**Recoverability of Long-Lived Assets**

Ticketmaster reviews the carrying value of all long-lived assets, primarily property and equipment and definite-lived intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may be impaired. In accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), impairment is considered to have occurred whenever the carrying value of a long-lived asset exceeds the sum of the undiscounted cash flows that is expected to result from the use and eventual disposition of the asset. The determination of cash flows is based upon assumptions that may not occur. The value of long-lived assets that is subject to assessment for impairment in accordance with SFAS 144 is $124.9 million at December 31, 2007.

**Recoverability of Goodwill and Indefinite-Lived Intangible Assets**

In accordance with SFAS 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), Ticketmaster reviews the carrying value of goodwill and indefinite-lived intangible assets on an annual basis as of October 1$^{st}$ or earlier upon the occurrence of certain events or substantive changes in circumstances. Ticketmaster determines the fair value of its reporting unit and indefinite-lived intangible assets based upon an evaluation of expected discounted cash flows. This discounted cash flow analysis utilizes an evaluation of historical and forecasted operating results. The determination of discounted cash flows is based upon forecasted operating results that may not occur. The annual assessment for 2007 did not identify any impairment charges. The value of goodwill and indefinite-lived intangible assets that is subject to assessment for impairment in accordance with SFAS 142 is $1.1 billion and $62.6 million, respectively, at December 31, 2007.

**Income Taxes**

Estimates of deferred income taxes and the significant items giving rise to the deferred assets and liabilities are shown in Note 6, and reflect management's assessment of actual future taxes to be paid on items reflected in the combined financial statements, giving consideration to both timing and the probability of realization. As of December 31, 2007, the balance of deferred tax liabilities, net, is $26.5 million. Actual income taxes could vary from these estimates due to future changes in income tax law, state income tax apportionment or the outcome of any review of IAC's tax returns by the IRS, as well as actual operating results of Ticketmaster that vary significantly from anticipated results. Effective January 1, 2007, Ticketmaster adopted the provisions of FIN 48. As a result of the adoption of FIN 48, Ticketmaster recognizes liabilities for uncertain tax positions based on the two-step process prescribed by the interpretation. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. This measurement step is inherently difficult and requires subjective estimations of such amounts to determine the probability of various possible outcomes. Ticketmaster considers many factors when evaluating and estimating its tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes.

**Seasonality**

Ticketmaster's ticket sales are impacted by fluctuations in the availability of events for sale to the public, which may vary depending upon scheduling by the client. The second and fourth quarters of the year generally experience the highest revenue.

**New Accounting Pronouncements**

Refer to Note 2 to the combined financial statements for a description of recent accounting pronouncements.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

**Foreign Currency Exchange Risk**

Ticketmaster conducts business in certain foreign markets, primarily in the European Union and Canada. Ticketmaster's primary exposure to foreign currency risk relates to its investments in foreign subsidiaries that transact business in a functional currency other than the U.S. Dollar, primarily the Euro, British Pound Sterling and Canadian Dollar. However, the exposure is mitigated as Ticketmaster has generally reinvested profits from its international operations in order to fund the growth of its international operations including acquisitions. Ticketmaster is also exposed to foreign currency risk related to its assets and liabilities denominated in a currency other than the functional currency.

As currency exchange rates change, translation of the income statements of Ticketmaster's international businesses into U.S. dollars affects year-over-year comparability of operating results. Historically, Ticketmaster has not hedged translation risks because cash flows from international operations have been generally reinvested locally. Foreign exchange net gains for the years ended December 31, 2007, 2006 and 2005 were $1.1 million, $1.2 million and $0.6 million, respectively. Foreign exchange net gains for the three months ended March 31, 2008 and 2007 were $0.9 million and $0.1 million, respectively.

As Ticketmaster increases its operations in international markets it becomes increasingly exposed to potentially volatile movements in currency exchange rates. The economic impact of currency exchange rate movements on Ticketmaster is often linked to variability in real growth, inflation, interest rates, governmental actions and other factors. These changes, if material, could cause Ticketmaster to adjust its financing, operating and hedging strategies.

## Management of Ticketmaster

### Ticketmaster Board of Directors and Executive Officers

The following table sets forth information as to persons who are expected to serve as Ticketmaster directors and executive officers following the spin-offs. The Ticketmaster Board of Directors, the composition of which will comply with the independence requirements under the current standards imposed by the Marketplace Rules, is currently expected to consist of directors.

| Name | Age | Position(s) |
| --- | --- | --- |
| Terry Barnes | 56 | Chairman and Director of Ticketmaster |
| Susan Bracey | 44 | Executive Vice President of Ticketmaster |
| Sean Moriarty | 38 | President, Chief Executive Officer and Director of Ticketmaster |
| Brian Regan | 36 | Executive Vice President and Chief Financial Officer of Ticketmaster |
| Edward Weiss | 45 | Executive Vice President and General Counsel of Ticketmaster |

### Directors

Background information about those individuals who are expected to serve as directors of Ticketmaster appears below.

*Terry R. Barnes*, age 56, has been Chairman of Ticketmaster since January 2007. Prior to that, Mr. Barnes served as Chairman and Chief Executive Officer of Ticketmaster from June 2005 to December 2006 and Chairman from January 2003 to June 2005. He was the Co-Chairman of Ticketmaster from January 2001 until January 2003 and President and Chief Executive Officer of Ticketmaster Corporation from June 1998 until January 2001. From September 1995 until June 1998, Mr. Barnes was the President and Chief Operating Officer of Ticketmaster Ticketing Company. From 1983 until September 1995, Mr. Barnes was Vice President and General Manager of numerous subsidiaries of Ticketmaster Corporation in the Midwest. Prior to joining Ticketmaster, Mr. Barnes enjoyed an expansive music industry career, including a partnership in Village Records, a custom record label with Mercury/Polygram in Indianapolis. He was also a partner in national promotion, management and publishing companies. Mr. Barnes attended Ball State University.

*Sean P. Moriarty*, age 38, has been President and Chief Executive Officer of Ticketmaster since January 2007 and had previously been Ticketmaster's President and Chief Operations Officer from December 2005 to January 2007, Executive Vice President and Chief Operating Officer from July 2004 to December 2005, Executive Vice President, Product and Technology, from November 2003 to July 2004, and prior to that, held progressive roles at Ticketmaster and Citysearch.com since joining in 1997. Mr. Moriarty received his bachelor's degree from the University of South Carolina, was an Exchange Fellow at the University of Warwick, Coventry UK, and attended graduate school at Boston University and the University of South Carolina. He serves on the Board of Directors of iLike.com as well as several technology advisory boards.

### Executive Officers

Background about Ticketmaster's executive officers who are not expected to serve as directors appears below.

*Eric Korman*, age 37, has been Executive Vice President of Ticketmaster since April 2006. Prior to joining Ticketmaster, Mr. Korman served as Senior Vice President of Mergers and Acquisitions of IAC from January 2005 to April 2006. Mr. Korman joined IAC in September 2001 as Vice President of Business Development and Strategy for Electronic Commerce Services, a former subsidiary of IAC, and subsequently, he was promoted to Vice President of Strategic Planning of IAC in February 2002, and was appointed Vice President of Mergers and Acquisitions in September 2003. From June 2000 to September 2001, Mr. Korman was a principal in epartners, a $650 million venture fund backed by SOFTBANK and News Corporation. From January 2000 to May 2000, Mr. Korman served as Vice President of Digital Convergence Corporation. From 1995 to 1997, Mr. Korman served in the Corporate Business Development group of The Coca-Cola Company, and from 1993 to 1995 served in the Customer Marketing group of Coca-Cola USA. Mr. Korman holds a Bachelor of Arts degree in Economics from Emory University and an MBA from the J.L. Kellogg Graduate School of Management. Mr. Korman sits on the Board of Directors of The Active Network Inc. and BET.com.

*Brian Regan*, age 36, has been Executive Vice President and Chief Financial Officer of Ticketmaster since June 2008. Prior to that, Mr. Regan was the Senior Vice President of Finance of Expedia, Inc., from March 2005 to June 2008, and had previously been Expedia's Vice President of Finance from August 2004 to March 2005. Before joining Expedia, Mr. Regan served in a variety of financial roles at LendingTree, Inc. from November 1998 to August 2004, including Vice President and Controller; Vice President of Finance and Investor Relations; and, most recently, Chief Consumer Officer. Prior to that, Brian was an auditor and consultant for PricewaterhouseCoopers LLP in its banking and securities industry practice in New York and Charlotte, North Carolina from August 1993 to November 1998. Mr. Regan earned a Bachelor of Science degree in Business Administration and Accounting from Bucknell University.

*Edward J. Weiss*, age 45, has been Executive Vice President and General Counsel of Ticketmaster since March 2005. Mr. Weiss joined Ticketmaster in January 1998 and prior to his appointment to Executive Vice President and General Counsel, served as the company's Senior Vice President and Assistant General Counsel from August 2002 to March 2005. Prior to that, Mr. Weiss served as Vice President, Assistant General Counsel. Before joining Ticketmaster, Mr. Weiss served as an Assistant US Attorney in Los Angeles from September 1994 to December 1997. Mr. Weiss was an associate at the law firm of Manatt, Phelps & Phillips, LLP in Los Angeles from October 1988 to July 1994. Mr. Weiss is a graduate of University of California, Berkeley and earned his J.D. from the University's Boalt Hall School of Law. He currently serves on the Board of Directors for Big Brothers Big Sisters of Greater Los Angeles & Inland Empire.

**Committees of the Board of Directors**

Concurrent with the completion of the spin-offs, the Ticketmaster Board of Directors will establish the following committees, with committee membership to be determined: the Audit Committee, the Compensation and Human Resources Committee, the Nominating Committee and the Executive Committee.

***Audit Committee.*** The Audit Committee of the Ticketmaster Board of Directors will consist of three persons and the composition of the committee will satisfy the independence requirements under the current standards imposed by the rules of the SEC and the Marketplace Rules. The Ticketmaster Board of Directors will determine which member of the Audit Committee is an "audit committee financial expert," as such term is defined in applicable SEC rules.

The Audit Committee will function pursuant to a written charter adopted by the Ticketmaster Board of Directors, pursuant to which it will be granted the responsibilities and authority necessary to comply with Rule 10A-3 of the Securities Exchange Act of 1934, as amended. The Audit Committee will be appointed by the Ticketmaster Board of Directors to assist the Ticketmaster Board with a variety of matters, including monitoring (1) the integrity of Ticketmaster's financial statements, (2) the effectiveness of Ticketmaster's internal control over financial reporting, (3) the qualifications and independence of Ticketmaster's independent registered public accounting firm, (4) the performance of

Ticketmaster's internal audit function and independent registered public accounting firm and (5) the compliance by Ticketmaster with legal and regulatory requirements.

***Compensation and Human Resources Committee.*** The Compensation and Human Resources Committee will be authorized to exercise all of the powers of the Ticketmaster Board of Directors with respect to matters pertaining to compensation and benefits, including, but not limited to, salary matters, incentive/bonus plans, stock compensation plans, retirement programs and insurance plans. The composition of this committee will satisfy the independence requirements under the current standards imposed by the Marketplace Rules, as well as applicable SEC and Internal Revenue Service rules.

***Nominating Committee.*** The Nominating Committee will be responsible for identifying individuals qualified to become members of Ticketmaster's Board of Directors, recommending to the Board director nominees for the annual meeting of shareholders and otherwise on an as needed basis. The composition of this committee will satisfy the independence requirements under the current standards imposed by the Marketplace Rules.

***Executive Committee.*** The Executive Committee will have all the power and authority of the Ticketmaster Board of Directors, except those powers specifically reserved to the Ticketmaster Board of Directors by Delaware law or Ticketmaster's organizational documents.

***Other Committees.*** In addition to the foregoing committees, the Ticketmaster Board of Directors, by resolution, may from time to time establish other committees of the Ticketmaster Board of Directors, consisting of one or more of its directors.

**Director Compensation**

***Non-Employee Director Arrangements.*** Each member of the Ticketmaster Board of Directors will receive an annual retainer in the amount of $50,000. Each member of the Audit and Compensation and Human Resources Committees (including their respective chairs) will receive an additional annual retainer in the amount of $10,000. Each member of the Nominating Committee will receive an additional annual retainer in the amount of $5,000. Lastly, the chair of each of the Audit and Compensation and Human Resources Committees will receive an additional annual chairperson retainer in the amount of $15,000.

In addition, each non-employee director will receive a grant of restricted stock units with a dollar value of $100,000 upon his or her initial election to the Ticketmaster Board of Directors and annually thereafter upon re-election on the date of Ticketmaster's annual meeting of stockholders. The terms of these restricted stock units provide for (i) vesting in two equal annual installments commencing on the first anniversary of the grant date, (ii) cancellation and forfeiture of unvested units in their entirety upon termination of service with the Ticketmaster Board of Directors and (iii) full acceleration of vesting upon a change in control of Ticketmaster. Non-employee directors are also reimbursed for all reasonable expenses incurred in connection with attendance at Ticketmaster Board and Committee meetings.

The Compensation and Human Resources Committee will have primary responsibility for establishing non-employee director compensation arrangements, which are designed to provide competitive compensation necessary to attract and retain high quality non-employee directors and to encourage ownership of Ticketmaster stock to further align directors' interests with those of Ticketmaster's stockholders. When considering non-employee director compensation arrangements, Ticketmaster management will provide the Compensation and Human Resources Committee with information regarding various types of non-employee director compensation arrangements and practices of select peer companies.

***Deferred Compensation Plan for Non-Employee Directors*****.** Under Ticketmaster's Deferred Compensation Plan for Non-Employee Directors, non-employee directors will be able to defer all or a portion of their Board and Board Committee fees. Eligible directors who defer all or any portion of these fees can elect to have such fees applied to the purchase of share units, representing the number of shares of Ticketmaster common stock that could have been purchased on the relevant date, or credited to a cash fund. If any dividends are paid on Ticketmaster common stock, dividend equivalents will be credited on the share units. The cash fund will be credited with deemed interest at an annual rate equal to the weighted average prime lending rate of JPMorgan Chase Bank. After a director ceases to be a member of the Ticketmaster Board of Directors, he or she will receive (i) with respect to share units, such number of shares of Ticketmaster common stock as the share units represent and (ii) with respect to the cash fund, a cash payment in an amount equal to deferred amounts, plus accrued interest. These payments will be made in either one lump sum or up to five installments, as previously elected by the eligible director at the time of the related deferral election.

**Director Independence**

Under the Marketplace Rules, Ticketmaster's Board will have a responsibility to make an affirmative determination that those members of its Board that serve as independent directors do not have any relationships with Ticketmaster and its businesses that would impair their independence. In connection with these determinations, Ticketmaster's Board will review information regarding transactions, relationships and arrangements involving Ticketmaster and its businesses and each director that it deems relevant to independence, including those required by the Marketplace Rules. This information is obtained from director responses to a questionnaire circulated by Ticketmaster management, Ticketmaster records and publicly available information. Following these determinations, Ticketmaster management will monitor those transactions, relationships and arrangements that are relevant to such determinations, as well as solicit updated information potentially relevant to independence from internal personnel and directors, to determine whether there have been any developments that could potentially have an adverse impact on Ticketmaster's prior independence determinations.

**Compensation Committee Interlocks and Insider Participation**

Ticketmaster's Board of Directors will have a Compensation and Human Resources Committee. None of the members of this Committee will be or will have been in the past an officer or employee of Ticketmaster or any of its businesses at the time of their respective service on the Committee.

**Ticketmaster Executive Compensation**

***Compensation Discussion and Analysis***

***Roles and Responsibilities***

To date, the compensation of Ticketmaster's executive officers has been predominantly determined by IAC, acting in effect as Ticketmaster's compensation committee. IAC's compensation process is principally driven by IAC's General Counsel, who has primary responsibility for administering compensation and making compensation recommendations, with all material decisions approved by IAC's Chairman and Chief Executive Officer and, where appropriate, the Compensation Committee of IAC's Board of Directors (specifically with respect to all awards of IAC equity).

This Compensation Discussion and Analysis deals exclusively with historical information while Ticketmaster has been a part of IAC. Following the spin-off, Ticketmaster will have an independent board of directors, which will in turn have a compensation committee with the responsibility of establishing Ticketmaster's compensation philosophy and programs and determining appropriate payments and awards to its executive officers. Because Ticketmaster's compensation committee has not yet been established, Ticketmaster cannot predict what compensation philosophies and programs will be adopted following the spin-off, and therefore this historical report is not necessarily indicative of the practices it will follow when it is an independent public company.

In general, IAC has been responsible for establishing bonus pools and equity pools for Ticketmaster, and then such pools are allocated throughout Ticketmaster, with IAC directly establishing all compensation elements for Ticketmaster's CEO and Chairman, while the Ticketmaster CEO makes the determinations for Ticketmaster's other executive officers, subject to IAC's review and approval.

Neither Ticketmaster nor IAC has an ongoing relationship with any particular compensation consulting firm, though IAC has from time to time retained the services of consultants on specific occasions regarding broad-based IAC compensation programs. At no time has a consultant been engaged with respect to compensation of any of Ticketmaster's executive officers.

***Philosophy and Objectives***

Ticketmaster's executive officer compensation program is designed to increase long-term stockholder value by attracting, retaining, motivating and rewarding leaders with the competence, character, experience and ambition necessary to enable Ticketmaster to meet its growth objectives.

When establishing compensation packages for a given executive, Ticketmaster has followed a flexible approach, and has made decisions based on a host of factors particular to a given executive situation, including its firsthand experience with the competition for recruiting and retaining executives, negotiation and discussion with the relevant individual, competitive survey data, internal equity considerations and other factors Ticketmaster deems relevant at the time.

Similarly, Ticketmaster has not followed an arithmetic approach to establishing compensation levels and measuring and rewarding performance, as Ticketmaster believes these often fail to adequately take into account the multiple factors that contribute to success at the individual and business level. In any given period, Ticketmaster may have multiple objectives, and these objectives, and their relative importance, often change as the competitive and strategic landscape shifts, even within a given compensation cycle. As a result, formulaic approaches often over-compensate or under-compensate a given performance level. Accordingly, Ticketmaster has historically avoided the use of strict formulas in its compensation practices and has relied primarily on a discretionary approach.

***Compensation Elements***

Ticketmaster's compensation packages for executive officers have primarily consisted of salary, annual bonuses, long term incentives (typically equity awards), perquisites and other benefits. Prior to making specific decisions related to any particular element of compensation, Ticketmaster typically reviews the total compensation of each executive, evaluating the executive's total near and long-term compensation in the aggregate. Ticketmaster determines which element or combinations of compensation elements (salary, bonus or equity) can be used most effectively to further its compensation objectives. However, all such decisions are subjective, and made on a facts and circumstances basis without any prescribed relationship between the various elements of the total compensation package.

*Salary*

*General.* Ticketmaster typically negotiates a new executive officer's starting salary upon arrival, based on the executive's prior compensation history, prior compensation levels for the particular position within Ticketmaster, Ticketmaster's location, salary levels of other executives within Ticketmaster, salary levels available to the individual in alternative opportunities, reference to certain survey information and the extent to which Ticketmaster desires to secure the executive's services.

Once established, salaries can increase based on a number of factors, including the assumption of additional responsibilities, internal equity, periodic market checks and other factors which demonstrate an executive's increased value to Ticketmaster.

Ticketmaster utilizes the Radford Executive Survey, Radford International Survey and the Croner Executive Compensation Survey when referring to survey data in formulating compensation packages.

*2007.* Mr. Moriarty received a salary increase from $400,000 to $500,000 effective January 1, 2007 in connection with his assuming the Ticketmaster CEO position. In establishing this salary level, IAC relied on comparable internal positions as well as its general experience recruiting for similar roles. No other executive officer salaries were adjusted during 2007.

*Annual Bonuses*

*General.* Ticketmaster's bonus program is designed to reward performance on an annual basis. Because of the variable nature of the bonus program, and because in any given year bonuses have the potential to make up a significant portion of an executive's total compensation, the bonus program provides an important incentive tool to achieve Ticketmaster's annual objectives.

After consultation with Ticketmaster management, IAC establishes the annual bonus pool for Ticketmaster based on its assessment of Ticketmaster's performance for the completed year. In large part, success has been measured based on Ticketmaster's growth in profitability, but this is measured subjectively both in absolute terms over the prior year and in comparison to Ticketmaster's competitors, taking into account economic and other factors, without any pre-established targets. Additionally, consideration has sometimes been given to achievement of various strategic objectives over the course of the year and other factors IAC and Ticketmaster's management deem relevant. No quantified weight has been given to any particular consideration and there has generally been no formulaic calculation. Rather, IAC has engaged in an overall assessment of appropriate bonus levels based on a subjective interpretation of corporate performance.

IAC has established the bonus of the Ticketmaster CEO and the Chairman, in large part based on the same considerations used in establishing the bonus pool for Ticketmaster generally. The CEO has then generally been responsible for allocating the remainder of the bonus pool to the rest of the company, including the other executive officers. No executive officers of Ticketmaster have target bonus opportunities.

Ticketmaster generally pays bonuses shortly after year-end following finalization of financial results for the prior year.

*2007.* Ticketmaster's 2007 bonus pool primarily reflects disappointing year over year profit growth, with aggregate executive officer bonuses being considerably lower than those paid in previous years. Overall, the bonus pool reflected approximately 50% of the bonus pool from the prior year, adjusted to account for increased headcount, and executive officer bonuses reflected similar reductions.

*Long-Term Incentives*

*General.* Ticketmaster believes that ownership shapes behavior, and that by providing a meaningful portion of an executive officer's compensation in stock, an executive's incentives are aligned with stockholder interests in a manner that drives better performance over time. As part of IAC, that led to Ticketmaster's executive officers receiving IAC equity awards on a regular basis.

In setting particular award levels, the predominant objectives have been providing the person with effective retention incentives, appropriate reward for past performance, and incentives for strong future performance. Appropriate levels to meet these goals may vary from year to year, and from individual to individual, based on a variety of factors.

The annual corporate performance factors relevant to setting bonus amounts that were discussed above, while taken into account, have generally been less relevant in setting annual equity awards, as the awards tend to be more forward looking, and are a longer-term retention and reward instrument than annual bonuses.

Awards to the Ticketmaster CEO and Chairman are made by IAC. Additionally, IAC establishes a pool for annual equity awards which the Ticketmaster CEO allocates to the company's employees, including the executive officers, subject to IAC's approval. In establishing the equity pool for Ticketmaster, IAC has taken into account historical practices, its view of market compensation generally, the dilutive impact of equity grants across IAC, and other relevant factors. Additionally, IAC approves any equity grants recommended to be made to Ticketmaster executives outside of the annual process. Executive officers receive grants that are subjectively determined based on the Ticketmaster CEO's view of how best to allocate the equity pool for retention, reward and motivation based on a host of subjective factors (including past contribution, retention risk, contribution potential, and market data), with grants equal to annual salary being a basic guideline.

Except where otherwise noted, equity awards have been made following year-end after finalization of financial results for the prior year. The meeting of the Compensation and Human Resources Committee of the IAC Board at which the awards are made is generally scheduled months in advance and without regard to the timing of the release of earnings or other material information.

*Restricted Stock Units.* Until 2008, IAC used restricted stock units, or RSUs, as its exclusive equity compensation tool for Ticketmaster's executive officers. Through 2006, these awards generally vested in equal annual installments over 5 years (annual vesting RSUs), or cliff vested at the end of five years (cliff-vesting RSUs). Annual awards were intended to provide frequent rewards and near-term retention incentives, while cliff-vesting RSUs provided more of a long-term retention mechanism.

In February 2007, IAC implemented a new equity instrument, Growth Shares, which were RSU grants that cliff vested at the end of three years in varying amounts depending upon growth in IAC's publicly reported metric, Adjusted Earnings Per Share, with certain modifications.

These awards were introduced throughout IAC to more closely link long-term reward with IAC's overall performance and to provide greater retentive effect by providing the opportunity to earn greater amounts through increased IAC performance. However, in connection with the spin-off, these awards will be converted into three-year cliff-vesting awards at the "target" value (or 50% of the shares actually granted), without variability based on performance. For information regarding the reasons behind this conversion, see "The Separation—Treatment of Outstanding IAC Compensatory Equity-Based Awards."

*Stock Options.* In 2008, IAC used non-qualified stock options as its primary equity compensation tool for Ticketmaster's executive officers to continue the shift to performance-based equity that began with the granting of Growth Shares in 2007. IAC believes that following the spin-offs, Ticketmaster's performance will have a greater correlation to the Ticketmaster stock price than it did to IAC's stock price in the current conglomerated structure, thus making stock options a more targeted equity incentive tool for Ticketmaster than it would have been as part of IAC. Stock options generally vest in equal installments over four years. IAC continues to use RSUs with a cliff-vesting schedule in certain cases to reward executive leadership, contribution and to provide a retention mechanism.

*2007.* Mr. Moriarty received 10,038 annual vesting RSUs and 35,131 Growth Shares (at target performance). This increased grant coincided with his assumption of the Ticketmaster CEO position. Mr. Barnes did not receive a grant due to his receipt of an RSU grant with a value of $1 million on the date of grant the prior year in connection with his entering into an employment agreement with Ticketmaster, which grant vested in early 2008. Mr. Korman received 5,019 RSUs and 17,565 Growth

Shares, Ms. Bracey received 4,391 RSUs and 10,664 Growth Shares and Mr. Weiss received 4,391 RSUs and 4,391 Growth Shares.

*2008.* Mr. Barnes and Mr. Korman each received 100,000 non-qualified stock options, and Mr. Korman also received 16,000 RSUs that will cliff vest after three years. These awards were specifically determined by IAC as a means of increasing the stakes of these two key executives prior to the spin-off. Mr. Weiss received 30,000 stock options as determined by Mr. Moriarty. As Ms. Bracey has announced that she is leaving the company, she did not receive stock options in 2008.

*Spin-Off Adjustments.* In the spin-off, equity awards denominated in IAC stock will be adjusted as described in "The Separation—Treatment of Outstanding IAC Compensatory Equity-Based Awards."

Presuming the spin-off transactions occur prior to February 2009, the following table reflects the effect of these adjustments on all equity awards held by Ticketmaster's executive officers:

| | Upon Completion of the Spin-Off | | | | |
|---|---|---|---|---|---|
| **Name** | **RSUs that will vest (#)** | **RSUs that will convert exclusively into RSUs of Ticketmaster and vest on regular schedule (#) (*)** | **RSUs that will be split among the post-transaction companies and vest after February 2009 on regular schedule (#)** | **Options outstanding at December 31, 2007—all of which will be split among the post-transaction companies (#)** | **Options granted after December 31, 2007—all of which will be converted into options of Ticketmaster (#)** |
| Sean Moriarty | 48,497 | 36,529 | 34,260 | 23,374 | — |
| Terry Barnes | 43,129 | — | — | 56,783 | 100,000 |
| Eric Korman | 21,389 | 26,024 | 38,487 | — | 100,000 |
| Susan Bracey(1) | 12,440 | 11,940 | 7,108 | 16,353 | — |
| Edward Weiss | 5,380 | 10,750 | 2,927 | — | 30,000 |

* Excludes 19,358, 44,876, 8,637, 11,335, 6,278 RSUs that vested since December 31, 2007 or will vest prior to August 1, 2008 for Mr. Moriarty, Mr. Barnes, Mr. Korman, Ms. Bracey and Mr. Weiss, respectively.

(1) Received during 2007 in her role as Chief Financial Officer of Ticketmaster. Ms. Bracey has since announced she will be leaving Ticketmaster.

***Change of Control and Severance***

Ticketmaster believes that providing executives with severance and change of control protection is critical to allowing executives to fully value the forward looking elements of their compensation packages, and therefore limit retention risk during uncertain times. Accordingly, Ticketmaster employment agreements and equity awards generally provide for salary continuation in the event of certain employment terminations beyond the control of the executive, as well as varying degrees of accelerated vesting in the event of a change of control of the company.

***Other Compensation***

Under limited circumstances, certain Ticketmaster executive officers have received non-cash and non-equity compensatory benefits. The values of these benefits are reported under the heading "Other Annual Compensation" in this filing pursuant to applicable rules. The executive officers do not participate in any deferred compensation or retirement program other than IAC's 401(k) plan.

### *Tax Deductibility*

IAC's practice has been to structure Ticketmaster's compensation program in such a manner so that the compensation is deductible by IAC for federal income tax purposes. However, because Ticketmaster's executive officers will now be subject to the limitations on deductibility under Section 162(m) of the Internal Revenue Code of 1986, as amended, and were not previously, certain compensatory arrangements established prior to the spin-off but that will be paid following the spin-off may not result in deductible compensation for Ticketmaster.

### *Summary Compensation Table*

| Name and Principal Position | Year | Salary ($) | Bonus ($) | Stock Awards ($)(1) | All Other Compensation ($)(2) | Total ($) |
|---|---|---|---|---|---|---|
| Terry Barnes<br>Chairman | 2007 | 600,000 | 375,000 | 959,988 | 38,239 | 1,973,227 |
| Sean Moriarty<br>CEO | 2007 | 500,000 | 375,000 | 1,241,277 | 6,300 | 2,112,577 |
| Eric Korman<br>EVP | 2007 | 350,000 | 240,000 | 621,576 | 9,571 | 1,221,147 |
| Susan Bracey<br>CFO | 2007 | 315,000 | 140,000 | 461,204 | 6,643 | 922,847 |
| Edward Weiss<br>EVP and General Counsel | 2007 | 315,000 | 150,000 | 228,999 | 6,300 | 700,299 |

(1) Reflects the dollar amount recognized by IAC for financial statement reporting purposes for the fiscal year ended December 31, 2007, in accordance with SFAS 123R, for IAC restricted stock units ("RSUs") awarded in and prior to 2007 under IAC's stock and annual incentive plans. These amounts do not, therefore, represent the value of IAC equity compensation awarded or realized in 2007. For further discussion of IAC's accounting for its equity compensation plans, see note 4 of IAC's audited financial statements for the fiscal year ended December 31, 2007 included in its Annual Report on Form 10-K filed with the SEC on February 29, 2008. For information on awards made and realized in 2007, see the Grants of Plan-Based Awards and Option Exercises and Stock Vested tables below.

(2) See the table below for additional information on amounts for 2007. Pursuant to SEC rules, perquisites and personal benefits are not reported for any named executive for whom such amounts were less than $10,000 in aggregate for the fiscal year.

| | Terry Barnes | Sean Moriarty | Eric Korman | Susan Bracey | Edward Weiss |
|---|---|---|---|---|---|
| Premium for supplemental life, health and disability insurance | $ 27,082 | — | — | — | — |
| Tax gross up for relocation expenses | — | — | $ 3,271 | — | — |
| 401(k) plan company match | $ 6,857 | $ 6,300 | $ 6,300 | $ 6,643 | $ 6,300 |
| Auto and phone expenses | — | — | — | — | — |
| Total All Other Compensation | $ 38,239 | $ 6,300 | $ 9,571 | $ 6,643 | $ 6,300 |

***Grants of Plan-Based Awards***

The table below provides information regarding IAC equity awards granted to Ticketmaster's named executives in 2007.

| Name | Grant Date | Estimated Future Payouts Under Equity Incentive Plan Awards (1)(2) | | | All other stock awards: number of shares of stock or units (#)(2) | Grant Date Fair Value of Stock and Option Awards ($)(3) |
|---|---|---|---|---|---|---|
| | | Threshold (#) | Target (#) | Maximum (#) | | |
| Terry Barnes | — | — | — | — | — | — |
| Sean Moriarty | 2/16/07 | 1,953 | 35,131 | 70,262 | 10,038 | 1,799,984 |
| Eric Korman | 2/16/07 | 976 | 17,565 | 35,130 | 5,019 | 899,972 |
| Susan Bracey | 2/16/07 | 592 | 10,664 | 21,328 | 4,391 | 599,941 |
| Edward Weiss | 2/16/07 | 244 | 4,391 | 8,782 | 4,391 | 349,963 |

(1) Reflects performance based RSU awards which cliff vest at the end of three years in varying amounts depending upon the growth in IAC's publicly reported metric, Adjusted Earnings Per Share, with certain modifications. The threshold amount represents 5.56% of the target payout, which amount would vest upon achieving the minimum growth threshold. These awards will be converted into three year cliff-vesting awards in the spin-offs as described under "Treatment of Outstanding IAC Compensatory Equity-Based Awards."

(2) RSU award recipients would be credited with amounts for cash dividends paid on IAC common stock, with such additional amounts vesting concurrently with the related RSU award. For information on the treatment of RSU awards granted to Ticketmaster named executives upon a termination of employment or a change in control, see the discussion under Potential Payments Upon Termination or Change in Control below.

(3) The fair value of equity incentive plan awards is based on the target payout.

*Outstanding Equity Awards at Fiscal Year-End*

The table below provides information regarding various IAC equity awards held by Ticketmaster's named executives as of December 31, 2007. The market value of all RSU awards is based on the closing price of IAC common stock as of December 31, 2007 ($26.92), the last trading day of 2007.

| | Option Awards(1) | | | Stock Awards(1)(2) | | | |
|---|---|---|---|---|---|---|---|
| **Name** | **Number of securities underlying unexercised options (#)(3) (exercisable)** | **Option exercise price ($)** | **Option expiration date** | **Number of shares or units of stock that have not vested (#)(4)** | **Market value of shares or units of stock that have not vested ($)(4)** | **Equity incentive plan awards: Number of unearned shares, units or other rights that have not vested (#)(4)** | **Equity incentive plan awards: Market or payout value of unearned shares, units or other rights that have not vested ($)(4)** |
| Terry Barnes | 17,509 | $ 31.00 | 12/20/09 | — | — | — | — |
| | 39,274 | $ 33.13 | 3/19/12 | — | — | — | — |
| | — | — | — | 88,005 | 2,369,095 | — | — |
| Sean Moriarty | 23,374 | $ 46.77 | 12/27/09 | — | — | — | — |
| | — | — | — | 103,513 | 2,786,570 | 1,953 | 52,575 |
| Eric Korman | — | — | — | 60,972 | 1,641,366 | 976 | 26,274 |
| Susan Bracey | 5,250 | $ 25.55 | 5/1/10 | — | — | — | — |
| | 11,103 | $ 33.13 | 3/19/12 | — | — | — | — |
| | — | — | — | 32,159 | 865,720 | 592 | 15,937 |
| Edward Weiss | — | — | — | 20,944 | 563,812 | 244 | 6,568 |

(1) For a discussion regarding how these IAC equity awards will be treated in the spin-offs, see under "The Separation—Treatment of Outstanding IAC Compensatory Equity-Based Awards."

(2) Amounts shown for equity incentive plan awards are based on achieving the minimum growth threshold in accordance with SEC rules.

(3) On August 9, 2005, IAC completed the separation of its travel and travel-related businesses and investments (other than Interval and TV Travel Shop) into an independent public company (the "Expedia Spin-Off"). In connection with the Expedia Spin-Off, each then vested option to purchase shares of IAC common stock was converted into an option to purchase shares of IAC common stock and an option to purchase shares of Expedia common stock. Adjustments were made to the number of shares subject to each IAC and Expedia stock option to give effect to the one-for-two reverse stock split effected in connection with the Expedia Spin-Off and to the corresponding exercise prices based on the relative market capitalizations of IAC and Expedia at the time of the Expedia Spin-Off. The adjusted IAC and Expedia stock options otherwise have the same terms and conditions, including exercise periods, as the corresponding vested IAC stock options outstanding immediately prior to the Expedia Spin-Off.

For the named executives, any value realized upon the exercise of Expedia stock options is treated for tax purposes as compensation payable to them in their respective capacities as executive officers of Ticketmaster. Accordingly, information regarding Expedia stock options held by Ticketmaster's named executives as of December 31, 2007 appears in the table immediately below and information regarding any exercises of Expedia stock options by such named executives is reported in the Option Exercises and Stock Vested table below.

| Name | Number of Options (#) | Option Exercise Price ($) | Option Expiration Date |
|---|---|---|---|
| Sean Moriarty | 23,374 | $ 37.45 | 12/27/09 |
| Susan Bracey | 4,910 | $ 26.53 | 3/19/12 |
| | 2,750 | $ 20.46 | 5/1/10 |

(4) The table below provides the following information regarding RSU awards held by Ticketmaster's named executives as of December 31, 2007: (i) the grant date of each award, (ii) the number of RSUs outstanding (on an aggregate and grant-by-grant basis), (iii) the market value of RSUs outstanding as of December 31, 2007, (iv) the vesting schedule for each award and (v) the total number of RSUs that vested or are scheduled to vest in each of the fiscal years ending December 31, 2008, 2009, 2010, 2011 and 2012.

| | Number of Unvested RSUs as of 12/31/07 | Market Value of Unvested RSUs as of 12/31/07 | Vesting Schedule (#) | | | | |
|---|---|---|---|---|---|---|---|
| Grant Date | (#) | ($) | 2008 | 2009 | 2010 | 2011 | 2012 |
| Terry Barnes | | | | | | | |
| 2/4/04(a) | 7,669 | 206,449 | 3,834 | 3,835 | — | — | — |
| 2/4/04(b) | 29,490 | 793,871 | — | 29,940 | — | — | — |
| 2/10/05(a) | 14,706 | 395,886 | 4,902 | 4,901 | 4,903 | — | — |
| 12/14/05(c) | 36,140 | 972,889 | 36,140 | — | — | — | — |
| *Total* | 88,005 | 2,369,095 | 44,876 | 38,226 | 4,903 | — | — |
| Sean Moriarty | | | | | | | |
| 2/12/03(d) | 4,502 | 121,194 | 4,502 | — | — | — | — |
| 2/4/04(a) | 5,841 | 157,240 | 2,920 | 2,921 | — | — | — |
| 2/4/04(b) | 29,490 | 793,871 | — | 29,940 | — | — | — |
| 2/10/05(a) | 12,442 | 334,939 | 4,147 | 4,147 | 4,148 | — | — |
| 12/14/05(e) | 23,130 | 622,660 | 5,782 | 5,783 | 5,782 | 5,783 | — |
| 12/14/05(f) | 18,070 | 486,444 | — | — | — | 18,070 | — |
| 2/16/07(a) | 10,038 | 270,223 | 2,007 | 2,008 | 2,007 | 2,008 | 2,008 |
| 2/16/07(g) | 35,131 | 945,727 | — | — | 35,131 | — | — |
| *Total* | 138,644 | 3,732,296 | 19,358 | 44,349 | 47,068 | 25,861 | 2,008 |
| Eric Korman | | | | | | | |
| 2/12/03(d) | 1,577 | 42,453 | 1,577 | — | — | — | — |
| 2/4/04(a) | 1,770 | 47,648 | 885 | 885 | — | — | — |
| 2/10/05(a) | 3,394 | 91,366 | 1,131 | 1,131 | 1,132 | — | — |
| 2/10/05(b) | 15,081 | 405,981 | — | — | 15,081 | — | — |
| 2/6/06(a) | 8,624 | 232,158 | 2,156 | 2,156 | 2,156 | 2,156 | — |
| 2/6/06(b) | 17,966 | 483,645 | — | — | — | 17,966 | — |
| 5/17/06(a) | 7,541 | 203,004 | 1,885 | 1,885 | 1,885 | 1,886 | — |
| 2/16/07(a) | 5,019 | 135,111 | 1,003 | 1,004 | 1,004 | 1,004 | 1,004 |
| 2/16/07(g) | 17,565 | 472,850 | — | — | 17,565 | — | — |
| *Total* | 78,537 | 2,114,216 | 8,637 | 7,061 | 38,823 | 23,012 | 1,004 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Susan Bracey | | | | | | | | |
| 2/12/03(d) | 2,815 | 75,780 | 2,815 | — | — | — | — |
| 9/30/03(d) | 901 | 24,255 | 901 | — | — | — | — |
| 2/4/04(a) | 3,505 | 94,355 | 1,752 | 1,753 | — | — | — |
| 2/10/05(a) | 9,049 | 243,599 | 3,016 | 3,016 | 3,017 | — | — |
| 2/6/06(a) | 11,498 | 309,526 | 2,874 | 2,875 | 2,874 | 2,875 | — |
| 2/16/07(a) | 4,391 | 118,206 | 878 | 878 | 878 | 878 | 879 |
| 2/16/07(g) | 10,664 | 287,075 | — | — | 10,664 | — | — |
| *Total* | 42,823 | 1,152,795 | 12,236 | 8,522 | 17,433 | 3,753 | 879 |
| Edward Weiss | | | | | | | |
| 2/12/03(d) | 901 | 24,255 | 901 | — | — | — | — |
| 2/4/04(a) | 1,453 | 39,115 | 726 | 727 | — | — | — |
| 2/10/05(a) | 2,701 | 72,711 | 899 | 900 | 902 | — | — |
| 2/6/06(a) | 11,498 | 309,526 | 2,874 | 2,875 | 2,874 | 2,875 | — |
| 2/16/07(a) | 4,391 | 118,206 | 878 | 878 | 878 | 878 | 879 |
| 2/16/07(g) | 4,391 | 118,206 | — | — | 4,391 | — | — |
| *Total* | 25,335 | 682,019 | 6,278 | 5,380 | 9,045 | 3,753 | 879 |

(a) These awards vest in five equal annual installments on each of the first five anniversaries of the grant date, subject to continued employment.

(b) These awards vest in one lump sum installment on the fifth anniversary of the grant date, subject to continued employment.

(c) This award vests in one lump sum installment on January 31, 2008.

(d) These awards vest in four equal installments, beginning on the second anniversary of the grant date, subject to continued employment.

(e) This award vests in five equal annual installments on each of the first five anniversaries of February 1, 2006, subject to continued employment.

(f) This award vests in one lump sum installment on February 1, 2011, subject to continued employment.

(g) Represents the initial "target" award. See the Grants of Plan-Based Awards table and footnote (1) thereto.

***Option Exercises and Stock Vested***

The table below provides information regarding the number of shares acquired by Ticketmaster's named executives in 2007 upon the exercise of stock options and the vesting of RSU awards and the related value realized, in each case, excluding the effect of any applicable taxes. The dollar value realized upon exercise of stock options represents the difference between (i) the sale price of the shares acquired on exercise for simultaneous exercise and sale transactions and (ii) the exercise price of the stock option, multiplied by the number of stock options that were exercised. The dollar value realized upon vesting of RSUs represents the closing price of IAC common stock on the applicable vesting date multiplied by the number of RSUs so vesting.

| Name | Option Awards: Number of Shares Acquired on Exercise (#) (1) | Option Awards: Value Realized on Exercise ($) | Stock Awards: Number of Shares Acquired on Vesting (#) | Stock Awards: Value Realized on Vesting ($) |
|---|---|---|---|---|
| Terry Barnes | 219,544 | 1,852,600 | 8,734 | 342,246 |
| Sean Moriarty | 27,360 | 163,502 | 17,350 | 677,463 |
| Eric Korman | - | - | 7,630 | 297,278 |
| Susan Bracey | 15,587 | 164,548 | 11,354 | 438,151 |
| Edward Weiss | 18,441 | 136,439 | 5,399 | 212,186 |

(1) Includes 119,544, 12,086, 15,587 and 8,603 Expedia shares acquired by Mr. Barnes, Mr. Moriarty, Ms. Bracey and Mr. Weiss, respectively, upon the exercise of Expedia stock options received in connection with the Expedia Spin-Off.

***Potential Payments Upon Termination or Change in Control***

***Change of Control***

Pursuant to the terms of IAC's (and, following the spin-off, Ticketmaster's) equity compensation plans and the award agreements thereunder, upon a change of control the named executive officers are generally entitled to accelerated vesting of (i) equity awards made prior to 2006 and, in the case of Mr. Moriarty, awards made in 2007, and (ii) equity awards made thereafter if, following such change in control, their employment is terminated by the company for any reason other than death, disability or cause (as defined in the relevant employment agreement), or by the executive for good reason (as defined in the plan or relevant employment agreement) (a "Qualifying Termination").

***Severance***

***Cash.*** Upon a Qualifying Termination, Ticketmaster's executive officers are generally entitled to salary continuation for the remainder of their agreements. The expiration dates of the employment agreements for Mr. Moriarty, Mr. Korman and Mr. Weiss are February 1, 2009, April 10, 2009, and December 31, 2009, respectively. Mr. Barnes' agreement recently expired and a new agreement has not yet been executed. Ms. Bracey announced that she will be leaving Ticketmaster. In connection with her departure, Ms. Bracey will receive (i) an amount equal to her monthly base salary ($26,250) multiplied by the number of complete months she was employed by Ticketmaster from December 1, 2007 through her date of termination (but no more than 9 months of salary), and (ii) an amount sufficient to enable Ms. Bracey to cover the cost of her continued participation in Ticketmaster's health plan for a number of months equal to the number of complete months she was employed by Ticketmaster from December 1, 2007 through her date of termination. Additionally, Mr. Weiss has the right to receive this salary continuation in the event he resigns voluntarily following a change in his reporting officer.

***Equity.*** In the event Mr. Weiss is terminated or resigns following a change in his reporting officer, he will be entitled to acceleration of all his equity awards that were granted prior to 2008. Additionally, Ms. Bracey will receive accelerated vesting of any RSUs granted to Ms. Bracey on or prior to December 1, 2007 that are not vested on the date of her termination.

***Obligations.*** The receipt of the payments and benefits described above are all subject to the execution of a general release and to compliance with confidentiality, non-solicitation of employees and non-solicitation of customer covenants set forth in the relevant employment agreements. Salary continuation payments will be offset by the amount of any compensation earned by an executive from other employment during the severance payment period. Additionally, Mr. Moriarty has agreed to provide consulting services following any termination of employment and abide by certain agreements not to compete with Ticketmaster for a period of two years, for which he will receive $14,000 per year.

The amounts shown in the table assume that the termination or change in control was effective as of December 31, 2007 and that the price of IAC common stock on which certain calculations are based was the closing price of $26.92 on The Nasdaq Stock Market on that date. These amounts are estimates of the incremental amounts that would have been paid out to the executive upon such terminations/change in control, and do not take into account equity grants made, and contractual obligations entered into, after December 31, 2007. The actual amounts to be paid out can only be determined at the time the event actually occurs.

| Name and Benefit | Termination without cause | Resignation for good reason | Death or Disability | Change in Control | Termination w/o cause or for good reason in connection with Change in Control |
|---|---|---|---|---|---|
| **Terry Barnes** | | | | | |
| Cash Severance (salary) | 50,000 | 50,000 | 50,000 | — | 50,000 |
| RSUs (vesting accelerated) | 972,889 | — | — | 1,396,206 | 2,369,095 |
| Consulting Payments (1) | 60,000 | — | 60,000 | — | 60,000 |
| Total estimated value | 1,082,889 | 50,000 | 100,000 | 1,396,206 | 2,479,095 |
| **Sean Moriarty** | | | | | |
| Cash Severance (salary) | 541,667 | — | — | — | 541,667 |
| RSUs (vesting accelerated) | 121,194 | — | 105,015 | 2,635,306 | 3,732,296 |
| Consulting Payments (1) | 28,000 | — | 28,000 | — | 28,000 |
| Total estimated value | 690,861 | — | 133,105 | 2,635,306 | 4,301,963 |
| **Eric Korman** | | | | | |
| Cash Severance (salary) | 447,125 | 447,125 | — | — | 447,125 |
| RSUs (vesting accelerated) | 21,240 | — | 36,773 | 587,448 | 2,114,216 |
| Total estimated value | 468,365 | 447,125 | 36,773 | 587,448 | 2,561,341 |
| **Susan Bracey** | | | | | |
| Cash Severance (salary) | — | — | — | — | — |
| RSUs (vesting accelerated) | 12,114 | — | 75,349 | 600,370 | 1,152,795 |
| Total estimated value | 12,114 | — | 75,349 | 600,370 | 1,152,795 |
| **Edward Weiss** | | | | | |
| Cash Severance (salary) | — | — | — | — | — |
| RSUs (vesting accelerated) | 12,114 | — | 20,998 | 136,081 | 682,018 |
| Total estimated value | 12,114 | — | 20,998 | 136,081 | 682,018 |

(1) Consulting payments are payable upon termination other than for death or cause.

## TICKETMASTER SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

As of the date hereof, all of Ticketmaster's outstanding shares of common stock are owned by IAC. After the distribution, IAC will no longer own any shares of Ticketmaster common stock. The following table presents information relating to the expected beneficial ownership of shares of Ticketmaster common stock, assuming completion of the distribution as if it occurred on [            ], 2008, by (i) each individual or entity expected to own beneficially more than 5% of the outstanding shares of Ticketmaster common stock, assuming that there are 278,735,546 shares of common stock and Class B common stock of IAC outstanding immediately prior to the spin-offs and a distribution ratio of one-fifth of a share of TM common stock for every share of IAC common stock and/or Class B common stock (ii) each director of Ticketmaster, (iii) the Chief Executive Officer, the Chief Financial Officer and the other three named executive officers in the Ticketmaster summary compensation table (see "Ticketmaster Executive Compensation") and (iv) all of Ticketmaster's executive officers and directors as a group.

Unless otherwise indicated, beneficial owners listed here may be contacted at Ticketmaster's corporate headquarters at 8800 West Sunset Boulevard, West Hollywood, CA 90069. For each listed person, the number of shares of Ticketmaster common stock and percent of such class listed assumes the conversion or exercise of any Ticketmaster equity securities owned by such person that are or will become convertible or exercisable, and the exercise of stock options and the vesting of restricted stock units, if any, that will vest, within 60 days of April 30, 2008, but does not assume the conversion, exercise or vesting of any such equity securities owned by any other person.

The share amounts for each beneficial owner listed here are based on each such individual's beneficial ownership of shares of IAC common stock and/or Class B common stock as of April 30, 2008, and assuming a distribution ratio of one-fifth of a share of Ticketmaster common stock for every share of IAC common stock and/or Class B common stock. To the extent that Ticketmaster directors and executive officers own shares of IAC common stock at the time of the distribution, they will participate in the distribution on the same terms as other holders of IAC common stock. In addition, following the distribution, Ticketmaster expects that all IAC stock-based awards held by these individuals will be adjusted to become awards relating to common stock of all five companies resulting from the spin-offs. Those awards that will relate to Ticketmaster common stock are reflected in the table below based upon the expected adjustment formula described under the caption "The Separation—Treatment of Outstanding IAC Compensatory Equity-Based Awards."

The actual number of shares of Ticketmaster capital stock outstanding as of the date of the distribution may differ due, among other things, to the exercise of stock options or warrants or the vesting of restricted stock units, in each case, between April 30, 2008 and the date of the distribution and to the extent the other assumptions set forth above differ from actual developments.

| Name and Address of Beneficial Owner | Ticketmaster Common Stock Shares | % |
|---|---|---|
| Clearbridge Advisors, LLC, *et al*(1)(2) 399 Park Avenue New York, NY 10022 | 2,651,312 | 4.75 |
| Lord Abbett & Co. LLC(1)(2) 90 Hudson Street, 11th Floor Jersey City, NJ 07302 | 7,839,768 | 14.06 |
| Liberty Media Corporation(3)(4) 12300 Liberty Boulevard Englewood, CO 80112 | 16,643,961 | 29.86 |
| Terry Barnes | | |
| Susan Bracey | | |
| Eric Korman | | |
| Sean Moriarty | | |
| Edward Weiss | | |
| All executive officers and directors as a group ( persons) | | |

(1) We have not been able to determine the person or persons controlling the fund through publicly available information.

(2) Based upon information regarding IAC holdings reported on a Schedule 13G, as amended, which was filed with the SEC on February 14, 2008 and a distribution ratio of one-fifth of a share of TM common stock for every share of IAC common stock and/or Class B common stock.

(3) Liberty Media Corporation is a publicly traded corporation. According to Liberty Media Corporation's Schedule 14A, filed April 24, 2008, Liberty's chairman, John C. Malone, controls 33% of the voting power of Liberty Media Corporation.

(4) Based on 58,796,381 shares of IAC common stock held by Liberty and 4,000,000, 15,618,230, 4,005,190 and 800,006 shares of IAC Class B common stock held by each of BDTV Inc., BDTV II Inc., BDTV III Inc. and BDTV IV Inc., respectively and a distribution ratio of one-fifth of a share of TM common stock for every share of IAC common stock and/or Class B common stock.

## CERTAIN INFORMATION WITH RESPECT TO TREE.COM

## BUSINESS OF TREE.COM

When used with respect to any periods following the spin-offs and unless otherwise indicated, the term "Tree.com" refers to Tree.com, Inc., a Delaware corporation that was incorporated in connection with the spin-offs in April 2008 to hold IAC's lending and real estate businesses, subsidiaries and investments, the results of which were previously reported in the Lending and Real Estate reporting segments of IAC's Transactions reporting sector immediately prior to the completion of the spin-offs. The following disclosure regarding Tree.com's business assumes completion of the spin-offs.

For information regarding the results of operations of Tree.com and its segments on a historical basis, see the Consolidated Financial Statements of Tree.com and the disclosure set forth under the caption "—Management's Discussion and Analysis of Financial Condition and Results of Operations of Tree.com." For information regarding the results of operations of Tree.com on a pro forma basis to give effect to the completion of the spin-offs, see the Unaudited Pro Forma Condensed Consolidated Financial Statements for Tree.com.

### History and Overview

Tree.com is the parent of LendingTree, LLC and is the indirect parent of several companies owned by LendingTree, LLC. LendingTree, LLC (formerly, LendingTree, Inc.) was incorporated in the state of Delaware in June 1996 and commenced nationwide operations in July 1998. LendingTree, Inc. was acquired by IAC in 2003 and converted to a Delaware limited liability company (LendingTree, LLC) in December 2004. Through its various subsidiaries, Tree.com currently operates a lending business (the "Lending Business") and a real estate business (the "Real Estate Business"). Tree.com's main website address is *www.lendingtree.com*.

The Lending Business consists of online networks, principally LendingTree.com® and GetSmart.com®, as well as call centers, which match consumers with lenders and loan brokers. In addition, the Lending Business originates, processes, approves and funds various types of residential real estate loans under two brand names, LendingTree Loans® and HomeLoanCenter.com®, and offers residential mortgage loan settlement services under the name LendingTree Settlement Services.

The Real Estate Business consists primarily of an internet-enabled national residential real estate brokerage that currently operates offices in 14 markets under the brand name "RealEstate.com, REALTORS®." Outside of these 14 markets, RealEstate.com maintains relationships with a network of third-party brokerages that receive leads from RealEstate.com and pay a referral fee on closed transactions. The Real Estate Business also consists of a brokerage that matches residential home buyers interested in newly constructed homes with builders and currently operates under the brand name "iNest."

### Lending Business

#### *Our Lending Networks*

Consumers can access Tree.com's nationwide network of more than 200 banks, lenders and loan brokers online (via *www.lendingtree.com* or *www.getsmart.com*) or by calling 1-800-555-TREE. Loans offered by these banks, lenders and loan brokers (the "Network Lenders") consist primarily of home mortgages (in connection with refinancings and purchases) and home equity loans.

Tree.com selects lenders throughout the country in an effort to provide full geographic lending coverage of the country and to offer a complete suite of loan products available in the market. Frequently, before a lender joins the Network, Tree.com performs credit and financial reviews on the lender. In addition, as a further quality assurance measure, Tree.com recently began checking new lenders against a national antifraud database maintained by the Mortgage Asset Research Institute. All

Network Lenders are required to enter into a contract that generally may be terminated upon notice by either party. No individual Network Lender accounted for more than 5% of the Lending Segment revenue in any period.

Consumers seeking mortgage loans through one of Tree.com's lending networks can receive multiple conditional loan offers from Network Lenders, or from Tree.com's subsidiary doing business under the name "LendingTree Loans" (as described below), in response to a single loan request form.

The process by which the Lending Business matches consumers and Network Lenders, which is referred to in the document as the "matching process," is innovative and customer-friendly. This matching process consists of the following steps:

- **Credit Request.** Consumers complete a single loan request form for the selected loan with information regarding their income, assets and liabilities, loan preferences and other data. Consumers also consent to the retrieval of their credit report.

- **Loan Request Form Matching and Transmission.** Tree.com matches a given consumer's loan request form data, credit profile and geographic location against certain pre-established creditworthiness criteria of Network Lenders, which may be modified from time to time. Once a given loan request passes through the matching process, the loan request is automatically transmitted to up to four or five Network Lenders.

- **Lender Evaluation and Response.** Network Lenders who receive a loan request form evaluate the information in the loan request to determine whether to make a conditional loan offer. If a given Network Lender does not respond with a conditional loan offer, the loan request form is directed through the matching process a second time in an attempt to match the consumer with another Network Lender.

- **Communication of a Conditional Offer.** If one or more Network Lenders make a conditional offer, the consumer is automatically notified via e-mail, typically within minutes after the submission of the loan request form. Through these e-mails, consumers may access a dedicated webpage where they can view the proposed terms of each conditional offer, including: interest rate, closing costs, monthly payment amount, lender fees and other information. If a consumer does not have access to e-mail, conditional offers are provided to the consumer by phone or fax.

- **Loan Processing.** Consumers work offline with the relevant Network Lender to provide additional information bearing on creditworthiness to the Network Lender. If the Network Lender approves a consumer, it will then underwrite and originate the loan.

- **Ongoing Consumer and Lender Support.** Active e-mail and telephone follow-up and support is provided to both Network Lenders and consumers during the loan transaction process. This follow-up and support is designed to provide technical assistance and increase overall satisfaction of Network Lenders, as well as increase the percentage of consumers who close a loan through financial institutions found through the Lending Business.

The Lending Business also offers a short-form matching process under the LendingTree® and GetSmart® brands. This process, which provides consumers with lender contact information only, typically requires the consumer to submit less data than that required in connection with the matching process described above.

The Lending Business does not charge consumers a fee to use its lending networks. Substantially all revenues from lending networks are derived from both up-front matching fees and paid by Network Lenders who receive a loan request form and closing fees paid by Network Lenders who close a transaction with the consumer. Since a given loan request form can be matched with more than one Network Lender, multiple match fees may be generated from the same form. Matching fees are recognized at the time the loan request form is transmitted and closing fees are recognized at the time the Network Lender reports that it has closed the loan, which may be several months after the time the loan request form is transmitted.

***LendingTree Loans/Home Loan Center, Inc.***

The Lending Business also originates, processes, approves and funds various consumer mortgage loans through a Tree.com subsidiary, Home Loan Center, Inc., which operates primarily under the brand name "LendingTree Loans®." For these purposes, the Lending Business maintains loan origination offices in California and, to a lesser extent, North Carolina, and is able to provide a broad range of mortgage loan products to consumers in most states, primarily conforming and prime loans, and, to a lesser extent, non-conforming, Alt-A and subprime loans. Products available include both adjustable loans and fixed rate loans.

A summary of loans sold by type of loan for each of the three years in the period ended December 31, 2007 and the three months ended March 31, 2008 and 2007 and the loans held as of the periods then ended is presented below (in millions):

| | Year Ended December 31, | | | Three Months Ended March 31, | |
|---|---|---|---|---|---|
| | **2005** | **2006** | **2007** | **2007** | **2008** |
| **Loans Sold** | | | | | |
| Conforming | $ 3,462 | $ 3,773 | $ 4,210 | $ 1,132 | $ 523 |
| % of Total | 48.2% | 47.9% | 69.3% | 58.6% | 86.3% |
| Non-Conforming /Alt-A | $ 2,291 | $ 2,386 | $ 1,323 | $ 504 | $ 83 |
| % of Total | 31.9% | 30.0% | 21.8% | 26.1% | 13.7% |
| SubPrime | $ 269 | $ 251 | $ 51 | $ 44 | $ — |
| % of Total | 3.7% | 3.2% | 0.8% | 2.3% | — |
| Home equity | $ 1,161 | $ 1,461 | $ 489 | $ 252 | $ 0.2 |
| % of Total | 16.2% | 18.6% | 8.1% | 13.1% | — |
| **Total** | **$ 7,183** | **$ 7,871** | **$ 6,073** | **$ 1,932** | **$ 606** |
| | **December 31,** | | | **March 31,** | |
| | **2005** | **2006** | **2007** | **2007** | **2008** |
| **Loans Held For Sale** | | | | | |
| Conforming | $ 124 | $ 147 | $ 76 | $ 219 | $ 74 |
| % of Total | 33.0% | 42.2% | 82.2% | 53.0% | 79.1% |
| Non-Conforming /Alt-A | $ 140 | $ 102 | $ 10 | $ 119 | $ 13 |
| % of Total | 37.5% | 29.2% | 10.5% | 28.8% | 14.0% |
| SubPrime | $ 32 | $ 22 | $ 2 | $ 6 | $ 2 |
| % of Total | 8.7% | 6.3% | 2.7% | 1.5% | 2.5% |
| Home equity | $ 78 | $ 78 | $ 4 | $ 69 | $ 4 |
| % of Total | 20.8% | 22.3% | 4.6% | 16.7% | 4.4% |
| **Total** | **$ 374** | **$ 349** | **$ 92** | **$ 413** | **$ 93** |

All LendingTree Loans® -branded loan originations are derived from consumer loan requests received through *www.lendingtree.com*, *www.getsmart.com* or 1-800-555-TREE. A portion of all consumer loan request forms received through these channels are referred to LendingTree Loans. LendingTree Loans offers those consumers a choice among various loan alternatives, with loan pricing based upon different wholesale offerings received by LendingTree Loans from the secondary market investors who purchase the loans (plus a fixed margin to cover internal costs). LendingTree Loans maintains controls to ensure that its consumer loan pricing correlates to secondary market pricing and to ensure that its consumers receive multiple loan alternatives, thus maintaining the competition and choice elements inherent in the LendingTree brand. Tree.com believes that LendingTree Loans provides value to consumers who do not wish to negotiate with multiple lenders, but still wish to obtain loan alternatives.

LendingTree Loans® -branded loans are funded and closed using proceeds from borrowings under available warehouse lines of credit or repurchase agreements. Substantially all of the loans funded are sold, along with the accompanying loan servicing rights, to investors in the secondary market, generally within 30 days of funding, with the proceeds from such sales being used to repay borrowings under the warehouse lines of credit or repurchase agreements. For terms of the warehouse lines of credit and repurchase agreements see "Financial Position, Liquidity and Capital Resources."

Although most of Home Loan Center, Inc.'s consumer leads are sourced through *www.lendingtree.com* or 1-800-555-TREE and originated under the LendingTree Loans® brand, a small portion of Home Loan Center' Inc.'s leads are sourced from a variety of non-LendingTree channels, including third-party online lead aggregators, direct mail marketing campaigns and *www.homeloancenter.com*. When obtaining leads from third-party sources, Home Loan Center, Inc. operates under its traditional name and brand (HomeLoanCenter®). Consumers who request loans through the HomeLoanCenter® brand typically receive single loan offers. HomeLoanCenter® -branded loans are funded, closed and sold into the secondary market in the same manner, and on substantially the same terms, as LendingTree Loans® -branded loans.

Revenues from direct lending operations are derived from the sale of loans to secondary market investors and from origination and other fees paid by borrowers. Of Home Loan Center, Inc.'s seventeen secondary market investors, the two largest, Countrywide and CitiMortgage, represented approximately 28% and 13%, respectively, of Tree.com's consolidated revenue in 2007. See "Risk Factors Relating to the Business of Tree.com Following the Spin-Offs—Adverse Events and Trends."

***LendingTree Settlement Services***

The Lending Business also provides loan settlement services, including title insurance, appraisal and other collateral evaluation products, flood insurance, escrow, and closing services, through LendingTree Settlement Services, Inc., which provides services to Network Lenders, as well as to Home Loan Center, Inc. (including when doing business as LendingTree Loans®). In addition, Home Loan Center, Inc. offers escrow and sub-escrow services through its subsidiary, HLC Escrow, Inc.

Revenues from LendingTree Settlement Services are derived from service fees paid by lenders, which fees may or may not be passed on by the lender to the loan customer. Revenues from escrow and sub-escrow services are derived from fees charged to the consumer by the lender or by Home Loan Center, Inc.

***Other Businesses***

Through the LendingTree.com and GetSmart.com websites, Tree.com's Lending Business also offers:

- unsecured loans, through which consumers are matched with multiple lenders using a network-based process similar to the mortgage loan matching process described above;
- automobile loans, through which consumers are linked with one or more third-party automobile lenders;
- credit cards, through which consumers can search various credit card offerings through a third-party vendor;
- student loans, through which consumers receive initial student loan offers through a third-party vendor; and
- various consumer insurance products, pursuant to which consumers are linked with licensed insurance agents and insurance lead aggregators to obtain insurance offers.

Revenues from these businesses are derived either from matching and closing fees, or in some cases, volume-based marketing fees. While the revenues from these businesses do not currently represent a significant portion of the revenues of the Lending Business, these revenues are expected to grow over time.

#### *Competition*

Tree.com's Lending Business, particularly its lending networks, competes with other lead aggregators, including online intermediaries that operate network-type arrangements. In the case of the direct lending operations, Tree.com believes that the primary competitors of its Lending Business are traditional lending institutions, including those that are developing their own direct, online lending channels. While these financial institutions do not operate lending networks, they process, close and fund loans as direct lenders through well-recognized, national brands, many of which are industry leaders. Tree.com's Lending Business also faces additional competition from direct lending websites owned and operated by other online lenders that originate the bulk of their loans through their websites or by phone. These companies typically operate a consumer-branded website and attract consumers via online banner ads, key word placement on search engines, partnering with affiliates and business development arrangements with other properties, including major online portals.

### Real Estate Business

#### *Real Estate Brokerage*

RealEstate.com, REALTORS® is Tree.com's proprietary real estate brokerage business, which currently operates in the following 14 markets: Greater Portland, Seattle, Denver, Salt Lake City, San Diego, Las Vegas, Phoenix, Tucson, Sierra Vista (AZ), Charlotte, New York, New Jersey, Philadelphia and Boston. Most of the business for the proprietary real estate brokerage is internally generated based on consumers accessing *www.realestate.com* or by calling 1-800-REALESTATE. The brokerage recruits agents to join as independent contractors, for whom it then generates leads, with the brokerage retaining a significant share of the gross commission on closed transactions originating from company-generated leads (and a lesser share in the case of agent-generated leads). Tree.com uses both a central agent recruiting group in Charlotte, as well as local recruiting efforts, to identify agents who fit its model and would be willing to join the company. Third-party brokerage services provided by approximately 300 real estate brokerage firms are also available through *www.realestate.com* or by calling 1-800-REALESTATE. The Real Estate Business has developed relationships with brokers over the years, and targets prospective companies based on available lead flow by geography, their willingness to work with a lead generation company under Tree.com's terms and conditions, and the belief that such brokerage firms would generate an acceptable closing conversion rate. These third-party brokerage services are available nationwide, as well as in the 14 markets in which RealEstate.com, REALTORS® currently operates. Once the consumer and the real estate professional are matched and agree to work together, the remainder of the transaction is completed locally.

The proprietary real estate brokerage business earns revenues through the real estate brokerage commissions it collects in connection with company- and agent-generated transactions. The Real Estate Business also earns revenue from referral fees paid by participating real estate brokerages.

#### *Other Real Estate Services*

The Real Estate Business also owns and operates *www.inest.com*, a website that matches potential purchasers of newly constructed homes with new home builders. iNest.com is currently available in 28 states and allows consumers to view new home community information (new home listings) on the iNest website. From the iNest website consumers can print a coupon to present to builders that participate in the iNest.com network upon his or her first visit to a home site, which signifies that iNest.com will act as the buyer's real estate broker for a new home purchase from that builder. Upon closing, the builder pays a commission to iNest, which in turn is split between iNest, the licensed iNest real estate broker representing the consumer, and the consumer.

***Competition***

Tree.com's Real Estate Business competes with all real estate brokerages within the RealEstate.com, REALTORS fourteen markets. These brokerages are comprised mainly of traditional real estate companies operating as independent brands or franchisees, as well as non-traditional models, such as salaried-agent, fee-for-service, flat-fee, discount, or rebate commission models, many of which generate leads from the Internet. In addition, the Real Estate Business competes for customers with companies that are not brokerages, such as websites that aggregate real estate broker listings without related services and customer support. Given the downturn in the credit and mortgage markets, and the decline in the number of housing transactions, competition in this segment has increased.

**Regulation and Legal Compliance**

Tree.com businesses market and provide services in heavily regulated industries through a number of different online and offline channels across the United States (see "Risk Factors Relating to the Business of Tree.com Following the Spin-Offs—Compliance and Changing Laws, Rules and Regulations"). As a result, they are subject to a variety of statutes, rules, regulations, policies and procedures in various jurisdictions in the United States, including:

- Restrictions on the amount and nature of fees or interest that may be charged in connection with a loan, in particular, state usury and fee restrictions;

- Restrictions on the manner in which consumer loans are marketed and originated, including the making of required consumer disclosures, such the federal Truth-in-Lending Act, the federal Equal Credit Opportunity Act, the federal Fair Credit Reporting Act, the federal Fair Housing Act, the federal Real Estate Settlement Procedures Act (RESPA), and similar state laws;

- Restrictions on the amount and nature of fees that may be charged lenders and real estate professionals for providing or obtaining consumer leads, in particular, RESPA;

- Restrictions on the amount and nature of fees that may be charged consumers for real estate brokerage transactions, including any incentives and rebates, that may be offered to consumers by Tree.com businesses;

- State, and in some instances, federal, licensing or registration requirements applicable to both individuals or businesses engaged in the making or brokerage of loans (or certain kinds of

  loans, such as loans made pursuant to the Federal Housing Act), or the brokering of real estate transactions; and

- State and federal restrictions on the marketing activities conducted by telephone, the mail or by email, or over the internet, including the Telemarketing Sales Rule, state telemarketing laws, federal and state privacy laws, the CAN-SPAM Act, the Federal Trade Commission Act and its accompanying regulations and guidelines.

**Employees**

As of December 31, 2007, Tree.com had approximately 1,000 full-time employees. None of Tree.com's employees are represented under collective bargaining agreements. Tree.com considers its relations with its employees and independent contractors to be good.

**Properties**

Tree.com's principal executive offices, together with certain personnel and operations of its Lending and Real Estate Businesses, are currently located in approximately 89,000 square feet of office space in Charlotte, North Carolina under leases that expire in 2015. 95,500 square feet of office space in Irvine, California is utilized by Home Loan Center, Inc. under a lease expiring in 2010, and 31,667 square feet of office space in Jacksonville, Florida is utilized by LendingTree Settlement Services under leases that expire in 2009.

**Tree.com Legal Proceedings**

In the ordinary course of business, Tree.com and its subsidiaries are parties to litigation involving property, personal injury, contract, intellectual property and other claims. The amounts that may be recovered in such matters may be subject to insurance coverage. Tree.com does not believe that such ordinary course litigation will have a material effect on its business, financial condition or results of operations.

Rules of the Securities and Exchange Commission require the description of material pending legal proceedings, other than ordinary, routine litigation incident to the registrant's business, and advise that proceedings ordinarily need not be described if they primarily involve damage claims for amounts (exclusive of interest and costs) not exceeding 10% of the current assets of the registrant and its subsidiaries on a consolidated basis. Certain of the pending litigation matters described below, which management believes are the material litigations that Tree.com now faces, could involve amounts of the magnitude described above.

**Patent Litigation**

***Block Financial Corp. v. LendingTree, Inc.*, No. 01-cv-1007 ODS (U.S. Dist. Ct., W.D. Mo.); *LendingTree, LLC v. Block Financial LLC*, No. 08-cv-164 ODS (U.S. Dist. Ct., W.D. Mo.).** On September 14, 2001, Block Financial Corporation ("Block") filed suit against LendingTree, LLC in the U.S. District Court for the Western District of Missouri, alleging that LendingTree, LLC's loan-matching process infringes U.S. Patent No. 6,014,645 (the "'645 patent"), which generally claims a real-time application system for financial cards. Block seeks damages, attorneys' fees and injunctive relief.

In 2002, LendingTree, LLC filed a petition to reexamine the '645 patent with the United States Patent and Trademark Office. The Patent Office agreed to reexamine the '645 patent, and the court stayed the litigation pending reexamination. In December 2006, the Patent Office republished the patent, with certain modifications. The court then lifted its stay of the litigation. On September 27, 2007, the court issued a claim construction order. The case is currently in discovery. Trial is scheduled for March 2009.

In February 2008, Block provided LendingTree, LLC with notice of a recently issued patent, U.S. Patent No. 7,310,617 (the "'617 patent"), a continuation of the '645 patent that purports to claim a real-time application system for financial offerings (as opposed to only financial cards). On March 6, 2008, LendingTree, LLC filed suit in the U.S. District Court for the Western District of Missouri seeking a declaration that the '617 patent is invalid. On April 14, 2008, Block filed an answer and counterclaim. Block asserts that LendingTree, LLC's loan-matching process infringes the '617 patent. Block seeks damages, attorneys' fees and injunctive relief. The case is currently in discovery.

***IMX, Inc. v. E-Loan, Inc., et al.*, No. 03-CV-1067 (U.S. Dist. Ct., D. Del.).** On November 24, 2003, IMX, Inc. ("IMX") filed suit against LendingTree, LLC and several other companies in the U.S. District Court for the District of Delaware, alleging infringement of U.S. Patent No. 5,995,947 (the "'947 patent"), which generally claims an interactive real-time trading system for loans. In its complaint, IMX sought damages, attorneys' fees and injunctive relief. On January 26, 2004, LendingTree, LLC filed a counterclaim seeking a declaration that the '947 patent is invalid and unenforceable.

On December 14, 2005, the court (i) construed the claims of the '947 patent, (ii) granted partial summary judgment to LendingTree, LLC, limiting recoverable damages to the period commencing after the filing of suit due to IMX's failure to "mark" its website with its patent and (iii) denied the parties' cross-motions for summary judgment on the issues of infringement and invalidity.

The case against LendingTree, LLC went to trial, and on January 23, 2006, the jury returned a verdict finding infringement and awarding IMX approximately $5.8 million in damages. The jury also found that the infringement was willful and that the asserted claims of the '947 patent are valid. LendingTree, LLC subsequently designed and implemented a work-around to avoid further infringement of the '947 patent.

On January 10, 2007, the court, ruling on various post-trial motions, (i) denied IMX's motion for a permanent injunction and its request for attorneys' fees, (ii) enhanced the damages award by 50% in light of the jury's finding of willful infringement, (iii) awarded IMX pre- and post-judgment interest, (iv) rejected LendingTree, LLC's counterclaim alleging inequitable conduct by IMX and (v) entered judgment in favor of IMX for approximately $8.7 million plus interest.

On July 27, 2007, the court, ruling on additional motions, (i) denied IMX's renewed request for an injunction, (ii) awarded IMX approximately $2.7 million in supplemental damages for the post-verdict, pre-design-around period, (iii) denied IMX's request to enhance those supplemental damages and (iv) awarded IMX approximately $1.0 million in pre-judgment interest and approximately $0.2 million in post-judgment interest to date. On August 9, 2007, an amended judgment was entered in favor of IMX for the foregoing amounts.

LendingTree, LLC appealed from this judgment to the U.S. Court of Appeals for the Federal Circuit. IMX cross-appealed from the District Court's order prohibiting recovery of damages attributable to the period prior to the filing of the complaint, and from the court's refusal to award enhanced damages for post-verdict infringement. Briefing on the appeals has been completed. Oral argument has not yet been scheduled.

As of December 31, 2007, LendingTree, LLC's reserve for this matter was approximately $12.8 million. In connection with the appeal, IAC executed a guarantee in favor of LendingTree, LLC in the amount of $13.5 million in lieu of LendingTree, LLC posting a bond. Before the spin-off of Tree.com is consummated, LendingTree, LLC will have to put in place a bond or similar security.

***Source Search Technologies, LLC v. LendingTree, LLC,* No. 2:04-CV-04420 (U.S. Dist. Ct., D.N.J.).** On September 13, 2004, Source Search Technologies, LLC ("SST") filed suit against LendingTree, LLC and other companies in the U.S. District Court for the District of New Jersey, alleging infringement of U.S. Patent No. 5,758,328 (the "'328 patent"), which generally claims a computerized procurement system. SST seeks damages, attorneys' fees and injunctive relief. On November 10, LendingTree, LLC filed a counterclaim seeking a declaration that the '328 patent is invalid and unenforceable.

The court issued claim construction orders on October 16 and November 13, 2007. Following the completion of discovery, LendingTree, LLC and SST filed cross-motions for summary judgment on the issues of infringement and invalidity. LendingTree, LLC also filed a motion for summary judgment on the ground that any infringement was not willful. The court heard oral argument on these motions on November 13, 2007 and February 4, 2008. The motions remain pending. No trial date has been set.

**Employment (Wage-and-Hour) Litigation**

***Gonzalez v. Home Loan Center, Inc.,* No. CV06-5007 (U.S. Dist. Ct., C.D. Cal.).** On August 9, 2006, Daniel Gonzalez filed this putative class action against Home Loan Center, Inc. (hereinafter, for the purpose of this section, "HLC") in the U.S. District Court for the Central District of California.

Plaintiff, a former HLC loan officer, asserts that HLC: failed to pay overtime; failed to pay wages due upon termination; failed to provide proper wage statements; failed to reimburse employees for expenses and/or improperly deducted wages for business-related expenses; and failed to provide meal and rest periods. Based upon these factual allegations, Plaintiff asserts violations of various California wage and hour laws, conversion, and violations of California Business & Professions Code § 17200. Plaintiff purports to represent a class of loan officers employed by HLC in California since August 9, 2002, and seeks damages, restitution, attorneys' fees and injunctive relief.

On December 27, 2006, Plaintiff filed a second amended complaint, adding two additional plaintiffs, David Nottingham and Jeffrey Howerton. Because these new plaintiffs had signed agreements with HLC to arbitrate all employment-related claims, HLC filed a motion to compel arbitration.

Following a mediation held in September 2007, the parties entered into an agreement to settle this action. Under the settlement agreement, HLC has agreed to pay a maximum of $4.0 million, inclusive of payments to class members as well as attorneys' fees and costs. The settlement agreement must be approved by the court in order to become effective. On May 13, 2008, Plaintiffs filed a motion for preliminary approval of the settlement. On June 13, 2008, the court, following a hearing, granted Plaintiffs' motion and preliminarily approved the settlement. The court also scheduled a final approval hearing for December 16, 2008.

As of December 31, 2007, LendingTree, LLC's reserve for this matter was approximately $2.1 million. This figure reflects Tree.com's estimates as to the minimum percentage of class members likely to submit claims for payment and the contractual indemnity obligations of former HLC shareholders for liability that arose prior to LendingTree, LLC's acquisition of HLC.

***Richardson v. Home Loan Center, Inc.*, No. 07CC01337 (Cal. Super. Ct., Orange Cty.).** On August 2, 2007, Angela Richardson filed this putative class action against HLC in the California Superior Court for Orange County. Plaintiff, a former HLC loan processor, alleges that HLC: failed to pay overtime; failed to provide meal and rest periods; failed to pay wages due upon termination; and failed to provide proper wage statements. Based upon these factual allegations, plaintiff asserts that HLC violated various California wage and hour laws as well as California Business & Professions Code § 17200. Plaintiff purports to represent all loan processors, funders and underwriters employed by HLC since August 2, 2003, and seeks damages, restitution, attorneys' fees and injunctive relief.

On December 21, 2007, plaintiff filed a second amended complaint. On February 15, 2008, HLC filed a demurrer and a motion to strike portions of the second amended complaint. On April 3, 2008, the court overruled the demurrer and denied the motion to strike. On April 23, 2008, HLC filed an answer to the second amended complaint.

Plaintiffs have not yet filed a motion for class certification. No trial date has been set.

As of December 31, 2007, LendingTree, LLC's reserve for this matter was approximately $0.4 million. This reserve was established in connection with a settlement offer by HLC. No settlement has been reached to date.

***Primanto v. Home Loan Center, Inc.*, No. 07CC01382 (Cal. Super. Ct., Orange Cty.).** On September 28, 2007, William Primanto filed this putative class action against HLC in the California Superior Court for Orange County. Plaintiff, a former HLC loan officer, alleges that HLC failed to pay overtime and asserts violations of various California wage and hour laws and of California Business & Professions Code § 17200. Plaintiff purports to represent all loan officers employed by HLC in California since September 28, 2003, and seeks compensatory damages, statutory penalties, restitution and attorneys' fees.

On December 13, 2007, the court, at the request of the parties, entered an order staying the action pending resolution of the *Gonzalez* action (discussed above). The case remains stayed.

***Johanson v. Home Loan Center, Inc.*, No. 07CC01405 (Cal. Super. Ct., Orange Cty.).** On November 8, 2007, Brian Johanson and Brendan Dwyer filed this putative class action against HLC in the California Superior Court for Orange County. Plaintiffs, former HLC loan officers, assert that HLC: failed to pay overtime, compensation, commission wages and bonus wages; failed to provide proper wage statements; failed to provide rest periods and meal periods or compensation in lieu thereof; and failed to pay wages due employees upon termination. Based upon these factual allegations, Plaintiffs assert violations of various California wage and hour laws and of California Business & Professions Code § 17200. Plaintiffs purport to represent a class of all persons employed by HLC in California since November 8, 2003, and seek compensatory damages, statutory penalties, restitution and attorneys' fees.

On February 21, 2008, HLC filed an answer to the complaint. Plaintiffs have not yet filed a motion for class certification. No trial date has been set.

***D'Asero v. Home Loan Center, Inc.*, No. SACV08-384 (U.S. Dist. Ct., C.D. Cal.).** On April 9, 2008, Frank D'Asero, Ezekial Mohammed, Pouria Safabakhsh and Michael McCarver filed this putative class action against HLC in the U.S. District Court for the Central District of California. Plaintiffs, former HLC loan officers, allege that HLC: denied overtime compensation in violation of federal labor law; denied overtime compensation in violation of California labor law; failed to pay wages for compensable meal breaks in violation of California labor law; made unauthorized deductions from earned wages, failed to indemnify employees and coerced purchases in violation of California labor law; made unauthorized deductions from wages in violation of North Carolina labor law; failed to pay timely wages in violation of California labor law; failed to pay wages in violation of North Carolina labor law; failed to furnish itemized wage statements in violation of California labor law; and based upon the foregoing, committed unfair business practices in violation of California Business & Professions Code § 17200.

Plaintiffs purport to represent all loan officers employed by HLC in California since April 9, 2004 and all loan officers employed by HLC in North Carolina since April 9, 2006. Plaintiffs also purport to bring a collective action under the federal Fair Labor Standards Act on behalf of all loan officers employed by HLC since April 9, 2005. Plaintiffs seek declaratory relief, an injunction, liquidated damages, compensatory damages, attorneys' fees, restitution and penalties.

On May 30, 2008, HLC filed a motion to compel arbitration of Plaintiffs' claims based upon their signed agreements with HLC to arbitrate all employment-related claims.

On June 10, 2008, Plaintiffs filed a first amended complaint, which added a new claim for violation of California's Private Attorneys General Act of 2004. In addition, on June 10, 2008, Plaintiffs filed a motion for conditional class certification. A hearing date on Plaintiffs' motion is scheduled for July 1, 2008.

On June 17, 2008, the parties executed a joint stipulation and proposed order staying all proceedings for 90 days to facilitate mediation. The parties have filed the joint stipulation and proposed order with the court for approval.

Plaintiffs have not yet filed a motion for class certification. No trial date has been set.

**Privacy/Information Security Litigation**

***Miller v. LendingTree, LLC,* No. 08cv2300 (U.S. Dist. Ct., N.D. Ill.).** On April 22, 2008, Eugene Miller filed this putative class action against LendingTree, LLC in the U.S. District Court for the Northern District of Illinois. The case arises out of LendingTree, LLC's April 21, 2008 announcement that unauthorized persons had gained access to non-public information relating to its customers. Plaintiff alleges that LendingTree, LLC is a "consumer reporting agency" within the meaning of the FCRA and has violated the FCRA by failing to maintain reasonable procedures designed to limit the furnishing of consumer reports. Plaintiff also asserts claims for negligence, breach of implied contract, invasion of privacy and misappropriation of confidential information. Plaintiff purports to represent all LendingTree, LLC customers affected by the information security breach, and seeks damages, attorneys' fees and injunctive relief.

Plaintiffs have not yet filed a motion for class action certification. No trial date has been set.

***Mitchell v. Home Loan Center, Inc.*, No. 08-448-HE (U.S. Dist. Ct., W.D. Okla.).** On April 28, 2008, Angela Mitchell filed this putative class action against Home Loan Center, Inc. and LendingTree, LLC in the U.S. District Court for the Western District of Oklahoma. As in the *Miller* case (discussed above), the case arises out of LendingTree, LLC's April 21, 2008 announcement that unauthorized persons had gained access to non-public information relating to its customers. Plaintiff asserts claims for breach of contract, negligence and negligence per se. Plaintiff purports to represent all similarly situated persons, and seeks damages, attorneys' fees and injunctive relief.

Plaintiffs have not yet filed a motion for class action certification. No trial date has been set.

***Constance Spinozzi v. LendingTree, LLC*, No. 3:08-cv-229 (U.S. Dist. Ct., W.D.N.C.).** On May 15, 2008, Constance Spinozzi filed this putative class action against LendingTree, LLC in the U.S. District Court for the Western District of North Carolina. As in the *Miller* case (discussed above), the case arises out of LendingTree, LLC's April 21, 2008 announcement that unauthorized persons had gained access to non-public information relating to its customers. Plaintiff alleges that LendingTree, LLC is a "consumer reporting agency" within the meaning of the FCRA and has violated the FCRA by failing to maintain reasonable procedures designed to limit the furnishing of consumer reports. Plaintiff also asserts claims for negligence and breach of implied contract. Plaintiff purports to represent all LendingTree, LLC customers affected by the information security breach, and seeks damages, attorneys' fees and injunctive relief.

On June 11, 2008, Plaintiff and the plaintiff in the *Carson* case (discussed below) filed a motion with the Judicial Panel on Multidistrict Litigation requesting that it (1) exercise jurisdiction over all actions arising out of LendingTree, LLC's April 21, 2008 announcement that unauthorized persons had gained access to non-public information relating to its customers; and (2) consolidate all such cases and transfer them to the U.S. District Court for the Western District of North Carolina.

Plaintiffs have not yet filed a motion for class certification. No trial date has been set.

***Marvin Garcia v. LendingTree, LLC*, No. 08 Civ. 4551 (U.S. Dist. Ct., S.D.N.Y.).** On May 16, 2008, Marvin Garcia filed this putative class action against LendingTree, LLC in the U.S. District Court for the Southern District of New York. As in the *Miller* case (discussed above), the case arises out of LendingTree, LLC's April 21, 2008 announcement that unauthorized persons had gained access to non-public information relating to its customers. Plaintiff asserts claims for breach of contract and negligence. Plaintiff purports to represent all LendingTree, LLC customers affected by the information security breach, and seeks damages, attorneys' fees and injunctive relief.

Plaintiffs have not yet filed a motion for class certification. No trial date has been set.

***Sylvia Carson v. LendingTree, LLC*, No. 3:08-cv-247 (U.S. Dist. Ct., W.D.N.C.).** On May 30, 2008, Sylvia Carson filed this putative class action against LendingTree, LLC in the U.S. District Court for the Western District of North Carolina. As in the *Miller* case (discussed above), the case arises out of LendingTree, LLC's April 21, 2008 announcement that unauthorized persons had gained access to non-public information relating to its customers. Plaintiff alleges that LendingTree, LLC is a "consumer reporting agency" within the meaning of the FCRA and has violated the FCRA by failing to maintain reasonable procedures designed to limit the furnishing of consumer reports. Plaintiff also asserts claims for negligence and breach of implied contract. Plaintiff purports to represent all LendingTree, LLC customers affected by the information security breach, and seeks damages, attorneys' fees and injunctive relief.

As set forth in the *Spinozzi* discussion (above), on June 11, 2008, Plaintiff and the *Spinozzi* plaintiff filed a motion with the Judicial Panel on Multidistrict Litigation requesting that it (1) exercise jurisdiction over all actions arising out of LendingTree, LLC's April 21, 2008 announcement that unauthorized persons had gained access to non-public information relating to its customers; and (2) transfer and consolidate all such cases in the U.S. District Court for the Western District of North Carolina.

Plaintiffs have not yet filed a motion for class certification. No trial date has been set.

***Amy Bercaw v. LendingTree, LLC,* No. SACV08-660 (U.S. Dist. Ct., C.D. Cal.).** On June 13, 2008, Amy Bercaw, Russell Winsett and Ty Woods filed this putative class action against LendingTree, LLC in the U.S. District Court for the Central District of California. As in the *Miller* case (discussed above), the case arises out of LendingTree, LLC's April 21, 2008 announcement that unauthorized persons had gained access to non-public information relating to its customers. Plaintiffs allege that LendingTree, LLC is a "consumer reporting agency" within the meaning of the FCRA and has violated the FCRA by failing to maintain reasonable procedures designed to limit the furnishing of consumer reports. Plaintiffs also assert claims against LendingTree, LLC for negligence, breach of implied contract, invasion of privacy, misappropriation of confidential information in violation of California Civil Code § 17980.89, and violation of California Business and Professions Code § 17200. Plaintiff purports to represent all LendingTree, LLC customers affected by the information security breach, and seeks damages, attorneys' fees and injunctive relief.

Plaintiffs have not yet filed a motion for class certification. No trial date has been set.

**Other Litigation**

***Boschma v. Home Loan Center, Inc.*, No. SACV07-613 (U.S. Dist. Ct., C.D. Cal.).** On May 25, 2007, Clarence and Shirley Boschma filed this putative class action against HLC in the U.S. District Court for the Central District of California. 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, Plaintiffs assert violations of the federal Truth in Lending Act (the "TILA"), violations of California Business and Professions Code § 17200 (the "UCL"), breach of contract, breach of the covenant of good faith and fair dealing and violations of California's Consumer Legal Remedies Act (the "CLRA"). Plaintiffs purport to represent a class of all individuals who between June 1, 2003 and May 31, 2007 obtained through HLC an option ARM loan on their primary residence located in California, and seek rescission, damages, attorneys' fees and injunctive relief. On August 10, 2007, Plaintiffs filed a first amended complaint that dropped their CLRA claim.

On September 11, 2007, HLC filed a motion to dismiss and a motion to strike the amended complaint. In its motion to dismiss, HLC argued that Plaintiffs' UCL claim should be dismissed because they fail to properly allege that they or the putative class members suffered injury as a result of HLC's alleged misrepresentations. The motion to dismiss also requests dismissal of Plaintiffs' claims for breach of contract and for breach of the implied covenant of good faith and fair dealing. HLC's motion to strike requests that the court strike Plaintiffs' demand for class-wide rescission under the TILA and demand for disgorgement the UCL. Plaintiffs opposed both motions. On May 27, 2008, the court granted HLC's motion to dismiss, denied HLC's motion to strike as moot, and granted Plaintiffs leave to file a second amended complaint. On June 16, 2008, Plaintiffs filed a second amended complaint, which added a claim for fraudulent omissions.

The parties have agreed not to conduct discovery until after the court rules on HLC's motions. Plaintiffs have not yet filed a motion for class certification. No trial date has been set.

***Gaines v. Home Loan Center, Inc.*, No. SACV08-667 (U.S. Dist. Ct., C.D. Cal.).** On June 13, 2008, Joanne Gaines and Johnnie Cave filed this putative class action against HLC and LendingTree, LLC in the U.S. District Court for the Central District of California. Plaintiffs allege, in essence, that (1) HLC failed to disclose that the bundled amount for certain loan closing services (called the "TrueCost") that HLC charged to Plaintiffs was greater than HLC's actual costs for those services; (2) HLC's option ARM (adjustable rate mortgage) note failed to tell Plaintiffs that the stated interest rate and payment amounts would change after the first month and that the payment amount stated in the note was not sufficient to pay interest charges, resulting in negative amortization; and (3) HLC misrepresented that Plaintiffs would have to obtain a home equity line of credit in order to obtain a low interest rate on their option ARM loans. Based upon these factual allegations, Plaintiffs assert violations of the federal Racketeer Influenced and Corrupt Organizations Act, the federal Truth in Lending Act, California Business and Professions Code §§ 17200 and 17500, California's Consumers Legal Remedies Act, breach of contract, breach of the implied covenant of good faith and fair dealing, unjust enrichment, conversion, and money had and received.

Plaintiffs purport to represent all HLC customers who, since December 14, 2004 (1) were charged by HLC and paid a TrueCost amount that exceeded HLC's actual costs for the TrueCost services; and/or (2) entered into option ARM loan agreements with HLC; and/or (3) were misled into taking out a home equity line of credit along with their option ARM mortgage. Plaintiffs seek restitution, disgorgement, damages, attorneys' fees and injunctive relief.

Plaintiffs have not yet filed a motion for class certification. No trial date has been set.

***Cavin v. Home Loan Center, Inc.*, No. 05 C 4987 (U.S. Dist. Ct., N.D. Ill.).** On August 29, 2005, Lawrence and Theresa Cavin filed this putative class action against HLC in the U.S. District Court for the Northern District of Illinois. Plaintiffs allege that HLC violated the federal Fair Credit Reporting Act (the "FCRA") by accessing credit report files in order to send them and other Illinois residents a "prescreened" mailer that did not contain a "firm offer of credit" as required by the statute. Plaintiffs purport to represent all Illinois residents who received an HLC prescreened mailer since August 29, 2003, and seek statutory damages, attorneys' fees and injunctive relief.

On May 10, 2006, the district court certified a class of approximately 50,000 Illinois residents. Following the completion of discovery, the parties filed cross-motions for summary judgment on the issues of (i) whether HLC's prescreened mailer was a "firm offer of credit" under the FCRA and (ii) whether any violation of the statute by HLC was "willful" and therefore could serve as a predicate for statutory damages. On January 10, 2007, the court granted HLC's motion and dismissed the case, ruling that HLC's prescreened mailer was a "firm offer of credit" under the FCRA.

On January 16, 2007, Plaintiffs appealed to the U.S. Court of Appeals for the Seventh Circuit. Oral argument on the appeal was heard on October 24, 2007. No decision has been issued to date.

***Schnee v. LendingTree, LLC and Home Loan Center, Inc.*, No. 06CC00211 (Cal. Super. Ct., Orange Cty.).** On October 11, 2006, four individual plaintiffs filed this putative class action against LendingTree, LLC and HLC in the California Superior Court for Orange County. Plaintiffs allege that they used the LendingTree.com website to find potential lenders and without their knowledge were referred to LendingTree, LLC's direct lender, HLC; that Lending Tree, LLC and HLC did not adequately disclose the relationship between them; and that HLC charged Plaintiffs higher rates and fees than they otherwise would have been charged. Based upon these allegations, Plaintiffs assert that LendingTree, LLC and HLC violated California Business and Professions Code §§ 17200 and 17500 and California's Consumer Legal Remedies Act. Plaintiffs purport to represent a nationwide class of consumers who sought lender referrals from LendingTree, LLC and obtained loans from HLC since December 1, 2004. Plaintiffs seek damages, restitution, attorneys' fees and injunctive relief.

On November 27, 2006, LendingTree, LLC and HLC filed demurrers and a motion to strike portions of the complaint, arguing, among other things, that the complaint did not adequately allege that the named class representatives read and relied upon the allegedly deceptive representations on LendingTree, LLC's website. On January 25, 2007, the court sustained the demurrers and granted the motion to strike on the reliance issue, but otherwise overruled the demurrers and denied the motion to strike. On February 14, 2007, Plaintiffs filed their first amended complaint.

On March 12, 2007, LendingTree, LLC and HLC filed demurrers and a motion to strike portions of the first amended complaint. On May 17, 2007, the court overruled the demurrers and denied the motion to strike. On June 11, 2007, LendingTree, LLC and HLC filed an answer to the first amended complaint.

The case is currently in discovery. Plaintiffs have not yet filed a motion for class certification. No trial date has been set.

***Mortgage Store, Inc. v. LendingTree Loans d/b/a Home Loan Center, Inc.*, No. 06CC00250 (Cal. Super. Ct., Orange Cty.).** On November 30, 2006, The Mortgage Store, Inc. and Castleview Home Loans, Inc. filed this putative class action against HLC in the California Superior Court for Orange County. Plaintiffs, two former Network Lenders, allege that HLC interfered with LendingTree, LLC's contracts with Network Lenders by taking referrals from LendingTree, LLC. The complaint is largely based upon the factual allegations made in the *Schnee* complaint (described above). Based upon these factual allegation, Plaintiffs assert claims for intentional interference with contractual relations, intentional interference with prospective economic advantage, and violation of California Business and Professions Code §§ 17200 and 17500. Plaintiffs purport to represent all Network Lenders from December 14, 2004 to date, and seek damages, restitution, attorneys' fees, and punitive damages.

On February 8, 2007, HLC filed a demurrer and a motion to strike portions of Plaintiffs' complaint. On March 15, 2007, the court overruled the demurrer but granted the motion to strike in part, striking the portion of the complaint that sought restitution and disgorgement of all profits made by HLC from December 14, 2004 to date.

The case is currently in discovery. Plaintiffs have not yet filed a motion for class certification. No trial date has been set.

## RISK FACTORS RELATING TO THE BUSINESS OF TREE.COM FOLLOWING THE SPIN-OFFS

Tree.com's business, financial condition and results of operations are subject to certain risks that are described below and in the section "Risk Factors" beginning on page [ ]. You should carefully consider these risks and uncertainties. While Tree.com believes that the risks and uncertainties described below and elsewhere in this information statement include the most significant risk factors that should be considered by Tree.com's investors, these risks and uncertainties are not the only ones facing Tree.com and its businesses.

***Adverse Events and Trends—Adverse conditions in the credit and secondary mortgage markets, as well as the economy generally, could materially and adversely affect Tree.com's business, financial condition and results of operations.***

The credit and secondary mortgage markets have been (and are currently) experiencing unprecedented and continuing disruption, which have had, and are expected to continue to have, an adverse effect on Tree.com's business, financial condition and results of operations. These conditions, coupled with adverse economic conditions and continuing declines in residential real estate prices generally, has resulted, and is expected to continue to result, in decreased consumer demand for the lending and real estate offerings provided by Tree.com's networks and other businesses. Generally, increases in interest rates adversely affect the ability of the Lending Business and Network Lenders to close loans, while adverse economic trends limit the ability of the Lending Business and Network Lenders to offer home loan products other than low margin conforming loans. Likewise, adverse economic trends have reduced, and are expected to continue to reduce, the number of prospective home purchasers and home prices, which adversely affects Tree.com's Real Estate Business. Tree.com businesses may experience a further decline in demand for their offerings due to decreased consumer demand as a result of the conditions described above now or in the future. Conversely, during periods of robust consumer demand, which are typically associated with decreased interest rates, some Network Lenders may have less incentive to use Tree.com's networks. Prolonged declines in demand for offerings of Tree.com businesses could have a material adverse effect on Tree.com's business, financial condition and results of operations.

Tree.com's Lending Business originates, processes, approves and funds various consumer mortgage loans through Home Loan Center, Inc., which operates primarily under the brand name "LendingTree Loans®." These direct lending operations have significant financing needs that are currently being met through borrowings under warehouse lines of credit or repurchase agreements to fund and close loans, followed by the sale of substantially all loans funded to investors in the secondary mortgage markets. Current credit market conditions, such as significantly reduced (in comparison to historical periods) and limited availability of credit, increased credit risk premiums for certain market participants and increased interest rates generally, increase the cost and reduce the availability of debt and may continue for a prolonged period of time or worsen in the future. On January 31, 2008, a warehouse credit line of $500 million expired and was subsequently renewed at a reduced size of $50 million, which will expire on the earlier of 60 days prior to the spin-off or January 24, 2009 and can be cancelled at the option of the lender without default upon sixty days notice. On June 25, 2008, certain terms of the warehouse line of credit were waived in order for the line of credit not to expire 60 days prior to the spin-off. However, if the lender determines at any time prior to January 24, 2009 the spin-off materially and adversely affects Tree.com, the lender reserves the right to deem the line of credit expired prior to January 24, 2009. Although Tree.com believes that its lines of credit are sufficient for its current operations, further reductions in Tree.com's available credit could have an adverse effect on Tree.com's business, financial condition and results of operations. The Lending Business attempts to mitigate the impact of current conditions and future credit market disruptions by maintaining committed and uncommitted warehouse lines of credit (currently, two committed warehouse lines of credit) with financial institutions. However, these mitigation efforts may not be successful, current committed warehouse lines of credit may be inadequate to support operations or the cost of debt may not allow Home Loan Center, Inc. to operate at profitable levels. Because Home Loan Center, Inc. is highly dependent on the availability of credit to finance its operations, the continuation of current credit market conditions for a prolonged period of time or worsening of such conditions could have an adverse effect on Tree.com's business, financial condition and results of operations, particularly over the next few years.

The secondary mortgage markets have also been (and are currently) experiencing unprecedented and continued disruptions resulting from reduced investor demand for mortgage loans and mortgage-backed securities and increased investor yield requirements for those loans and securities. These conditions may continue for a prolonged period of time or worsen in the future. Home Loan Center, Inc. does not have the capital resources or credit necessary to retain the loans it funds and closes, and as a result sells substantially all such loans within 30 days of funding as discussed above. Accordingly, a prolonged period of secondary market illiquidity may force the Lending Business to significantly reduce the volume of loans that it originates and funds through Home Loan Center, Inc., which could have an adverse effect on Tree.com's business, financial condition and results of operations.

***Contingent Liabilities—Litigation and Indemnification of Secondary Market Purchasers—Litigation and indemnification of secondary market purchasers could have a material adverse effect on Tree.com's business, financial condition, results of operations and liquidity.***

In connection with the sale of loans to secondary market purchasers, Home Loan Center, Inc. makes certain representations regarding related consumer credit information, loan documentation and collateral. To the extent that these representations are incorrect, Home Loan Center, Inc. may be required to repurchase loans or indemnify secondary market purchasers for losses due to borrower defaults. While Home Loan Center, Inc. seeks to ensure that loans it originates comply with these representations and warranties, secondary market purchasers may take a contrary position. In connection with the sale of loans to secondary market purchasers, Home Loan Center, Inc. also agrees to repurchase loans or indemnify secondary market purchasers for losses due to early payment defaults (*i.e.*, late payments during a limited time period immediately following origination). In connection with the sale of a majority of its loans to secondary market purchasers, Home Loan Center, Inc. also agrees to repay all or a portion of the initial premiums paid by secondary market purchasers in instances where loans are prepaid prior to the end of relevant prepayment penalty periods.

Tree.com and its businesses are also parties to litigation involving a variety of matters, many of which involve damage claims for substantial amounts (see "Business of Tree.com—Legal Proceedings").

Tree.com believes that following the spin-offs it will have adequate resources to satisfy its obligations relating to the potential exposures described above. However, it is possible that these liabilities will be greater than anticipated. Given that Tree.com may have limited access to the credit markets following the spin-offs, if the liabilities are in excess of expectations, Tree.com's ability to satisfy such obligations may be dependent upon its ability to raise capital in the equity markets, which may be uncertain.

***Third-Party Relationships—Tree.com depends on relationships with Network Lenders, real estate professionals, credit providers and secondary market investors and any adverse changes in these relationships could adversely affect its business, financial condition and results of operations.***

The success of Tree.com depends, in significant part, on the quality and pricing of services provided by, and/or the continued financial stability of, Network Lenders and real estate professionals participating on Tree.com networks, credit providers and secondary market investors. Network Lenders or real estate professionals could, for any reason, cease participating on the networks operated by (or otherwise choose not to enter into relationships with) Tree.com's businesses, fail to pay matching and/or closing fees when due and/or cease providing quality services on competitive terms. In addition, credit providers and/or secondary market investors could, for any reason, choose not to make credit available to (or otherwise enter into relationships with) Home Loan Center, Inc., and in the case of secondary market investors only, cease purchasing loans from Home Loan Center, Inc. In particular, revenues attributable to purchases of loans by two such entities, Countrywide and CitiMortgage, represented approximately 28% and 13%, respectively, of Tree.com's consolidated revenues in 2007. The occurrence of one of more of these events by a significant number of Network Lenders, real estate professionals, credit providers and/or secondary market investors, particularly Countrywide and CitiMortgage, could, alone or in combination, have a material adverse effect on Tree.com's business, financial condition and results of operations.

***Network Security—A breach of Tree.com's network security or the misappropriation or misuse of personal consumer information may have an adverse impact on Tree.com's business, financial condition and results of operations.***

Any penetration of network security or other misappropriation or misuse of personal consumer information maintained by Tree.com, could cause interruptions in the operations of Tree.com's businesses and subject Tree.com to increased costs, litigation and other liabilities. Claims could also be made against Tree.com for other misuse of personal information, such as for unauthorized purposes or identity theft, which could result in litigation and financial liabilities, as well as administrative action from governmental authorities. Security breaches could also significantly damage the reputation of Tree.com with consumers and third parties with whom they do business. In that regard, on April 21, 2008, Tree.com announced that several mortgage companies had gained unauthorized access to LendingTree's customer information database and had used the information to solicit mortgage loans directly from Tree.com's customers. Tree.com promptly reported the situation to the Federal Bureau of Investigation and has been cooperating fully with the FBI's investigation. While LendingTree does not believe this situation resulted in any fraud on the consumer or identity theft, LendingTree notified affected consumers as required by applicable law. Notwithstanding the foregoing, following Tree.com's announcement, several putative class action lawsuits were filed against LendingTree, seeking to recover damages for consumers allegedly injured by this incident (see "Business of Tree.com—Legal Proceedings").

As in the case of any financial services company, Tree.com may be required to expend significant capital and other resources to protect against and remedy any potential or existing security breaches and their consequences. Tree.com also faces risks associated with security breaches affecting third parties with which they are affiliated or otherwise conduct business online. Consumers are generally concerned with security and privacy of the internet, and any publicized security problems affecting the businesses of a Tree.com and/or third parties may discourage consumers from doing business with Tree.com, which could have an adverse effect on its business, financial condition and results of operations.

***Failure to Provide Competitive Service—Network Lenders and real estate professionals may not provide competitive levels of service to consumers, which could adversely affect Tree.com brands and businesses and their ability to attract consumers.***

The ability of Tree.com businesses to provide consumers with a high-quality experience depends, in part, on consumers receiving competitive levels of convenience, customer service, price and responsiveness from Network Lenders and real estate professionals with whom they are matched through Tree.com networks. If Network Lenders and real estate professionals do not provide consumers with competitive levels of convenience, customer service, price and responsiveness, the value of Tree.com's various brands may be harmed, the ability of Tree.com businesses to attract consumers to Tree.com websites may be limited and the number of consumers ultimately matched through Tree.com networks may decline, which could have a material adverse effect on Tree.com's business, financial condition and results of operations.

***Brand Recognition—Failure to maintain brand recognition and attract and retain customers in a cost-effective manner could adversely affect Tree.com's business, financial condition and results of operations.***

In order to attract visitors to their websites, convert these visitors into paying customers and capture repeat business from existing customers, Tree.com businesses must promote and maintain their various brands successfully, which involves the expenditure of considerable money and resources for online and offline advertising, marketing and related efforts, as well as the continued provision and introduction of high-quality products and services.

Tree.com believes that continuing to build and maintain the recognition of its various brands is critical to achieving increased demand for the services provided by its businesses, given that brand recognition is a key differentiating factor among providers of online services. Accordingly, Tree.com has spent, and expects to continue to spend, significant amounts of money on, and devotes significant resources to, branding, advertising and other marketing initiatives, which may not be successful or cost-effective. Tree.com believes that rates for desirable online and offline advertising and marketing are likely to increase in the foreseeable future. The failure of Tree.com businesses to maintain the recognition of their respective brands and attract and retain customers in a cost-effective manner could adversely affect Tree.com's business, financial condition and results of operations.

Lastly, publicity from legal proceedings against Tree.com or its businesses, particularly governmental proceedings, consumer class action litigation or the disclosure of information security breaches, could negatively impact Tree.com's various brands, which could adversely affect Tree.com's business, financial condition and results of operations.

***Third-Party Relationships Are Not Exclusive—Network Lenders and real estate professionals affiliated with Tree.com networks are not precluded from offering products and services outside of these networks.***

Because Tree.com businesses do not have exclusive relationships with Network Lenders and real estate professionals, consumers may obtain loans and real estates offerings directly from these third-party service providers without having to go through Tree.com networks. Network Lenders can offer loans (and real estate professionals can offer services) directly to consumers through marketing campaigns or other traditional methods of distribution, such as referral arrangements, brick and mortar operations or, in the case of lending, broker agreements. Network Lenders and real estate professionals can also offer loans and services to prospective customers online directly or through one or more online competitors of Tree.com businesses or both. If a significant number of consumers seek loans and services directly from Network Lenders and real estate professionals as opposed to through Tree.com's networks, Tree.com's business, financial conditions and results of operations would be adversely affected.

***Compliance and Changing Laws, Rules and Regulations—Failure to comply with existing laws, rules and regulations, or to obtain and maintain required licenses, could adversely affect Tree.com's business, financial condition and results of operations.***

The failure of Tree.com businesses to comply with existing laws, rules and regulations, or to obtain required licenses, could result in administrative fines and/or proceedings against Tree.com or its businesses by governmental agencies and/or litigation by consumers, which could adversely affect Tree.com's business, financial conditions and results of operations. Tree.com businesses market and provide services in heavily regulated industries through a number of different online and offline channels across the United States. As a result, they are subject to a variety of statutes, rules, regulations, policies and procedures in various jurisdictions in the United States, which are subject to change at any time.

Tree.com businesses conduct marketing activities via the telephone, the mail and/or through online marketing channels, which activities are governed by numerous federal and state regulations, such as the Telemarketing Sales Rule, state telemarketing laws, federal and state privacy laws, the CAN-SPAM

Act, the Federal Trade Commission Act and its accompanying regulations and guidelines, among others. While Tree.com believes that the practices of its businesses have been structured in a manner to ensure compliance with these laws and regulations, federal or state regulatory authorities may take a contrary position.

Most states require licenses to solicit, broker or make loans secured by residential mortgages and other consumer loans to residents of those states, as well as to operate real estate referral and brokerage services, and in many cases require the licensure or registration of individual employees engaged in aspects of these businesses. Currently, Congress, many state legislatures and state agencies are proposing to adopt, or have recently implemented, additional licensing requirements on mortgage lenders, brokers and their employees. While Tree.com businesses have endeavored to comply with applicable requirements, the application of these licensing requirements to persons operating online is not always clear. Moreover, any of the licenses or rights currently held by Tree.com businesses or their employees may be revoked prior to, or may not be renewed upon, their expiration. In addition, Tree.com businesses or their employees may not be granted new licenses or rights for which they may be required to apply from time to time in the future.

Tree.com businesses are also subject to various state, federal and/or local laws, rules and regulations that regulate the amount and nature of fees that may be charged for transactions and incentives, such as rebates, that may be offered to consumers by Tree.com businesses, as well as the manner in which these businesses may offer, advertise or promote transactions. For example, the Real Estate Settlement Procedures Act, or RESPA, generally prohibits the payment or receipt of referral fees and fee shares or splits in connection with residential mortgage loan transactions, subject to certain exceptions. The applicability of referral fee and fee sharing prohibitions to lenders and real estate providers, including online networks, may have the effect of reducing the types and amounts of fees that may be charged or paid in connection with real estate-secured loan offerings or activities, including mortgage brokerage, lending and real estate brokerage services, or otherwise limiting the ability to conduct marketing and referral activities. Although Tree.com believes that its businesses have been structured in such a way so as to comply with RESPA, the relevant regulatory agency may take a contrary position.

In addition, some states have regulations that prohibit real estate brokers from providing consumers with rebates or other incentives in connection with real estate transactions. Additional states could promulgate similar regulations or interpret existing regulations in a way that limits the ability of online networks to offer consumer incentives in connection with real estate transactions, thereby limiting the attractiveness of real estate brokerage activities offered by Tree.com's Real Estate Business.

Additional federal, state and in some instances, local, laws regulate residential lending and real estate brokerage activities. These laws generally regulate the manner in which lending, lending-related and real estate brokerage activities are made available, including advertising and other consumer disclosures, payments for services and record keeping requirements, and include RESPA, the Fair Credit Reporting Act, the Truth in Lending Act, the Equal Credit Opportunity Act and the Fair Housing Act. In addition, state laws often restrict the amount of interest and fees that may be charged by a lender or mortgage broker, or otherwise regulate the manner in which lenders or mortgage brokers operate or advertise. Furthermore, Congress, many state legislatures and state agencies are proposing, or have recently implemented, additional restrictions on mortgage lending practices. Failure to comply with applicable laws and regulatory requirements may result in, among other things, revocation of required licenses or registrations, loss of approval status, termination of contracts without compensation, administrative enforcement actions and fines, class action lawsuits, cease and desist orders and civil and criminal liability. While Tree.com believes that its businesses have been structured in such a way so as to comply with existing and new laws, the relevant regulatory authorities may take a contrary position or future legislation may adversely affect Tree.com's business, financial condition and results of operations.

Likewise, states or municipalities may adopt statutes or regulations making it unattractive, impracticable, or infeasible for Tree.com businesses to continue to conduct business in that jurisdiction. The withdrawal from any jurisdiction due to emerging legal requirements could adversely affect Tree.com's business, financial condition and results of operations.

Federal, state and in some instances, local, laws also prohibit unfair and deceptive sales practices generally. While Tree.com has adopted appropriate policies and procedures to address these requirements (such as appropriate consumer disclosures and call scripting, call monitoring, pricing controls and other quality assurance and compliance measures, which have evolved and improved over time), employees do not always comply with policies and procedures, and therefore, liability and brand injury could result from such employee misconduct.

As employers, Tree.com's businesses are subject to federal and state employment laws. In particular, the Fair Labor Standards Act and California wage and hour laws govern the treatment of "non-exempt" employees, which may include loan officers and loan processors at Home Loan Center, Inc. Failure to comply with applicable employment laws may result in, among other things, administrative fines, class action lawsuits, damages awards and injunctions, any of which could adversely affect Tree.com's business, financial condition and results of operations.

Parties with whom Tree.com businesses conduct business similarly may be subject to federal and state regulation. These parties typically act as independent contractors and not as agents in their solicitations and transactions with consumers. Consequently, Tree.com cannot ensure that these entities will comply with applicable laws and regulations at all times. Failure on the part of a lender, real estate professional, website operator or other third party to comply with these laws or regulations could result in, among other things, claims of vicarious liability or a negative impact on the reputation of Tree.com and its businesses. The occurrence of one or more of these events could have an adverse effect on Tree.com's business, financial condition and results of operation.

Tree.com's Real Estate Business is subject to rules and regulations of various real estate boards, as well as the rules of various non-governmental associations and organizations, including but, not limited to, local and regional Multiple Listing Services that provide real estate listing data. Tree.com's Real Estate Business is dependent on real estate listing data made available through Multiple Listing Services and other sources. While Tree.com believes that its Real Estate Business is structured to comply with these rules and regulations, the relevant organization may take a contrary position, which could adversely affect Tree.com's business, financial condition and results of operations.

***Third Party Compliance—If Network Lenders fail to produce required documents for examination by, or other affiliated parties fail to make certain filings with, state regulators, Tree.com may be subject to fines, forfeitures and the revocation of required licenses.***

Some of the states in which Tree.com businesses maintain licenses require them to collect various loan documentation from Network Lenders and produce this documentation for examination by state regulators. While Network Lenders are contractually obligated to provide these documents upon request, these measures may be insufficient. Failure to produce required documents for examination could result in fines, as well as the revocation of Tree.com businesses licenses to operate in key states, which could have a material adverse affect on Tree.com's business, financial condition and results of operations.

Regulations promulgated by some states may impose compliance obligations on directors, executive officers, large customers and any person who acquires a certain percentage (for example, 10% or more) of Tree.com common stock, including requiring such persons to periodically file financial and other personal and business information with state regulators. If any such person refuses or fails to comply with these requirements, Tree.com businesses may be unable to obtain a license, and existing licensing arrangements may be jeopardized, in particular states. The inability to obtain, or the loss of, required licenses could have a material adverse effect on Tree.com's business, financial conditions and results of operations.

## CAPITALIZATION

The following table presents Tree.com's cash and cash equivalents and capitalization as of March 31, 2008 on an historical basis and on an unaudited pro forma basis for the separation. Pro forma for the separation includes the transfer of $ million in cash from IAC to Tree.com. IAC determined to contribute additional capital in anticipation of the spin-off to help Tree.com, which has not recently generated positive Free Cash Flow, weather continued uncertainties in the industries in which it operates. The separation of Tree.com is described in the notes to the Unaudited Pro Forma Condensed Consolidated Balance Sheet under the Unaudited Pro Forma Condensed Consolidated Financial Statements as if the separation and the related transactions and events had been consummated on March 31, 2008.

The assumptions used and pro forma adjustments derived from such assumptions are based on currently available information and Tree.com believes such assumptions are reasonable under the circumstances. Such adjustments are subject to change based upon the finalization of the terms of the separation and the underlying separation agreements.

This table should be read in conjunction with "Selected Historical Financial Data," "Transfers to IAC and Financing," "Description of Capital Stock of the Spincos," "Management's Discussion and Analysis of Financial Condition and Results of Operations of Tree.com" the consolidated financial statements of Tree.com and the "Unaudited Pro Forma Condensed Consolidated Financial Statements" and accompanying notes included in this information statement.

The table below is not necessarily indicative of Tree.com's cash and cash equivalents and capitalization had the separation and the related transactions been completed on the date assumed. The capitalization table below may not reflect the capitalization or financial condition which would have resulted had Tree.com been operating as an independent, publicly-traded company at that date and is not necessarily indicative of Tree.com's future capitalization or financial condition.

| | As of March 31, 2008 | |
|---|---|---|
| | Historical | Unaudited Pro Forma for the Separation |
| | (In millions) | |
| Cash and cash equivalents | $ 53 | $ |
| Indebtedness: | | |
| Short term borrowings: | | |
| Lines of credit (primarily warehouse lines) | $ 79 | $ |
| Total indebtedness | 79 | |
| Shareholders' equity | 245 | |
| Total capitalization | $ 324 | $ |

## SELECTED HISTORICAL FINANCIAL DATA

The following table presents summary selected historical consolidated financial information for Tree.com, Inc. ("Tree.com"). This data was derived, in part, from the historical consolidated financial statements of Tree.com included elsewhere in this document and reflects the operations and financial position of Tree.com at the dates and for the periods indicated. The information in this table should be read in conjunction with the consolidated financial statements and accompanying notes and other financial data pertaining to Tree.com included herein. However, this information does not necessarily reflect what the historical financial position and results of operations of Tree.com would have been had Tree.com been a stand-alone company during the periods presented.

| | Year Ended December 31, | | | | | Three Months Ended March 31, | |
|---|---|---|---|---|---|---|---|
| | 2007[1] | 2006 | 2005 | 2004[2] (unaudited) | 2003[3] (unaudited) | 2008 (unaudited) | 2007 (unaudited) |
| | (In thousands) | | | | | | |
| **Statement of Operations Data:** | | | | | | | |
| Revenue | $ 346,378 | $ 476,478 | $ 421,355 | $ 189,783 | $ 55,795 | $ 70,193 | $ 109,999 |
| Operating (loss) income | (540,440) | 14,171 | 19,254 | (12,067) | (18,068) | (9,488) | (8,404) |
| Net (loss) income | (550,402) | 8,693 | 5,851 | (9,187) | (11,359) | (9,799) | (5,123) |

| | December 31, | | | | | March 31, |
|---|---|---|---|---|---|---|
| | 2007[1] | 2006 | 2005 | 2004[2] (unaudited) | 2003[3] (unaudited) | 2008 (unaudited) |
| | (In thousands) | | | | | |
| **Balance Sheet Data (end of period):** | | | | | | |
| Working capital (deficit) | $ (16,487) | $ 79,463 | $ 74,754 | $ 35,784 | $ 10,540 | $ 18,662 |
| Total assets | 443,587 | 1,261,045 | 1,326,961 | 1,074,896 | 745,400 | 442,810 |
| Long-term obligations, net of current maturities | — | 19,347 | 28,894 | 36,755 | 375 | — |
| Shareholders' equity | 214,624 | 773,453 | 766,486 | 753,674 | 707,948 | 244,545 |

(1) Net loss includes impairment charges of $475.7 million related to the write-down of Tree.com's Lending segment goodwill and intangible assets.

(2) Includes the results of Home Loan Center since its acquisition on December 14, 2004.

(3) Includes the results of LendingTree since its acquisition by IAC on August 8, 2003.

## TREE.COM, INC. AND SUBSIDIARIES

## UNAUDITED PRO FORMA
## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following Unaudited Pro Forma Condensed Consolidated Financial Statements of Tree.com, Inc. and subsidiaries ("Tree.com") reflect adjustments to the historical consolidated financial statements of Tree.com to give effect to the separation and related transactions described in the notes to the Unaudited Pro Forma Condensed Consolidated Financial Statements as of March 31, 2008 for the Unaudited Pro Forma Condensed Consolidated Balance Sheet and as of January 1, 2007 and January 1, 2008 for the Unaudited Pro Forma Condensed Consolidated Statement of Operations for the year ended December 31, 2007 and the three months ended March 31, 2008, respectively.

The assumptions used and pro forma adjustments derived from such assumptions are based on currently available information and Tree.com believes such assumptions are reasonable under the circumstances. At this time Tree.com does not expect material changes to the separation, however, the amount of cash that will be transferred from IAC to Tree.com upon consummation of the separation has not yet been determined.

The following Unaudited Pro Forma Condensed Consolidated Financial Statements should be read in conjunction with the historical consolidated financial statements of Tree.com and "Management's Discussion and Analysis of Financial Condition and Results of Operations" of Tree.com included in this information statement.

These Unaudited Pro Forma Condensed Consolidated Financial Statements are not necessarily indicative of Tree.com's results of operations or financial condition had the separation and related transactions been completed on the dates assumed. Also, they may not reflect the results of operations or financial condition which would have resulted had Tree.com been operating as an independent publicly-traded company during such periods. In addition, they are not necessarily indicative of Tree.com's future results of operations or financial condition.

These Unaudited Pro Forma Condensed Consolidated Financial Statements are forward looking information within the meaning of "Forward-Looking Statements" as described on pages 2-3 of this Information Statement.

TREE.COM, INC. AND SUBSIDIARIES

UNAUDITED PRO FORMA
CONDENSED CONSOLIDATED BALANCE SHEET

MARCH 31, 2008

| | Historical | Pro Forma Adjustments | Notes | Pro Forma |
|---|---|---|---|---|
| | | (In thousands, except share data) | | |
| **ASSETS** | | | | |
| Cash and cash equivalents | $ 52,516 | $ | (a) | $ |
| Other current assets | 124,114 | — | | |
| Total current assets | 176,630 | | | |
| Non-current assets | 266,180 | — | | |
| **TOTAL ASSETS** | $ 442,810 | $ | | $ |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| **LIABILITIES:** | | | | |
| Current liabilities | $ 157,968 | $ — | | $ |
| Long-term liabilities | 40,297 | — | | |
| **SHAREHOLDERS' EQUITY:** | | | | |
| Common shares, $0.01 par value,—authorized; 9,291,185 issued and outstanding on a pro forma basis | — | | (a) | |
| Additional paid-in capital | — | | (a) | |
| Invested capital | 766,374 | | (a) | |
| Payables to IAC and subsidiaries | 42,237 | | (a) | |
| Accumulated deficit | (564,066) | — | | |
| Total shareholders' equity | 244,545 | | | |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | $ 442,810 | $ | | $ |

The accompanying Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements are an integral part of these statements.

**TREE.COM, INC. AND SUBSIDIARIES**

**UNAUDITED PRO FORMA**
**CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**

**THREE MONTHS ENDED MARCH 31, 2008**

| | Historical | Pro Forma Adjustments | Notes | Pro Forma |
|---|---|---|---|---|
| | (In thousands, except per share data) | | | |
| Revenue | $ 70,193 | $ — | | $ 70,193 |
| Operating expenses | 79,681 | 1,379 | (b) | 82,131 |
| | | 1,071 | (c) | |
| Operating loss | (9,488) | (2,450) | | (11,938) |
| Other income (expense): | | | | |
| Interest income | 9 | — | | 9 |
| Interest expense | (109) | 32 | (d) | (77) |
| Other expense | (2) | — | | (2) |
| Total other expense, net | (102) | 32 | | (70) |
| Loss before income taxes | (9,590) | (2,418) | | (12,008) |
| Income tax (provision) benefit | (209) | 1,001 | (e) | 792 |
| **Net loss** | $ (9,799) | $ (1,417) | | $ (11,216) |
| Pro forma loss per share:(f)(g) | | | | |
| Basic loss per share | | | | $ (1.21) |
| Diluted loss per share | | | | $ (1.21) |

The accompanying Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements are an integral part of these statements.

**TREE.COM, INC. AND SUBSIDIARIES**

**UNAUDITED PRO FORMA**
**CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**

**YEAR ENDED DECEMBER 31, 2007**

| | Historical | Pro Forma Adjustments | Notes | Pro Forma |
|---|---|---|---|---|
| | | (In thousands, except per share data) | | |
| Revenue | $ 346,378 | $ — | | $ 346,378 |
| Operating expenses | 886,818 | 5,351 | (b) | 896,455 |
| | | 4,286 | (c) | |
| Operating loss | (540,440) | (9,637) | | (550,077) |
| Other income: | | | | |
| Interest income | 1,171 | (1,000) | (d) | 171 |
| Interest expense | (986) | — | | (986) |
| Other income | 14 | — | | 14 |
| Total other income (expense), net | 199 | (1,000) | | (801) |
| Loss before income taxes | (540,241) | (10,637) | | (550,878) |
| Income tax provision | (10,161) | 4,404 | (e) | (5,757) |
| **Net loss** | $ (550,402) | $ (6,233) | | $ (556,635) |
| Pro forma loss per share:(f)(g) | | | | |
| Basic loss per share | | | | $ (58.45) |
| Diluted loss per share | | | | $ (58.45) |

The accompanying Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements are an integral part of these statements.

## NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(a) To effect the terms of the separation as follows:

(i) the transfer of $ million in cash from IAC to Tree.com to bring Tree.com's cash balance to $ million upon its separation from IAC;

(ii) the extinguishment of the payable to IAC and subsidiaries; and

(iii) the issuance of 9.3 million Tree.com shares to effect the transfer of its ownership from IAC to IAC's shareholders based on an expected exchange ratio of $^{1}/_{30}{}^{th}$ of a share of Tree.com for each share of IAC and the number of IAC common shares outstanding as of March 31, 2008 before giving effect to the 1 for 2 reverse stock split of IAC shares that is expected to be effected in connection with the spin-off.

(b) Tree.com expects to incur additional costs related to being a stand-alone, public company. These costs have been estimated to be $6.3 million on an annual basis. These costs relate to the following:

- additional personnel including accounting, tax, treasury, internal audit and legal personnel;
- professional fees associated with audits, tax and other services;
- increased insurance premiums;
- increased health and welfare benefit costs;
- costs associated with a board of directors;
- increased franchise taxes, stock exchange listing fees, fees for preparing and distributing periodic filings with the Securities and Exchange Commission; and
- other administrative costs and fees.

The total costs referred to above were compared to the corporate allocations from IAC for the three months ended March 31, 2008 and for the year ended December 31, 2007 in order to determine the incremental costs expected to be incurred for each period as follows:

| | Three Months Ended March 31, 2008 | Year Ended December 31, 2007 |
|---|---|---|
| | (In thousands) | |
| Estimated stand-alone, public company costs | $ 1,569 | $ 6,344 |
| Less: corporate allocations | (190) | (993) |
| Incremental costs of being a stand-alone, public company | $ 1,379 | $ 5,351 |

The significant assumptions underlying the determination of these estimates include:

- the number of additional personnel required to operate as a public company and the compensation level with respect to each position;
- the level of additional assistance Tree.com will require from professional service providers;
- the increase in insurance premiums as a stand-alone public company;
- the increase in health and welfare costs as a stand-alone entity; and

- the type and level of other costs expected to be incurred in connection with being a stand-alone public company.

This amount excludes $0.6 million of estimated one-time recruiting fees, professional fees for legal and tax services (e.g. initial benefit plan design) and other costs (e.g. initial stock exchange listing fees) expected to be incurred in initially establishing Tree.com as a stand-alone public company. These costs are therefore not expected to recur.

(c) To reflect the additional compensation expense associated with equity-based awards that will be granted upon consummation of the separation.

The awards related to the consummation of the separation were granted to the Chairman and Chief Executive Officer in connection with the employment agreement that was executed upon his appointment to that role. The issuance of these awards are contingent upon the consummation of the separation. The expense related to these awards is included as a pro forma adjustment because they will vest over five years and will therefore have an impact on the ongoing operations of Tree.com. The amount was determined using a Black Scholes calculation for the stock option awards and an assumed value for the restricted stock award. The aggregate estimated value of these awards is being amortized to expense on a straight-line basis over the five year vesting period of the awards. This does not reflect non-recurring compensation expense related to modifications of existing equity-based awards that will be made in connection with the separation described below.

Vested stock options to purchase shares of IAC common stock will be modified as follows in connection with the separation:

Each option will convert into an option to purchase shares of common stock of all five companies, with adjustments to the number of shares subject to each option and the option exercise prices based on the relative values of IAC and the other four companies following the separation, with the intent to generally maintain equivalent value immediately pre and post the transaction.

A calculation of the estimated value of the vested options immediately prior to the separation and immediately after the separation was performed using the Black Scholes model. The incremental charge of $0.1 million resulted from the higher estimated value of the vested stock options after the separation. This higher value is due to higher estimated weighted average volatility of the stock price of the five companies after the separation than the expected volatility of IAC's stock price. The expense is a one-time charge because the options are fully vested and there is no future service requirement.

The modification related to IAC restricted stock units ("RSUs") relates to the accelerated vesting, upon the consummation of the separation, of all RSUs granted prior to August 8, 2005 and all awards that were scheduled to vest prior to February 28, 2009. The estimated expense of $3.1 million is the previously unrecognized compensation expense associated with these awards. The expense is treated as non-recurring because after the separation no future service is required with respect to these awards.

There may be additional stock-based awards granted in connection with the separation but the amount of such awards, if any, has not yet been determined and no expense with respect thereto has been reflected herein.

(d) To reflect the elimination of intercompany interest expense for the three months ended March 31, 2008 and intercompany interest income for the year ended December 31, 2007 allocated by IAC to Tree.com.

(e) To reflect the tax effect of the pro forma adjustments at an assumed effective tax rate of 41.4% which represents a federal statutory tax rate of 35% and a state effective statutory rate of 6.4%.

(f) Loss per share and weighted average shares outstanding reflect the historical number of IAC common shares used to calculate IAC's earnings per share, adjusted based on an expected exchange ratio of $^{1}/_{30}$th of a share of Tree.com for each share of IAC before giving effect to the 1 for 2 reverse stock split for IAC shares that is expected to be effected in connection with the separation. These amounts reflect the outstanding equity-based awards that were included in IAC's dilutive earnings per share calculation. Pro forma loss per share is calculated using the following:

| | Three Months Ended March 31, 2008 | Year Ended December 31, 2007 |
|---|---|---|
| | (In thousands) | |
| Net loss | $ (11,216) | $ (556,635) |
| Basic shares outstanding—weighted average shares | 9,292 | 9,523 |
| Other dilutive securities including stock options, warrants and restricted stock and share units(g) | — | — |
| Diluted shares outstanding—weighted average shares | 9,292 | 9,523 |

(g) The effect of dilutive securities would be antidilutive due to the net loss and are therefore excluded from the calculation of diluted earnings per share.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF TREE.COM

*The following discussion describes the financial condition and results of operations of Tree.com, Inc. ("Tree.com") as though Tree.com were a separate company as of the dates and for the periods presented and includes the businesses, assets and liabilities that will comprise Tree.com following the spin-off.*

**Spin-Off**

On November 5, 2007, IAC/InterActiveCorp ("IAC") announced that its Board of Directors approved a plan to separate IAC into five publicly traded companies, identifying Tree.com as one of those five companies. We refer to the separation transaction herein as the "spin-off." In connection with the spin-off, Tree.com was incorporated as a Delaware corporation in April 2008. Tree.com currently does not have any material assets or liabilities, nor does it engage in any business or other activities and, other than in connection with the spin-off, will not acquire or incur any material assets or liabilities, nor will it engage in any business or other activities. Upon completion of the spin-off, Tree.com will consist of the businesses that formerly comprised IAC's Lending and Real Estate segments. We refer herein to these businesses as the "Tree.com Businesses," which include LendingTree.com, RealEstate.com, GetSmart.com, LendingTree Loans, iNest and Domania.

**Basis of Presentation**

The historical consolidated financial statements of Tree.com and its subsidiaries and the disclosure set forth in this Management's Discussion and Analysis of Financial Condition and Results of Operations of Tree.com reflect the contribution or other transfer to Tree.com of all of the subsidiaries and assets and the assumption by Tree.com of all of the liabilities relating to the Tree.com Businesses in connection with the spin-off and the allocation to Tree.com of certain IAC corporate expenses relating to the Tree.com Businesses. Accordingly, the historical consolidated financial statements of Tree.com reflect the historical financial position, results of operations and cash flows of the Tree.com Businesses since their respective dates of acquisition by IAC, based on the historical consolidated financial statements and accounting records of IAC and using the historical results of operations and historical bases of the assets and liabilities of the Tree.com Businesses with the exception of accounting for income taxes, which have been computed for Tree.com on an as if stand- alone, separate tax return basis. Intercompany transactions and accounts have been eliminated.

In the opinion of Tree.com's management, the assumptions underlying the historical consolidated financial statements of Tree.com are reasonable. However, this financial information does not necessarily reflect what the historical financial position, results of operations and cash flows of Tree.com would have been had Tree.com been a stand-alone company during the periods presented.

## MANAGEMENT OVERVIEW

Tree.com's Lending segment consists of online networks (principally LendingTree.com and GetSmart.com) and call centers that connect consumers and financial providers in the lending industry (the "lending networks"). Tree.com also originates, processes, approves and funds various residential real estate loans through Home Loan Center, which does business as LendingTree Loans in certain jurisdictions. The Home Loan Center and LendingTree Loans brand names are collectively referred to in this report as "LendingTree Loans". Additionally, Tree.com provides mortgage settlement services, including title search, appraisals, flood certification and closing transactions, under the name "LendingTree Settlement Services".

Tree.com's Real Estate segment primarily consists of a proprietary full-service real estate brokerage that operates in 14 U.S. markets, *www.RealEstate.com*, an online network that connects consumers with real estate brokerages around the country, iNest, an online network that matches buyers and builders of new homes, and Domania, an online lead provider for banks, mortgage lenders and real estate professionals (the "real estate networks").

**Sources of Revenue**

Lending is generally compensated on a fee basis by the lenders who participate in its online lending networks, with LendingTree Loans principally deriving revenue from the origination and sale in the secondary markets of various residential real estate loans. Real Estate is generally compensated from subscription and cooperative brokerage fees paid by real estate professionals participating in its real estate networks and from commissions paid by consumers for its agents closing a real estate transaction on their behalf.

**Channels of Distribution; Marketing Costs**

Tree.com markets and offers services directly to customers through branded websites allowing customers to transact directly with Tree.com in a convenient manner. Tree.com has made, and expects to continue to make, substantial investments in online and offline advertising to build its brands and drive traffic to its businesses.

Tree.com also pays to market and distribute services on third-party distribution channels, such as internet portals and search engines. In addition, some of the Tree.com Businesses manage affiliate marketing programs, pursuant to which the Tree.com businesses pay commissions and fees to third parties based on the number of leads generated or the revenue earned. These distribution channels might also offer their own products, as well as those of other third parties, that compete with those made available and offered by Tree.com businesses.

The cost of acquiring new customers through online and offline third-party distribution channels has increased, particularly in the case of online channels as internet commerce continues to grow and competition in the housing market increases. Tree.com expects sales and marketing expense as a percentage of revenue to continue to increase. Sales and marketing expense as a percentage of revenue increased to approximately 54% in 2007 from approximately 46% in 2006 and 42% in 2005.

**Access to Supply**

Tree.com provides lending and real estate network partners with important customer acquisition channels. Tree.com believes that the ability of its partners to reach a large qualified audience through its brands and businesses is a significant benefit. Tree.com offers its customers the choice of multiple suppliers in one setting.

**Economic and Other Trends and Events; Industry Specific Factors**

The credit and secondary mortgage markets have been experiencing unprecedented and continuing disruption, which had an adverse effect on Tree.com's business, financial condition and results of operations in 2007. These conditions, coupled with adverse economic conditions and continuing declines in residential real estate prices generally, have resulted in decreased consumer demand for the lending and real estate offerings provided by Tree.com's networks and other businesses. Generally, increases in interest rates adversely affect the ability of the Lending Business and Network Lenders to close loans, while adverse economic trends limit the ability of the Lending Business and Network Lenders to offer home loan products other than low margin conforming loans. The number of Network Lenders also decreased in 2007 as many lenders exited the business due to the difficult economic conditions. Likewise, adverse economic trends have reduced the number of prospective home purchasers and home prices, which adversely affected Tree.com's Real Estate Business.

Tree.com recognized impairment charges of $475.7 million related to the write-down of its Lending segment goodwill and intangible assets in the fourth quarter of 2007. These impairments resulted from Tree.com's reassessment of the likely future profitability of Lending in light of the persistent adverse mortgage market conditions and the operational strategies Tree.com has undertaken in response to these market realities. These adverse conditions include, among others, constrained liquidity, lender focus on low margin conforming loans, uncertainty as to the eventuality and timing of the return of higher margin mortgage products, the decline in real estate values and a high rate of delinquency for existing mortgages. Tree.com has significantly reduced its mortgage origination operations in response to these conditions which will reduce or slow its ability to react to possible improvements in the market. The impairments at the Lending segment occurred during the fourth quarter of 2007 as Tree.com completed an updated assessment of mortgage market conditions and the development and implementation of Lending's responsive operational strategies, and quantified these considerations in Lending's future forecasted results. In addition, in response to these persistent adverse mortgage market conditions, Tree.com restructured its operations in 2007 and recorded $22.9 million in restructuring expense. This restructuring affected all departments and locations within Tree.com but were principally related to the mortgage origination operations.

These restructuring efforts may be insufficient to allow Tree.com to weather these continuing adverse market conditions. Continued protracted adverse market conditions may require additional restructuring of Tree.com's operations, which could give rise to additional restructuring charges and additional impairment charges related to goodwill and intangible assets.

***Results of Operations for the Years Ended December 31, 2007, 2006 and 2005***

***Revenue***

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | (Dollars in thousands) | | | | |
| Lending | $ 294,626 | (30)% | $ 419,657 | 15% | $ 363,800 |
| Real Estate | 51,752 | (9)% | 56,821 | (1)% | 57,555 |
| Total revenue | $ 346,378 | (27)% | $ 476,478 | 13% | $ 421,355 |

Revenue in 2007 decreased $130.1 million, or 27%, from 2006 primarily due to fewer loans sold into the secondary market, lower revenue per loan sold, fewer loans closed on the lending networks and an increase of $13.5 million in the liability for losses on previously sold loans. Also contributing to the decrease in revenue is a decrease of $13.1 million related to the Real Estate builder and broker networks, which decreased closings year over year. Lenders' narrowing focus on traditional mortgages in reaction to changes in the mortgage market contributed to lower close rates, a shift to lower margin products, and lower revenue per loan sold at LendingTree Loans. Revenue from home equity loans fell 58% due in part to an exit from certain home equity loans at LendingTree Loans and as a result of deteriorating market conditions. Additionally, purchase mortgage revenue and refinance mortgage revenue declined 21% and 16%, respectively. The dollar value of loans closed by network lenders and directly by LendingTree Loans in 2007 decreased 23% to $24.9 billion. This includes refinance mortgages of $13.0 billion, purchase mortgages of $6.9 billion and home equity loans of $4.2 billion. The dollar value of closed loans in 2006 was $32.1 billion, including refinance mortgages of $16.9 billion, purchase mortgages of $8.3 billion and home equity loans of $5.9 billion.

Partially offsetting the revenue decrease in 2007 is an increase of $9.7 million in revenue from our company-owned brokerage business, which increased closings by 190%. The company-owned brokerage business began closing transactions in the first quarter of 2006 and now operates in fourteen metropolitan markets. Similar to closing loans in our own name, through LendingTree Loans, the company-owned brokerage enables Real Estate to capture a larger portion of the transaction revenue.

LendingTree Loans originates mortgage loans on property located throughout the United States, with no one location representing more than 10% of Tree.com's consolidated revenue for any periods presented. Revenue from loans originated for property located in California and Florida in the aggregate totaled approximately 10%, 14% and 14% of Tree.com's consolidated revenue for the years ended December 31, 2007, 2006 and 2005, respectively.

Revenue in 2006 increased $55.1 million, or 13%, from 2005 driven primarily by higher revenue per loan, increased sales of loans into the secondary market and increased transmit revenue due to both growth in loan request form volume and higher prices on the networks. Increased revenue from settlement services also impacted revenue growth in 2006. Revenue from refinance mortgage, home equity loans and purchase mortgage loans grew 15%, 16% and 26%, respectively, from the prior year, despite the difficult market conditions in 2006. The dollar value of loans closed by exchange lenders and directly by LendingTree Loans in 2006 decreased 8% to $32.1 billion. This includes refinance mortgages of $16.9 billion, purchase mortgages of $8.3 billion and home equity loans of $5.9 billion. The dollar value of closed loans in 2005 was $34.7 billion, including refinance mortgages of $19.8 billion, purchase mortgages of $8.0 billion and home equity loans of $5.8 billion.

***Cost of revenue***

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | (Dollars in thousands) | | | | |
| Lending | $47,264 | (0)% | $47,412 | 22% | $38,904 |
| Real Estate | 25,850 | 0% | 25,805 | (6)% | 27,438 |
| Cost of revenue | $73,114 | (0)% | $73,217 | 10% | $66,342 |
| As a percentage of total revenue | 21% | 574 bp | 15% | (38) bp | 16% |
| Gross margins | 79% | (574) bp | 85% | 38 bp | 84% |

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | (Dollars in thousands) | | | | |
| Cost of revenue—Lending | $47,264 | (0)% | $47,412 | 22% | $38,904 |
| As a percentage of Lending revenue | 16% | 474 bp | 11% | 60 bp | 11% |
| Lending gross margins | 84% | (474) bp | 89% | (60) bp | 89% |
| Cost of revenue—Real Estate | $25,850 | 0% | $25,805 | (6)% | $27,438 |
| As a percentage of Real Estate revenue | 50% | 453 bp | 45% | (226) bp | 48% |
| Real Estate gross margins | 50% | (453) bp | 55% | 226 bp | 52% |

Cost of revenue consists primarily of costs associated with unsuccessful loan origination attempts, compensation and other employee-related costs (including stock-based compensation) related to customer call centers, real estate network support staff and loan officers, as well as credit scoring fees, consumer incentive costs, real estate agent commissions and website network hosting and server fees.

Cost of revenue in 2007 was relatively unchanged from 2006 despite the significant revenue decline. The increase in cost of revenue as a percentage of total revenue is principally due to the reduced revenue discussed above, and a $5.5 million increase in costs associated with unsuccessful loan originations. If a loan funds, these costs are deferred until the loan is sold to an investor and are included in revenue on a net basis. However, costs associated with all unsuccessful loan origination attempts are expensed as incurred. This increase was partially offset by a $3.5 million decrease in compensation and other employee-related costs as Tree.com reduced its personnel costs associated with its customer call center, settlement services operation and portions of its loan processing department. Cost of revenue also increased as a percentage of revenue due to an increase of $5.0 million in commission expense primarily related to the increase in closings at company-owned brokerage business, partially offset by a decrease of $4.6 million in consumer incentive rebates related to decreased closings at the Real Estate builder and broker network businesses.

Cost of revenue in 2006 increased $6.9 million from 2005 primarily due to increases of $4.5 million in compensation and other employee-related costs, $3.9 million in commission expense related to the company-owned brokerage business and $3.0 million in direct costs associated with the growth in the settlement services business. These increases were partially offset by a decrease of $2.8 million in customer incentive rebates at Real Estate related to the builder and broker network businesses.

***Selling and marketing expense***

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | | | (Dollars in thousands) | | |
| Lending | $168,436 | (14)% | $195,245 | 32% | $148,227 |
| Real Estate | 19,176 | (19)% | 23,665 | (17)% | 28,522 |
| Selling and marketing expense | $187,612 | (14)% | $218,910 | 24% | $176,749 |
| As a percentage of total revenue | 54% | 822 bp | 46% | 400 bp | 42% |

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | | | (Dollars in thousands) | | |
| Selling and marketing expense—Lending | $168,436 | (14)% | $195,245 | 32% | $148,227 |
| As a percentage of Lending revenue | 57% | 1,064 bp | 47% | 578 bp | 41% |
| Selling and marketing expense—Real Estate | $ 19,176 | (19)% | $ 23,665 | (17)% | $ 28,522 |
| As a percentage of Real Estate revenue | 37% | (460) bp | 42% | (791) bp | 50% |

Selling and marketing expense consists primarily of advertising and promotional expenditures, fees paid to affiliates and compensation and other employee-related costs (including stock-based compensation) for personnel engaged in the sales function. 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.

Selling and marketing expense in 2007 decreased $31.3 million from 2006 primarily due to a decrease of $27.2 million in advertising and promotional expenditures. In 2007, Tree.com experienced decreases in advertising of $13.1 million, $8.8 million and $7.7 million associated with print, television and online advertising, respectively. The increase in selling and marketing expense as a percentage of revenue is due to decreased conversions of consumer leads into closed transactions. Tree.com anticipates that selling and marketing expense will continue to represent a high percentage of revenue as it continues to promote its brands both online and offline.

Selling and marketing expense in 2006 increased $42.2 million from 2005 primarily due to an increase of $37.7 million in advertising and promotional expenditures as Tree.com shifted to online marketing to drive lead volume in more difficult mortgage market conditions. Selling and marketing expense as a percentage of revenue increased due in part to lower close rates.

***General and administrative expense***

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | (Dollars in thousands) | | | | |
| Lending | $79,172 | (18)% | $ 96,888 | 12% | $ 86,272 |
| Real Estate | 20,072 | (10)% | 22,396 | 43% | 15,703 |
| General and administrative expense | $99,244 | (17)% | $119,284 | 17% | $101,975 |
| As a percentage of total revenue | 29% | 362 bp | 25% | 83 bp | 24% |

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | (Dollars in thousands) | | | | |
| General and administrative expense—Lending | $79,172 | (18)% | $96,888 | 12% | $86,272 |
| As a percentage of Lending revenue | 27% | 378 bp | 23% | (63) bp | 24% |
| General and administrative expense—Real Estate | $20,072 | (10)% | $22,396 | 43% | $15,703 |
| As a percentage of Real Estate revenue | 39% | (63) bp | 39% | 1,213 bp | 27% |

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

General and administrative expense in 2007 decreased $20.0 million from 2006 primarily due to a decrease of $13.2 million in compensation and other employee-related costs, due principally to a reduction in workforce, and a decrease of $2.5 million in professional fees. Refer to "Restructuring expense" below for additional information on the reduction in workforce. Tree.com expects to incur increased costs related to the additional financial and legal requirements associated with being a separate public company, as well as increased non-cash compensation associated with the modification of existing stock-based compensation awards in connection with the spin-off and the grant of new awards post spin-off.

General and administrative expense in 2006 increased $17.3 million from 2005 primarily due to an increase of $11.1 million in compensation and other employee-related costs and an increase of $2.8 million in facilities and infrastructure costs. The increase in compensation and other employee-related costs was due in part to an increase in headcount. General and administrative expense in 2006 and 2005 were negatively impacted by accruals of $3.5 million and $5.8 million, respectively, related to an adverse legal judgment.

Effective January 1, 2006, Tree.com adopted Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), using the modified prospective transition method. There was no impact to the amount of stock-based compensation recorded in the consolidated statement of operations for the years ended December 31, 2006 and 2005 as a result of adopting SFAS 123R. Tree.com has been recognizing expense for all stock-based grants since its acquisition by IAC on August 8, 2003, in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). The majority of stock-based compensation expense is reflected in general and administrative expense. As of December 31, 2007, there was approximately $10.2 million of unrecognized compensation cost, net of estimated forfeitures, related to all equity-based awards, which is expected to be recognized over a weighted average period of approximately 2.8 years.

***Product development***

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | | | (Dollars in thousands) | | |
| Lending | $ 9,720 | (6)% | $10,301 | (5)% | $10,803 |
| Real Estate | 5,271 | 8% | 4,867 | 16% | 4,198 |
| Product development | $14,991 | (1)% | $15,168 | 1% | $15,001 |
| As a percentage of total revenue | 4% | 114 bp | 3% | (38) bp | 4% |

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | | | (Dollars in thousands) | | |
| Product development—Lending | $9,720 | (6)% | $10,301 | (5)% | $10,803 |
| As a percentage of Lending revenue | 3% | 84 bp | 2% | (51) bp | 3% |
| Product development—Real Estate | $5,271 | 8% | $ 4,867 | 16% | $ 4,198 |
| As a percentage of Real Estate revenue | 10% | 162 bp | 9% | 127 bp | 7% |

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

Product development expense in 2007 decreased $0.2 million from 2006, primarily due to decreased compensation and other employee-related costs.

Product development expense in 2006 increased $0.2 million from 2005, primarily due to increased compensation and other employee-related costs related to modifying, maintaining and enhancing its technology and web-pages.

***Restructuring expense***

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | | | (Dollars in thousands) | | |
| Lending | $21,566 | N/A | $— | — | $— |
| Real Estate | 1,301 | N/A | — | — | — |
| Restructuring expense | $22,867 | N/A | $— | — | $— |
| As a percentage of total revenue | 7% | N/A | — | — | — |

In response to persistent adverse mortgage market conditions, Tree.com completed a restructuring of its operations and recorded $22.9 million in restructuring expense. As a part of this restructuring, approximately 800 positions across all departments and locations of its business were eliminated, however the restructuring principally related to the mortgage origination operations of LendingTree Loans. In addition, Tree.com ceased use of space in six of its facilities previously used by LendingTree Loans. In connection with this reduction in workforce and facilities restructuring, Tree.com recorded $9.3 million in employee termination costs, $5.0 million for liabilities associated with exiting the lease obligations, $8.0 million for write-offs of fixed assets and other projects in progress and $0.6 million for other items.

***Depreciation***

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | (Dollars in thousands) | | | | |
| Lending | $ 8,905 | (4)% | $ 9,309 | 68% | $5,540 |
| Real Estate | 1,153 | (52)% | 2,401 | 104% | 1,180 |
| Depreciation | $10,058 | (14)% | $11,710 | 74% | $6,720 |
| As a percentage of total revenue | 3% | 45 bp | 2% | 86 bp | 2% |

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | (Dollars in thousands) | | | | |
| Depreciation—Lending | $8,905 | (4)% | $9,309 | 68% | $5,540 |
| As a percentage of Lending revenue | 3% | 80 bp | 2% | 70 bp | 2% |
| Depreciation—Real Estate | $1,153 | (52)% | $2,401 | 104% | $1,180 |
| As a percentage of Real Estate revenue | 2% | (200) bp | 4% | 218 bp | 2% |

Depreciation in 2007 decreased $1.7 million from 2006 primarily due to the write-off of fixed assets referred to above and certain fixed assets becoming fully depreciated and decreased capital expenditures as Tree.com scaled back its spending in light of mortgage market conditions.

Depreciation in 2006 increased $5.0 million from 2005 primarily due to the incremental depreciation associated with capital expenditures made throughout 2006 and 2005, partially offset by certain fixed assets becoming fully depreciated during the period.

***Operating Income Before Amortization***

Operating Income Before Amortization is a Non-GAAP measure and is defined in "Tree.com's Principles of Financial Reporting".

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | (Dollars in thousands) | | | | |
| Lending | $(23,524) | NM | $ 61,873 | (22)% | $ 78,883 |
| Real Estate | (20,059) | 7% | (21,507) | (27)% | (16,930) |
| Operating Income Before Amortization | $(43,583) | NM | $ 40,366 | (35)% | $ 61,953 |
| As a percentage of total revenue | (13)% | NM | 8% | (623) bp | 15% |

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | (Dollars in thousands) | | | | |
| Operating Income Before Amortization—Lending | $(23,524) | NM | $61,873 | (22)% | $78,883 |
| As a percentage of Lending revenue | (8)% | NM | 15% | (694) bp | 22% |
| Operating Income Before Amortization—Real Estate | $(20,059) | 7% | $(21,507) | (27)% | $(16,930) |
| As a percentage of Real Estate revenue | (39)% | (91) bp | (38)% | (844) bp | (29)% |

Operating Income Before Amortization in 2007 decreased $83.9 million to a loss of $43.6 million, declining at a faster rate than revenue due to higher costs per loan sold resulting from a shift to lowering margin products, lower close rates and stricter underwriting criteria, and $22.9 million in restructuring costs, due in part to a reduction in workforce, partially offset by a decrease of $31.3 million in selling and marketing expense. Operating Income Before Amortization was adversely impacted by a $20.2 million provision for loan losses in 2007, compared to $6.6 million in 2006. The 2007 provision reflects the increased losses Tree.com is experiencing related to obligations to investors with respect to previously sold loans. Operating Income Before Amortization benefited by $12.9 million due to the net impact of a favorable legal settlement and an increase in certain legal reserves.

Operating Income Before Amortization in 2006 decreased $21.6 million from 2005, negatively impacted by increased marketing expenses, an increase of $17.3 million in general and administrative expenses, $11.1 million of which relates to an increase in compensation and other employee-related costs, and higher costs associated with the origination of loans sold into the secondary market.

***Operating (loss) income***

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | | | (Dollars in thousands) | | |
| Lending | $(512,584) | NM | $ 44,091 | (13)% | $ 50,605 |
| Real Estate | (27,856) | 7% | (29,920) | 5% | (31,351) |
| Operating (loss) income | $(540,440) | NM | $ 14,171 | (26)% | $ 19,254 |
| As a percentage of total revenue | (156)% | NM | 3% | (160) bp | 5% |

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | % Change | 2006 | % Change | 2005 |
| | | | (Dollars in thousands) | | |
| Operating (loss) income—Lending | $(512,584) | NM | $ 44,091 | (13)% | $ 50,605 |
| As a percentage of Lending revenue | (174)% | NM | 11% | (340) bp | 14% |
| Operating (loss)—Real Estate | $ (27,856) | 7% | $(29,920) | 5% | $(31,351) |
| As a percentage of Real Estate revenue | (54)% | (117) bp | (53)% | 181 bp | (54)% |

Operating income decreased $554.6 million to a loss of $540.4 million in 2007, resulting primarily from a goodwill impairment charge of $459.5 million which was recorded in the fourth quarter of 2007 in the accompanying consolidated statements of operations as a component of operating income. The write-down was determined by comparing the fair value of the business and the implied value of the goodwill with the carrying amounts on the balance sheet. In addition, an impairment charge of $16.2 million was recorded in the fourth quarter of 2007 in connection with the write-down of certain intangible assets which has been included in amortization of intangibles in the accompanying consolidated statement of operations. These impairments were identified in connection with Tree.com's annual impairment assessment which is performed as of October 1st. Also contributing to the increase in operating loss was the decrease in Operating Income Before Amortization described above and an increase in non-cash compensation expense.

As discussed above in the management overview, in response to adverse mortgage market conditions, Tree.com has significantly reduced its mortgage origination operations, incurred substantial restructuring charges, recorded significant provisions for loan losses and recorded substantial impairment charges. Given that overall conditions in the credit markets and the mortgage market continue to evolve rapidly, no assurances can be made that the changes Tree.com has undertaken will be sufficient or that Tree.com will not be required to take additional impairment or restructuring charges. In addition, these actions will reduce or slow its ability to react to possible improvements in the market.

Operating income in 2006 decreased $5.1 million from 2005 primarily due to the decrease in Operating Income Before Amortization described above, partially offset by an $11.3 million decrease in amortization of intangibles resulting from certain intangible assets being fully amortized in 2005 and 2006, as well as a $5.2 million decrease in non-cash compensation expense. The decrease in non-cash compensation expense is primarily due to the transfer of Tree.com's founder and Chief Executive Officer to IAC, effective January 1, 2006.

***Income tax provision***

In 2007, Tree.com recorded an income tax provision of $10.2 million, despite a loss from operations, due principally to the impairment of goodwill that is largely non-deductible for income tax purposes and an increase in the valuation allowance on deferred tax assets. In light of the reassessment of the likely future profitability of Tree.com, it has been determined that it is not more likely than not that deferred tax assets at December 31, 2007 will be realized. In 2006, Tree.com recorded a tax provision of $5.0 million which represents an effective tax rate of 37%. The 2006 tax rate is higher than the federal statutory rate of 35% due principally to state and local income taxes. In 2005, Tree.com recorded a tax provision of $11.4 million which represents an effective tax rate of 66%. The 2005 tax rate is higher than the federal statutory rate of 35% due principally to state and local income taxes which included an increase in net deferred tax liabilities due to a change in the effective state tax rate and an increase in the valuation allowance on deferred tax assets related to state net operating losses.

Tree.com adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" ("FIN 48") effective January 1, 2007. There was no effect to Tree.com's accumulated deficit as a result of the adoption. As of January 1, 2007 and December 31, 2007, Tree.com had unrecognized tax benefits of approximately $0.5 million and $5.8 million, respectively, which included accrued interest at December 31, 2007 of $1.4 million.

By virtue of the previously filed separate company and consolidated tax returns with IAC, Tree.com is routinely under audit by federal, state and local authorities in the area of income tax. These audits include questioning the timing and the amount of deductions and the allocation of income among various tax jurisdictions. Income taxes payable include amounts considered sufficient to pay assessments that may result from examination of prior year returns; however, the amount paid upon resolution of issues raised may differ from the amount provided. Differences between the reserves for tax contingencies and the amounts owed by Tree.com are recorded in the period they become known.

The Internal Revenue Service ("IRS") is currently examining the IAC consolidated tax returns for the years ended December 31, 2001 through 2003, which includes the operations of Tree.com from August 8, 2003, its date of acquisition by IAC. The statute of limitations for these years has been extended to December 31, 2008. Tax filings in various state, local and foreign jurisdictions are currently under examinations, the most significant of which are Florida, New York state and New York City, for various tax years after December 31, 2001. These examinations are expected to be completed by late 2008. Tree.com believes that it is reasonably possible that its unrecognized tax benefits could decrease by approximately $2.6 million within twelve months of the current reporting date due to the reversal of deductible temporary differences which will result in a corresponding increase in net deferred tax liabilities. An estimate of other changes in unrecognized tax benefits cannot be made, but are not expected to be significant.

Under the terms of the tax sharing agreement, which will be executed in connection with the spin-off, IAC will generally retain the liability related to federal and state tax returns filed on a consolidated or unitary basis for all periods prior to the spin-off.

## FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2007, Tree.com had $60.9 million of cash and cash equivalents and restricted cash and cash equivalents.

Net cash provided by operating activities was $233.0 million and $74.9 million in 2007 and 2006, respectively. The increase of $158.1 million in net cash provided by operating activities primarily reflects an increase in net proceeds from the sale of loans held for sale of $153.2 million.

Net cash used in investing activities in 2007 and 2006 of $10.9 million and $16.4 million, respectively, primarily resulted from capital expenditures of $9.4 million and $13.3 million, respectively.

Net cash used in financing activities in 2007 of $275.6 million was primarily due to net payments under various lines of credit, primarily warehouse lines, of $259.0 million at LendingTree Loans, payments on notes payable and capital lease obligations of $11.7 million and cash transfers of $7.1 million to IAC. The net payments under various lines of credit, primarily warehouse lines, is directly related to the net proceeds from sales of loans held for sale included within cash flows from operating activities. The cash transfers to IAC relate primarily to the transfer of Tree.com's excess cash to IAC in connection with IAC's centrally managed U.S. treasury function. Net cash used in financing activities in 2006 of $45.9 million was primarily due to net payments under various lines of credit, primarily warehouse lines, of $23.8 million at LendingTree Loans, payments on notes payable and capital lease obligations of $11.5 million and cash transfers of $3.9 million to IAC.

As of December 31, 2007, LendingTree Loans had committed lines of credit, primarily warehouse lines, totaling $550 million, of which $500 million expired on January 31, 2008, and $50 million expires on October 31, 2008, and an uncommitted line of $150 million. Borrowings under these lines of credit are used to fund, and are secured by, consumer residential loans that are held for sale. Loans under these lines of credit are repaid from proceeds from the sales of loans held for sale by LendingTree Loans. The interest rate under these lines of credit is 30-day LIBOR plus 75 to 100 basis points, but may be higher under certain circumstances. The committed line that expired on January 31, 2008 was subsequently renewed at a reduced size of $50 million and will expire on the earlier of sixty days prior to the spin-off or January 24, 2009 and can be cancelled at the option of the lender without default upon sixty days notice. On June 25, 2008, certain terms of the warehouse line of credit were waived in order for the line of credit not to expire 60 days prior to the spin-off. However, if the lender determines at any time prior to January 24, 2009 the spin-off materially and adversely affects Tree.com, the lender reserves the right to deem the line of credit expired prior to January 24, 2009. The interest rate under this line of credit increased at the renewal date to 30-day LIBOR plus 140 basis points, but may be higher under certain circumstances. The $50 million committed line of credit that expires on January 24, 2009 and the $150 million uncommitted line are provided by the same lender. The $50 million committed line that expires on October 31, 2008 is provided by one other lender. LendingTree Loans is highly dependent on the availability of credit to finance its operations. Its inability to renew or replace existing facilities upon expiration or termination, which could be impacted by continuing disruptions in the credit market, would adversely impact its results of operations and financial condition. At December 31, 2007 there was $79.4 million outstanding under the committed lines of credit. Under the terms of the committed lines of credit, LendingTree Loans is required to maintain various financial and other covenants. These financial covenants include, but are not limited to, maintaining (i) minimum levels of tangible net worth, cash on hand with a certain lender and liquid assets, (ii) a maximum ratio of total liabilities to net worth and (iii) positive pre-tax net income on a quarterly basis. During the fourth quarter, LendingTree Loans was not in compliance with the quarterly positive pre-tax net income covenant set forth in one of its lines of credit. LendingTree Loans received a waiver of this covenant breach on February 8, 2008. The breach and the subsequent waiver did not have an impact on LendingTree Loans' other lines of credit and Tree.com does not expect it to have an impact on LendingTree Loans' ability to secure lines of credit in the future. Borrowings under all of LendingTree Loans' lines of credit are non-recourse to Tree.com.

## CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

| Contractual Obligations | Payments Due by Period: Total | Less Than 1 Year | 1-3 Years | 3-5 Years | More Than 5 Years |
|---|---|---|---|---|---|
| | (In thousands) | | | | |
| Short-term and current portion of long-term obligations | $ 99,350 | $ 99,350 | $ — | $ — | $ — |
| Capital lease obligations | 272 | 272 | — | — | — |
| Purchase obligations(a) | 330 | 330 | — | — | — |
| Operating leases | 27,633 | 7,168 | 9,674 | 4,983 | 5,808 |
| Total contractual cash obligations | $ 127,585 | $ 107,120 | $ 9,674 | $ 4,983 | $ 5,808 |

(a) The purchase obligations primarily relate to marketing event contracts in 2008.

| Other Commercial Commitments* | Amount of Commitment Expiration Per Period: Total Amounts Committed | Less Than 1 Year | 1-3 Years | 3-5 Years | More Than 5 Years |
|---|---|---|---|---|---|
| | (In thousands) | | | | |
| Surety bonds and letters of credit | $ 8,182 | $ 7,477 | $ 705 | $ — | $ — |

* Commercial commitments are funding commitments that could potentially require performance in the event of demands by third parties or contingent events, such as under lines of credit extended or under guarantees of debt.

***Off-Balance Sheet Arrangements***

Other than the items described above, Tree.com does not have any off-balance sheet arrangements as of December 31, 2007.

*Results of Operations for the Three Months Ended March 31, 2008 Compared to the Three Months Ended March 31, 2007*

*Revenue*

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | (Dollars in thousands) | | |
| Lending | $ 61,811 | (36)% | $ 96,768 |
| Real Estate | 8,382 | (37)% | 13,231 |
| Total revenue | $ 70,193 | (36)% | $ 109,999 |

Revenue in 2008 decreased $39.8 million, or 36%, from 2007 primarily due to fewer loan originations and sales into the secondary market and fewer loans closed on the lending networks. Also contributing to the decrease in revenue is a decrease of $3.9 million related to the Real Estate builder and broker networks, which experienced decreased closings year over year, as well as the absence of revenue from the agent network business which ceased operations in December 2007. Lenders' continued narrow focus on traditional mortgage products contributed to lower close rates and a shift to lower margin products as compared to the prior year. The dollar value of loans closed by network lenders and directly by LendingTree Loans in 2008 decreased 42% to $4.3 billion. This includes refinance mortgages of $2.7 billion, purchase mortgages of $1.0 billion and home equity loans of $0.5 billion. The dollar value of loans closed by network lenders in 2007 was $7.4 billion, including refinance mortgages of $4.1 billion, purchase mortgages of $1.8 billion and home equity loans of $1.3 billion. Revenue from all home loan products declined with home equity loans, purchase mortgage revenue and refinance mortgage revenue declining 75%, 38% and 22%, respectively.

Partially offsetting the revenue decrease from fewer loans sold in 2008 is higher revenue per loan sold and an increase of $1.2 million in revenue from Tree.com's company-owned brokerage business, which increased closings by 40%. The company-owned brokerage business began closing transactions in the first quarter of 2006 and now operates in fourteen markets. Similar to closing loans through LendingTree Loans, the company-owned brokerage enables Real Estate to capture a larger portion of the transaction revenue.

Lending Tree Loans originates mortgage loans on property located throughout the United States, with no one location representing more than 10% of Tree.com's consolidated revenue for any periods presented. Revenue from loans originated for property in California and Florida in the aggregate totaled approximately 8% and 11% of Tree.com's consolidated revenue for the three months ended March 31, 2008 and 2007, respectively.

*Cost of revenue*

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | (Dollars in thousands) | | |
| Lending | $12,796 | (11)% | $14,312 |
| Real Estate | 4,970 | (20)% | 6,184 |
| Cost of revenue | $17,766 | (13)% | $20,496 |
| As a percentage of total revenue | 25% | 668 bp | 19% |
| Gross margins | 75% | (668) bp | 81% |

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | (Dollars in thousands) | | |
| Cost of revenue—Lending | $12,796 | (11)% | $14,312 |
| As a percentage of Lending revenue | 21% | 591 bp | 15% |
| Lending gross margins | 79% | (591) bp | 85% |
| Cost of revenue—Real Estate | $4,970 | (20)% | $6,184 |
| As a percentage of Real Estate revenue | 59% | 1,256 bp | 47% |
| Real Estate gross margins | 41% | (1,256) bp | 53% |

Cost of revenue consists primarily of costs associated with loan originations, compensation and other employee-related costs (including stock-based compensation) related to customer call centers, real estate network support staff and loan officers, as well as credit scoring fees, consumer incentive costs, real estate agent commissions and website network hosting and server fees.

Cost of revenue in 2008 decreased $2.7 million from 2007 primarily due to decreases of $1.5 million in consumer incentive rebates related to decreased closings at the Real Estate builder and broker network businesses, $1.2 million in direct costs associated with the settlement services business and $1.2 million in compensation and other employee-related costs. Offsetting these decreases in cost of revenue were increases of $0.6 million in costs associated with loan originations and $0.5 million in commission expense primarily related to the increase in closings at company-owned brokerage business. The decrease in compensation and other employee-related costs is primarily due to reduced personnel costs associated with Tree.com's customer call center, settlement services operation and portions of its loan processing department. Included in cost of revenue in 2008 is the impact of Tree.com's adoption of Statement of Financial Accounting Standards ("SFAS") No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115" ("SFAS 159"). Upon adoption of SFAS 159, Tree.com elected to account for all loans held for sale issued after January 1, 2008 at fair value. Electing the fair value option requires loan origination fees and costs to be recorded in earnings as incurred instead of being deferred until the loan is sold as in prior year periods. In 2008, all loan origination costs are recognized in cost of revenue. Prior to 2008, Tree.com applied the provisions of SFAS 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases", effectively deferring loan origination fees and costs until the underlying loan was sold. Upon sale of the loan, the origination fees and costs were recognized as a component of the gain on sale of the loan in revenue.

***Selling and marketing expense***

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | (Dollars in thousands) | | |
| Lending | $31,028 | (39)% | $50,795 |
| Real Estate | 2,169 | (62)% | 5,683 |
| Selling and marketing expense | $33,197 | (41)% | $56,478 |
| As a percentage of total revenue | 47% | (405) bp | 51% |

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | (Dollars in thousands) | | |
| Selling and marketing expense—Lending | $31,028 | (39)% | $50,795 |
| As a percentage of Lending revenue | 50% | (229) bp | 52% |
| Selling and marketing expense—Real Estate | $2,169 | (62)% | $5,683 |
| As a percentage of Real Estate revenue | 26% | (1,708) bp | 43% |

Selling and marketing expense consists primarily of advertising and promotional expenditures, fees paid to affiliates and compensation and other employee-related costs (including stock-based compensation) for personnel engaged in the sales function. 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.

Selling and marketing expense in 2008 decreased $23.3 million from 2007 primarily due to a decrease of $22.3 million in advertising and promotional expenditures. In 2008, Tree.com experienced decreases in advertising of $11.9 million, $6.1 million and $4.1 million associated with online marketing, print and television advertising, respectively. Tree.com anticipates that selling and marketing expense will continue to represent a high percentage of revenue as it continues to promote its brands both online and offline.

*General and administrative expense*

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | (Dollars in thousands) | | |
| Lending | $16,454 | (31)% | $23,869 |
| Real Estate | 4,310 | (30)% | 6,177 |
| General and administrative expense | $20,764 | (31)% | $30,046 |
| As a percentage of total revenue | 30% | 227 bp | 27% |

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | (Dollars in thousands) | | |
| General and administrative expense—Lending | $16,454 | (31)% | $23,869 |
| As a percentage of Lending revenue | 27% | 195 bp | 25% |
| General and administrative expense—Real Estate | $4,310 | (30)% | $6,177 |
| As a percentage of Real Estate revenue | 51% | 473 bp | 47% |

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

General and administrative expense in 2008 decreased $9.3 million from 2007 primarily due to a decrease of $7.5 million in compensation and other employee-related costs, due principally to a reduction in workforce that occurred in 2007, subsequent to the first quarter. Offsetting this decrease in general and administrative expense is a charge of approximately $1.4 million associated with legal and regulatory costs. Tree.com expects to incur increased costs related to the additional financial and legal requirements associated with being a separate public company, as well as increased non-cash compensation associated with the modification of existing stock-based compensation awards in connection with the spin-off and the grant of new awards in connection with and subsequent to the spin-off.

General and administrative expense includes non-cash compensation expense of $0.5 million in 2008 compared with $1.0 million in 2007. The decrease in non-cash compensation expense is primarily due to a reduction in workforce that occurred in 2007, subsequent to the first quarter and various equity grants fully vesting throughout 2007. As of March 31, 2008, there was approximately $8.2 million of unrecognized compensation cost, net of estimated forfeitures, related to all equity-based awards, which is currently expected to be recognized over a weighted average period of approximately 2.7 years (exclusive of the impact of the modification related to the spin-off, which consists of the accelerated vesting of certain restricted stock units and the modification of vested stock options).

***Product development***

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | (Dollars in thousands) | | |
| Lending | $1,454 | (47)% | $2,766 |
| Real Estate | 655 | (56)% | 1,504 |
| Product development | $2,109 | (51)% | $4,270 |
| As a percentage of total revenue | 3% | (88) bp | 4% |

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | (Dollars in thousands) | | |
| Product development—Lending | $1,454 | (47)% | $2,766 |
| As a percentage of Lending revenue | 2% | (51) bp | 3% |
| Product development—Real Estate | $655 | (56)% | $1,504 |
| As a percentage of Real Estate revenue | 8% | (356) bp | 11% |

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

Product development expense in 2008 decreased $2.2 million from 2007, due to decreased compensation and other employee-related costs associated with a reduction in workforce that occurred in 2007, subsequent to the first quarter.

***Depreciation***

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | (Dollars in thousands) | | |
| Lending | $1,366 | (46)% | $2,530 |
| Real Estate | 409 | 32% | 309 |
| Depreciation | $1,775 | (37)% | $2,839 |
| As a percentage of total revenue | 3% | (5) bp | 3% |

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | (Dollars in thousands) | | |
| Depreciation—Lending | $1,366 | (46)% | $2,530 |
| As a percentage of Lending revenue | 2% | (40) bp | 3% |
| Depreciation—Real Estate | $409 | 32% | $309 |
| As a percentage of Real Estate revenue | 5% | 255 bp | 2% |

Depreciation in 2008 decreased $1.1 million from 2007 primarily due to certain fixed assets becoming fully depreciated and decreased capital expenditures made in 2008 and 2007 and the write-off of certain assets subsequent to the first quarter of 2007 as Tree.com scaled back its operations in response to mortgage market conditions.

*Operating Income Before Amortization*

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | (Dollars in thousands) | | |
| Lending | $(1,298) | NM | $3,239 |
| Real Estate | (3,966) | 37% | (6,248) |
| Operating Income Before Amortization | $(5,264) | (75)% | $(3,009) |
| As a percentage of total revenue | (7)% | (476) bp | (3)% |

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | (Dollars in thousands) | | |
| Operating Income Before Amortization—Lending | $(1,298) | NM | $3,239 |
| As a percentage of Lending revenue | (2)% | NM | 3% |
| Operating Income Before Amortization—Real Estate | $(3,966) | 37% | $(6,248) |
| As a percentage of Real Estate revenue | (47)% | (9) bp | (47)% |

Operating Income Before Amortization in 2008 decreased $2.3 million to a loss of $5.3 million, declining at a faster rate than revenue due to higher costs per loan sold resulting from lower close rates and stricter underwriting criteria, partially offset by decreases of $23.3 million in selling and marketing expense and $9.3 million in general and administrative expense. Operating Income Before Amortization was adversely impacted in 2008 by charges, aggregating $3.1 million, associated with legal and regulatory costs and restructuring initiatives.

*Operating loss*

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | (Dollars in thousands) | | |
| Lending | $(4,249) | (980)% | $(393) |
| Real Estate | (5,239) | 35% | (8,011) |
| Operating loss | $(9,488) | (13)% | $(8,404) |
| As a percentage of total revenue | (14)% | (588) bp | (8)% |

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2008 | % Change | 2007 |
| | (Dollars in thousands) | | |
| Operating loss—Lending | $(4,249) | (980)% | $(393) |
| As a percentage of Lending revenue | (7)% | (647) bp | (0)% |
| Operating loss—Real Estate | $(5,239) | 35% | $(8,011) |
| As a percentage of Real Estate revenue | (63)% | (195) bp | (61)% |

Operating loss in 2008 increased $1.1 million from 2007, primarily due to the decrease in Operating Income Before Amortization described above, partially offset by a $0.6 million decrease in both non-cash compensation expense and amortization of intangibles.

*Income tax provision*

For the three months ended March 31, 2008, Tree.com recorded a tax provision of $0.2 million despite a loss from operations, due principally to an increase in valuation allowance on deferred tax assets. For the three months ended March 31, 2007, Tree.com recorded a tax benefit of $3.5 million on a pre-tax loss of $8.6 million, which represents an effective tax rate of 41%. This tax benefit is higher than the federal statutory rate of 35% due principally to state taxes.

As of December 31, 2007 and March 31, 2008, Tree.com had unrecognized tax benefits of approximately $4.4 million. Included in unrecognized tax benefits at March 31, 2008 is approximately $3.6 million for tax positions included in IAC's consolidated tax return filings that will remain a liability of IAC after the spin-off. Tree.com recognizes interest and, if applicable, penalties related to unrecognized tax benefits in income tax expense. There were no material accruals for interest for 2008. At March 31, 2008, Tree.com has accrued $1.5 million for the payment of interest. There are no material accruals for penalties.

By virtue of previously filed separate company and consolidated tax returns with IAC, Tree.com is routinely under audit by federal, state, local and foreign authorities in the area of income tax. These audits include questioning the timing and the amount of deductions and the allocation of income among various tax jurisdictions. Income taxes payable include amounts considered sufficient to pay assessments that may result from examination of prior year returns; however, the amount paid upon resolution of issues raised may differ from the amount provided. Differences between the reserves for tax contingencies and the amounts owed by Tree.com are recorded in the period they become known. Tree.com believes that it is reasonably possible that its unrecognized tax benefits could decrease by approximately $2.7 million within twelve months of the current reporting date due to the reversal of deductible temporary differences which will result in a corresponding increase in net deferred tax liabilities. An estimate of other changes in unrecognized tax benefits cannot be made, but are not expected to be significant.

Under the terms of the tax sharing agreement, which will be executed in connection with the spin-off, IAC will generally retain the liability related to federal and state returns filed on a consolidated or unitary basis for all periods prior to the spin-off.

## FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2008, Tree.com had $55.0 million of cash and cash equivalents and restricted cash and cash equivalents.

Net cash used in operating activities improved by $69.0 million to $5.6 million in 2008 from $74.6 million in 2007. The improvement is primarily due to a $64.2 million increase in loans held for sale in 2007 compared to $4.4 million in 2008 reflecting significantly higher net loan originations in 2007. Also impacting net cash used in operations is an increase in accounts payable as Tree.com aggressively managed working capital in the first quarter of 2008.

Net cash used in investing activities in 2008 of $16.0 million primarily resulted from the payment of contingent consideration associated with the Home Loan Center acquisition and capital expenditures of $1.5 million. Net cash used in investing activities in 2007 of $3.7 million primarily resulted from capital expenditures.

Net cash provided by financing activities in 2008 of $28.2 million was primarily due to cash transfers of $21.8 million from IAC, capital contributions of $14.5 million from IAC and a decrease of $12.5 million in restricted cash, partially offset by payments on notes payable and capital lease obligations of $20.0 million. The cash transfers from IAC relate to IAC's centrally managed U.S. treasury function. Net cash provided by financing activities in 2007 of $69.6 million was primarily due to net borrowings under various lines of credit of $62.4 million at LendingTree Loans and payments on notes payable and capital lease obligations of $10.4 million, partially offset by cash transfers of $18.0 million from IAC. The net borrowings under various lines of credit in 2007 is related to the increase in loans held for sale included within cash flow from operations.

As of March 31, 2008, LendingTree Loans had committed lines of credit totaling $100 million, of which $50 million expires on October 31, 2008, and another $50 million is set to expire on the earlier of sixty days prior to the spin-offs or January 24, 2009, and an uncommitted line of credit of $150 million. The committed line of credit that expires sixty days prior to the spin-offs or January 24, 2009 can be cancelled at the option of the lender without default upon sixty days notice. The $50 million committed line of credit that expires on January 24, 2009 and the $150 million uncommitted line are provided by the same lender. The $50 million committed line that expires on October 31, 2008 is provided by one other lender. Borrowings under these lines of credit are used to fund, and are secured by, consumer residential loans that are held for sale. Loans under these lines of credit are repaid from proceeds from the sales of loans held for sale by LendingTree Loans. The interest rate under these lines of credit is 30-day LIBOR plus 75 to 140 basis points, but may be higher under certain circumstances. At March 31, 2008, there was $78.7 million outstanding under the committed lines of credit. Under the terms of the committed lines of credit, LendingTree Loans is required to maintain various financial and other covenants. These financial covenants include, but are not limited to, maintaining (i) minimum levels of tangible net worth, cash on hand with a certain lender and liquid assets, (ii) a maximum ratio of total liabilities to net worth and (iii) positive pre-tax net income on a quarterly basis. During the first quarter of 2008, LendingTree Loans was in compliance with all covenants. Borrowings under all of LendingTree Loans' lines of credit are non-recourse to Tree.com.

Tree.com anticipates that it will need to make capital and other expenditures in connection with the development and expansion of its overall operations.

Tree.com has considered its anticipated operating cash flows in 2008, cash and cash equivalents, current borrowing capacity under lines of credit, its expected capitalization upon completion of the spin-off and access to capital markets and believes that these are sufficient to fund its operating needs, including debt requirements, commitments and contingencies and capital and investing commitments for the foreseeable future. LendingTree Loans is highly dependent on the availability of credit to finance its operations. Its inability to renew or replace existing facilities upon expiration or termination, which could be impacted by continuing disruptions in the credit market, would adversely impact its results of operations and financial condition. In connection with the completion of the spin-off, intercompany payable balances will be extinguished. It is expected that IAC will transfer to Tree.com an amount of cash that will be sufficient for its initial capitalization.

## CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| **Contractual Obligations** | **Total** | **Less Than 1 Year** | **1-3 Years** | **3-5 Years** | **More Than 5 Years** |
| | (In thousands) | | | | |
| Short-term and current portion of long-term obligations | $ 78,739 | $ 78,739 | $ — | $ — | $ — |
| Capital lease obligations | 15 | 15 | — | — | — |
| Purchase obligations(a) | 587 | 587 | — | — | — |
| Operating leases | 27,724 | 7,395 | 8,723 | 5,669 | 5,937 |
| Total contractual cash obligations | $ 107,065 | $ 86,736 | $ 8,723 | $ 5,669 | $ 5,937 |

(a) The purchase obligations primarily relate to marketing event contracts in 2008.

## TREE.COM'S PRINCIPLES OF FINANCIAL REPORTING

Tree.com reports Operating Income Before Amortization as a supplemental measure to generally accepted accounting principles ("GAAP"). This measure is one of the primary metrics by which Tree.com evaluates the performance of its businesses, on which its internal budgets are based and by which management is compensated. Tree.com believes that investors should have access to the same set of tools that it uses in analyzing its 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. Tree.com provides and encourages investors to examine the reconciling adjustments between the GAAP and non-GAAP measure which are discussed below.

### Definition of Tree.com's Non-GAAP Measure

*Operating Income Before Amortization* is defined as operating income excluding, if applicable: (1) non-cash compensation expense, (2) amortization of intangibles and goodwill impairment, (3) pro forma adjustments for significant acquisitions, and (4) one-time items. Tree.com believes this measure is useful to investors because it represents the operating results from the Tree.com Businesses, taking into account depreciation, which Tree.com believes is an ongoing cost of doing business, but excluding the effects of any other non-cash expenses. Operating Income Before Amortization has certain limitations in that it does not take into account the impact to Tree.com's statement of operations of certain expenses, including non-cash compensation, and acquisition-related accounting. Tree.com endeavors to compensate for the limitations of the non-GAAP measure presented by also providing the comparable GAAP measure with equal or greater prominence and descriptions of the reconciling items, including quantifying such items, to derive the non-GAAP measure.

### Pro Forma Results

Tree.com will only present Operating Income Before Amortization on a pro forma basis if it views a particular transaction as significant in size or transformational in nature. For the periods presented in this report, there are no transactions that Tree.com has included on a pro forma basis.

### One-Time Items

Operating Income Before Amortization is presented before one-time items, if applicable. These items are truly one-time in nature and 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 one-time items.

### Non-Cash Expenses That Are Excluded From Tree.com's Non-GAAP Measure

*Non-cash compensation* expense consists principally of expense associated with the grants, including unvested grants assumed in acquisitions, of restricted stock, restricted stock units and stock options. These expenses are not paid in cash, and Tree.com will include the related shares in its future calculations of fully diluted shares outstanding. Upon vesting of restricted stock and restricted stock units and the exercise of certain stock options, the awards will be settled, at Tree.com's discretion, on a net basis, with Tree.com remitting the required tax withholding amount from its current funds.

*Amortization of intangibles* is a non-cash expense relating primarily to 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. Tree.com believes that since intangibles represent costs incurred by the acquired company to build value prior to acquisition, they were part of transaction costs.

## RECONCILIATION OF OPERATING INCOME BEFORE AMORTIZATION

For a reconciliation of Operating Income Before Amortization to operating (loss) income for Tree.com's operating segments and to net (loss) income in total for the years ended December 31, 2007, 2006 and 2005, see Note 8 to the consolidated financial statements.

### Critical Accounting Policies and Estimates

The following disclosure is provided to supplement the descriptions of Tree.com's accounting policies contained in Note 2 to the consolidated financial statements in regard to significant areas of judgment. Tree.com's management is required to make certain estimates and assumptions during the preparation of its 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 income during any period. Actual results could differ from those estimates. Because of the size of the financial statement elements to which they relate, some of Tree.com's accounting policies and estimates have a more significant impact on its consolidated financial statements than others. What follows is a discussion of some of Tree.com's more significant accounting policies and estimates.

#### Recoverability of Long-Lived Assets

Tree.com reviews the carrying value of all long-lived assets, primarily property and equipment and definite-lived intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may be impaired. In accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), impairment is considered to have occurred whenever the carrying value of a long-lived asset exceeds the sum of the undiscounted cash flows that is expected to result from the use and eventual disposition of the asset. The determination of cash flows is based upon assumptions that may not occur. The value of long-lived assets that is subject to assessment for impairment in accordance with SFAS 144 is $41.3 million at December 31, 2007.

#### Recoverability of Goodwill and Indefinite-Lived Intangible Assets

Goodwill impairment is determined using a two-step process. The first step of the process is to compare the fair value of a reporting unit with its carrying amount, including goodwill. In performing the first step, Tree.com determines the fair value of its reporting units by using a discounted cash flow ("DCF") analysis. Determining fair value using a DCF analysis requires the exercise of significant judgments, including judgments about appropriate discount rates, perpetual growth rates and the amount and timing of expected future cash flows. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step of the impairment test is not required. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is required to be performed to measure the amount of impairment, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

The impairment test for indefinite-lived intangible assets involves a comparison of the estimated fair value of the intangible asset with its carrying value. If the carrying value of the indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. The estimates of fair value of indefinite-lived intangible assets are determined using a DCF valuation analysis that employs a "relief from royalty" methodology in estimating the fair value of its trade names and trademarks. Significant judgments inherent in this analysis include the determination of royalty rates, discount rates and the terminal growth rates.

Goodwill and indefinite-lived intangible assets, primarily trade names and trademarks, are tested annually for impairment as of October 1 or earlier upon the occurrence of certain events or substantive changes in circumstances. The annual assessment for 2007 identified impairment charges for the Lending reporting unit as more fully described above in "Results of Operations for the Years Ended December 31, 2007, 2006 and 2005." Tree.com's reporting units are currently operating in dynamic and challenged industry segments. To illustrate the magnitude of potential impairment charges relative to future changes in estimated fair value, had the estimated fair value of Tree.com's reporting units and their respective indefinite-lived intangible assets been hypothetically lower by 10% as of October 1, 2007 the aggregate book value of goodwill and indefinite-lived intangible assets would have exceeded fair value by approximately $7.0 million at Lending and $8.0 million at Real Estate. Had the estimated fair values of Tree.com's reporting units and their respective indefinite-lived intangible assets been hypothetically lower by 20% as of October 1, 2007, the book value of goodwill and indefinite-lived intangible assets would have exceeded fair value by approximately $21.0 million at Lending and $18.0 million at Real Estate.

**Income Taxes**

Estimates of deferred income taxes and the significant items giving rise to the deferred assets and liabilities are shown in Note 7, and reflect management's assessment of actual future taxes to be paid on items reflected in the consolidated financial statements, giving consideration to both timing and the probability of realization. As of December 31, 2007, the balance of deferred tax liabilities, net, is $30.3 million. Actual income taxes could vary from these estimates due to future changes in income tax law, state income tax apportionment or the outcome of any review of IAC's tax returns by the IRS, as well as actual operating results of Tree.com that vary significantly from anticipated results. Effective January 1, 2007, Tree.com adopted the provisions of FIN 48. As a result of the adoption of FIN 48, Tree.com recognizes liabilities for uncertain tax positions based on the two-step process prescribed by the interpretation. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. This measurement step is inherently difficult and requires subjective estimations of such amounts to determine the probability of various possible outcomes. Tree.com considers many factors when evaluating and estimating its tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes.

**Loans Held for Sale**

Loans held for sale consist primarily of residential first and second mortgage loans that are secured by residential real estate throughout the United States. LendingTree Loans originates residential loans with the intent to sell them in the secondary market. Loans held for sale are carried at the lower of cost or market value in accordance with SFAS No. 65, "Accounting for Certain Mortgage Banking Activities." The lower of cost or market value is determined on an individual basis for loans that have been impaired and on an aggregate basis for loans that have not been impaired. The cost basis of loans held for sale includes the capitalized cost associated with the interest rate lock commitments, deferred origination fees, deferred origination costs and prior to April 1, 2007 the effects of hedge accounting. The market value of loans held for sale is determined using current secondary market prices for loans with similar coupons, maturities and credit quality. The December 31, 2007 consolidated balance sheet includes $86.8 million of loans held for sale, which is net of an associated valuation allowance of $4.3 million. The valuation allowance is the amount by which the cost of loans held for sale exceeds the market value of loans held for sale.

LendingTree Loans sells loans it originates to investors on a servicing released basis without recourse so the risk of loss or default by the borrower is generally transferred to the investor. However, LendingTree Loans is required by these investors to make certain representations relating to credit information, loan documentation and collateral. To the extent LendingTree Loans does not comply with such representations, or there are early payment defaults, LendingTree Loans may be required to repurchase loans or indemnify the investors for any losses from borrower defaults. As such, LendingTree Loans records a liability for the estimated obligation related to this exposure based, in part, on historical and projected loss frequency and loss severity, the original principal amount of the loans previously sold, the year the loans were sold, and loan type. There are four loan types used in this analysis which are determined based on the extent of the documentation received (full or limited) and the lien position of the mortgage in the underling property (first or second position). In the case of early payment payoffs, which occurs when a borrower prepays a loan prior to the end of the prepayment penalty period, LendingTree Loans may be required to repay all or a portion of the premium initially paid by the investor. The estimated obligation associated with early loan payoffs is calculated based on historical loss experience by type of loan. Specific circumstances may also cause management to estimate and record additional liabilities specific to a situation based on certain assumptions of future losses as a result of current activity. Because LendingTree Loans does not service the loans it sells, it does not maintain nor have access to the current balances and loan performance data with respect to the individual loans previously sold to investors. As such, LendingTree Loans is unable to determine its maximum loss exposure. For the year ended December 31, 2007 LendingTree Loans increased its liability for losses on previously sold loans by approximately $15.5 million as a reduction to revenue. In 2007, $5.4 million was paid or written off against the liability. The related liability at December 31, 2007 is $13.9 million.

**Seasonality**

Lending and Real Estate revenue is subject to the seasonal and cyclical trends of the U.S. housing market. On a seasonal basis, home sales typically rise during the spring and summer months and decline during the fall and winter months. The current cyclical trends have impacted and are expected to continue to impact typical seasonal trends. Refinancing and home equity activity is principally driven by mortgage interest rates as well as real estate values.

**New Accounting Pronouncements**

Refer to Note 2 to the consolidated financial statements for a description of recent accounting pronouncements.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Interest Rate Risk

Tree.com's exposure to market rate risk for changes in interest rates relates primarily to its loans held for sale, and LendingTree Loans' lines of credit.

#### *Loans Held for Sale*

LendingTree Loans' mortgage banking operations expose Tree.com to interest rate risk for loans originated until those loans are sold in the secondary market ("loans held for sale"). The fair value of loans held for sale is subject to change primarily due to changes in market interest rates. LendingTree Loans hedges the changes in fair value of certain loans held for sale primarily by entering into mortgage forward delivery contracts. Although LendingTree Loans continues to enter into derivatives for risk management purposes, effective April 1, 2007 management determined these derivative instruments would no longer qualify for the hedge accounting provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities."

When hedge accounting was discontinued, the affected loans held for sale were no longer adjusted for changes in fair value. However, the changes in fair value of the derivative instruments continue to be recognized in current earnings as a component of revenue. For the year ended December 31, 2007 Tree.com recognized losses of $1.1 million related to the changes in fair value of derivative instruments related to loans held for sale. For the three months ended March 31, 2008, Tree.com recognized losses of less than $0.1 million related to the changes in fair value of derivative instruments related to loans held for sale.

In addition, LendingTree Loans provides interest rate lock commitments ("IRLCs") to fund mortgage loans at interest rates previously agreed upon with the borrower for specified periods of time, which also expose it to interest rate risk. IRLCs are considered derivative instruments and, therefore, are recorded at fair value, with changes in fair value reflected in current period earnings. To manage the interest rate risk associated with the IRLCs, Tree.com uses derivative instruments, including mortgage forward delivery contracts. These instruments do not qualify for hedge accounting. The net change in the fair value of these derivatives for the year ended December 31, 2007 resulted in losses of $0.8 million which have been recognized as a component of revenue in the accompanying consolidated statements of operations.

On January 1, 2008, Tree.com adopted the provisions of SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). Prior to the adoption of SFAS 157 the recognition of gains and losses at the inception of a derivative contract were prohibited unless the fair value of the contract was evidenced by a quoted price in an active market. As no active market exists for IRLCs, such day one gains and losses were not recognized until the related loan was sold. Prior to January 1, 2008, guidance also prohibited including the value of servicing the loan in calculating the fair value of an IRLC. Such guidance was rescinded by Staff Accounting Bulletin No. 109, "Written Loan Commitments Recorded at Fair Value Through Earnings" ("SAB 109"). Accordingly, with the adoption of SFAS No. 157 and SAB 109 on January 1, 2008, the day one gains and servicing value, adjusted by the loan funding probability, are included in the value of IRLCs. The net change in the fair value of the IRLCs and related forward delivery contracts, including the impact of day one gains and servicing value, for the three months ended March 31, 2008 resulted in gains of $14.8 million which have been recognized as a component of revenue in the accompanying consolidated statements of operations.

The fair values of derivative financial instruments at LendingTree Loans are impacted by movements in market interest rates. Changes in the fair value of the derivative financial instruments would substantially be offset by changes in the fair value of the items for which risk is being mitigated. As of March 31, 2008 and December 31, 2007, if market interest rates had increased by 100 basis points, the aggregate fair value of the derivative financial instruments and the hedged items at LendingTree Loans would have increased by $0.1 million and decreased by $0.2 million, respectively. As of March 31, 2008 and December 31, 2007, if market interest rates had decreased by 100 basis points, the aggregate fair value of the derivative financial instruments and the hedged items at LendingTree Loans would have decreased by $0.8 million and $0.3 million, respectively.

### Management of Tree.com

### Tree.com Board of Directors and Executive Officers

The following table sets forth information as to persons who are expected to serve as Tree.com directors and executive officers following the spin-offs. The Tree.com Board of Directors, the composition of which will comply with the independence requirements under the current standards imposed by the Marketplace Rules, is currently expected to consist of directors.

| Name | Age | Position(s) |
|---|---|---|
| Douglas Lebda | 38 | Chairman, Chief Executive Officer and Director of Tree.com |
| Scott Cammarn | 46 | Senior Vice President and General Counsel of Tree.com |
| Robert Harris | 48 | President of Lending |
| Matthew Packey | 40 | Senior Vice President and Chief Financial Officer of Tree.com |
| Bret Violette | 41 | President of Real Estate |

### Directors

Background information about those individuals who are expected to serve as directors of Tree.com appears below.

*Douglas Lebda*, age 38, will serve as Chairman, Chief Executive Officer and director of Tree.com upon completion of the spin-offs and has served in such capacity for LendingTree since January 2008. Mr. Lebda has also served as President and Chief Operating Officer of IAC since the end of 2005. Prior to assuming his current roles, Mr. Lebda served as the Chief Executive Officer of LendingTree, which he founded, since September 1998. Prior to his tenure as Chief Executive Officer of LendingTree, Mr. Lebda served as Chairman of the Board and President of LendingTree since June 1996. Before founding LendingTree in June 1996, Mr. Lebda worked as an auditor and consultant for PriceWaterhouseCoopers. Mr. Lebda is a member of the Board of Directors of Eastman Kodak.

### Executive Officers

Background about Tree.com's executive officers who are not expected to serve as directors appears below.

*Scott Cammarn*, age 46, will serve as Senior Vice President and General Counsel of Tree.com upon the completion of the spin-offs and has served in such capacity for LendingTree since May 2006. Prior to joining LendingTree, Mr. Cammarn worked for Bank of America for eleven years, during which he served in various legal capacities, most recently as Associate General Counsel, Global Marketing and Global Corporate Affairs. Before joining Bank of America, Mr. Cammarn was a partner at the law firm of Zeiger, Dreher & Carpenter, where he represented a number of leading consumer lending institutions.

*Robert L. Harris*, age 48, will serve as President of Tree.com's Lending Business upon completion of the spin-offs and has served in such capacity for LendingTree since January 2008. Mr. Harris previously served as Chief Operating Officer of the Lending Business from May 2007 through January 2008. Mr. Harris joined LendingTree as Vice President of Marketing in June 2000 and served as Chief Marketing Officer of LendingTree from September 2003 through April 2007. Prior to joining LendingTree, Mr. Harris served as Managing Director, Consumer Marketing of The Coca-Cola Company and worked at McCormick & Company, where he was responsible for leading brand marketing, new products and sales initiatives within the U.S. Consumer Products Group.

*Matthew Packey***,** age 40, will serve as Senior Vice President and Chief Financial Officer of Tree.com upon completion of the spin-offs and has served in such capacity for LendingTree since September 2007. Mr. Packey previously served as LendingTree's Chief Accounting Officer from August 2005 to September 2007 and Controller from January 2000 to August 2005. Prior to joining LendingTree, Mr. Packey served as Vice President and Controller of Broadway & Seymour, Inc., and as a Manager at Deloitte & Touche, LLP. Mr. Packey is a certified public accountant.

*Bret A. Violette*, age 41, will serve as President of Tree.com's Real Estate Business and has served in such capacity for LendingTree since April 2007. Mr. Violette previously served as Senior Vice President and General Manager of LendingTree's real estate brokerage business from June 2005. Before joining LendingTree, Mr. Violette served as President of Weichert Lead Network, Inc. and Weichert Rental Network, Inc. from 2002 to June 2005. Prior to that time, Mr. Violette served as Chief Financial Officer and Vice President of Business Development of YHD Foxtons, Vice President of Business Development at CMP Media Inc. and as a Group Business Director of Ziff-Davis.

**Committees of the Board of Directors**

Concurrent with the completion of the spin-offs, the Tree.com Board of Directors will establish the following committees, with committee membership to be determined: the Audit Committee, the Compensation and Human Resources Committee and the Nominating Committee.

***Audit Committee.*** The Audit Committee of the Tree.com Board of Directors will consist of three persons and the composition of the committee will satisfy the independence requirements under the current standards imposed by the rules of the SEC and the Marketplace Rules. The Tree.com Board of Directors will determine which member of the Audit Committee is an "audit committee financial expert," as such term is defined in applicable SEC rules.

The Audit Committee will function pursuant to a written charter adopted by the Tree.com Board of Directors, pursuant to which it will be granted the responsibilities and authority necessary to comply with Rule 10A-3 of the Securities Exchange Act of 1934, as amended. The Audit Committee will be appointed by the Tree.com Board of Directors to assist the Tree.com Board with a variety of matters, including monitoring (1) the integrity of Tree.com's financial statements, (2) the effectiveness of Tree.com's internal control over financial reporting, (3) the qualifications and independence of Tree.com's independent registered public accounting firm, (4) the performance of Tree.com's internal audit function and independent registered public accounting firm and (5) the compliance by Tree.com with legal and regulatory requirements.

***Compensation and Human Resources Committee.*** The Compensation and Human Resources Committee will be authorized to exercise all of the powers of the Tree.com Board of Directors with respect to matters pertaining to compensation and benefits, including, but not limited to, salary matters, incentive/bonus plans, stock compensation plans, retirement programs and insurance plans. The composition of this committee will satisfy the independence requirements under the current standards imposed by the Marketplace Rules, as well as applicable SEC and Interval Revenue Service rules.

***Nominating Committee.*** The Nominating Committee will be responsible for identifying individuals qualified to become members of Tree.com's Board of Directors, recommending to the Board director nominees for the annual meeting of shareholders and otherwise on an as needed basis. The composition of this committee will satisfy the independence requirements under the current standards imposed by the Marketplace Rules.

***Other Committees.*** In addition to the foregoing committees, the Tree.com Board of Directors, by resolution, may from time to time establish other committees of the Tree.com Board of Directors, consisting of one or more of its directors.

**Director Compensation**

***Non-Employee Director Arrangements.*** Each member of the Tree.com Board of Directors will receive an annual retainer in the amount of $40,000. Each member of the Audit and Compensation and Human Resources Committees (including their respective chairs) will receive an additional annual retainer in the amount of $10,000. Lastly, the chair of the Audit Committee will receive an additional annual chairperson retainer in the amount of $15,000.

In addition, each non-employee director will receive a grant of restricted stock units with a dollar value of $50,000 upon his or her initial election to the Tree.com Board of Directors and annually thereafter upon re-election on the date of Tree.com's annual meeting of stockholders. The terms of these restricted stock units provide for (i) vesting in two equal annual installments commencing on the first anniversary of the grant date, (ii) cancellation and forfeiture of unvested units in their entirety upon termination of service with the Tree.com Board of Directors and (iii) full acceleration of vesting upon a change in control of Tree.com. Directors will be able to elect to receive their cash payments in restricted stock at a fixed discount to the market price at the grant date. Non-employee directors are also reimbursed for all reasonable expenses incurred in connection with attendance at Tree.com Board and Committee meetings.

The Compensation and Human Resources Committee will have primary responsibility for establishing non-employee director compensation arrangements, which are designed to provide competitive compensation necessary to attract and retain high quality non-employee directors and to encourage ownership of Tree.com stock to further align directors' interests with those of Tree.com's stockholders. When considering non-employee director compensation arrangements, Tree.com management will provide the Compensation and Human Resources Committee with information regarding various types of non-employee director compensation arrangements and practices of select peer companies.

***Deferred Compensation Plan for Non-Employee Directors.*** Under Tree.com's Deferred Compensation Plan for Non-Employee Directors, non-employee directors will be able to defer all or a portion of their Board and Board Committee fees. Eligible directors who defer all or any portion of these fees can elect to have such fees applied to the purchase of share units, representing the number of shares of Tree.com common stock that could have been purchased on the relevant date, or credited to a cash fund. If any dividends are paid on Tree.com common stock, dividend equivalents will be credited on the share units. The cash fund will be credited with deemed interest at an annual rate equal to the weighted average prime lending rate of JPMorgan Chase Bank. After a director ceases to be a member of the Tree.com Board of Directors, he or she will receive (i) with respect to share units, such number of shares of Tree.com common stock as the share units represent and (ii) with respect to the cash fund, a cash payment in an amount equal to deferred amounts, plus accrued interest. These payments will be made in either one lump sum or up to five installments, as previously elected by the eligible director at the time of the related deferral election.

### Director Independence

Under the Marketplace Rules, Tree.com's Board will have a responsibility to make an affirmative determination that those members of its Board that serve as independent directors do not have any relationships with Tree.com and its businesses that would impair their independence. In connection with these determinations, Tree.com's Board will review information regarding transactions, relationships and arrangements involving Tree.com and its businesses and each director that it deems relevant to independence, including those required by the Marketplace Rules. This information is obtained from director responses to a questionnaire circulated by Tree.com management, Tree.com records and publicly available information. Following these determinations, Tree.com management will monitor those transactions, relationships and arrangements that are relevant to such determinations, as well as solicit updated information potentially relevant to independence from internal personnel and directors, to determine whether there have been any developments that could potentially have an adverse impact on Tree.com's prior independence determinations.

### Compensation Committee Interlocks and Insider Participation

Tree.com's Board of Directors will have a Compensation and Human Resources Committee. It is expected that none of the members of this Committee will be or will have been in the past an officer or employee of Tree.com or any of its businesses at the time of their respective service on the Committee.

### Tree.com Executive Compensation

#### *Compensation Discussion and Analysis*

##### *Roles and Responsibilities*

To date, the compensation of Tree.com's executive officers has been predominantly determined by IAC, acting in effect as Tree.com's compensation committee. IAC's compensation process is principally driven by IAC's General Counsel, who has primary responsibility for administering compensation and making compensation recommendations, with all material decisions approved by IAC's Chairman and Chief Executive Officer and, where appropriate, the Compensation Committee of IAC's Board of Directors (specifically with respect to all awards of IAC equity).

This Compensation Discussion and Analysis deals exclusively with historical information while Tree.com has been a part of IAC. Following the spin-off, Tree.com will have an independent board of directors, which will in turn have a compensation committee with responsibility for establishing Tree.com's compensation philosophy and programs and determining appropriate payments and awards to its executive officers. Because Tree.com's compensation committee has not yet been established, Tree.com cannot predict what compensation philosophies and programs will be adopted following the spin-off, and therefore this historical report is not necessarily indicative of the practices it will follow when it is an independent public company.

In general, IAC has been responsible for establishing bonus pools and equity pools for Tree.com, and then such pools are allocated throughout Tree.com, with IAC directly establishing all compensation elements for Tree.com's CEO, while the Tree.com CEO makes the determinations for Tree.com's other executive officers, subject to IAC's review and approval.

Neither Tree.com nor IAC has an ongoing relationship with any particular compensation consulting firm, though IAC has from time to time retained the services of consultants on specific occasions regarding broad-based IAC compensation programs. At no time has a consultant been engaged with respect to compensation of any of Tree.com's executive officers.

Until January 2008, Mr. Lebda was an executive officer of IAC, and not of Tree.com, and as such all decisions relating to Mr. Lebda's compensation were made by the IAC Compensation Committee with respect to IAC's performance overall, and his performance in his capacity as President and Chief Operating Officer of IAC.

***Philosophy and Objectives***

Tree.com's executive officer compensation program is designed to increase long-term stockholder value by attracting, retaining, motivating and rewarding leaders with the competence, character, experience and ambition necessary to enable Tree.com to meet its growth objectives.

When establishing compensation packages for a given executive, Tree.com has followed a flexible approach, and has made decisions based on a host of factors particular to a given executive situation, including its firsthand experience with the competition for recruiting and retaining executives, negotiation and discussion with the relevant individual, competitive survey data, internal equity considerations and other factors it deems relevant at the time.

Similarly, Tree.com has not followed an arithmetic approach to establishing compensation levels and measuring and rewarding performance for its executive officers, as these often fail to adequately take into account the multiple factors that contribute to success at the individual and business level. In any given period, Tree.com may have multiple objectives, and these objectives, and their relative importance, often change as the competitive and strategic landscape shifts, even within a given compensation cycle. As a result, formulaic approaches often over-compensate or under-compensate a given performance level. Accordingly, Tree.com has historically avoided the use of strict formulas in its compensation practices and has relied primarily on a discretionary approach.

***Compensation Elements***

Tree.com's compensation packages for executive officers have primarily consisted of salary, annual bonuses, long term incentives (typically equity awards), perquisites and other benefits. Prior to making specific decisions related to any particular element of compensation, Tree.com typically reviews the total compensation of each executive, evaluating the executive's total near and long-term compensation in the aggregate. Tree.com determines which element or combinations of compensation elements (salary, bonus or equity) can be used most effectively to further its compensation objectives. However, all such decisions are subjective, and made on a facts and circumstances basis without any prescribed relationship between the various elements of the total compensation package.

*Salary*

*General.* Tree.com typically negotiates a new executive officer's starting salary upon arrival, based on the executive's prior compensation history, prior compensation levels for the particular position within Tree.com, Tree.com's location, salary levels of other executives within Tree.com, salary levels available to the individual in alternative opportunities, reference to certain survey information and the extent to which Tree.com desires to secure the executive's services.

Once established, salaries can increase based on a number of factors, including the assumption of additional responsibilities, internal equity, periodic market checks and other factors which demonstrate an executive's increased value to Tree.com.

Tree.com utilizes the Towers Perrin Executive Compensation Data Bank when referring to survey data in formulating its compensation packages.

*2007.* In 2007, Mr. C.D. Davies (who served as CEO of the Lending business as of the end of 2007, but no longer serves as an executive of Tree.com), Mr. Violette, Mr. Harris and Mr. Packey each received salary increases in connection with the assumption of new roles within Tree.com. To reflect his promotion to Chief Executive Officer of the company's Lending business, Mr. Davies received a salary increase from $300,000 to $450,000. Mr. Violette was promoted to President of the company's Real Estate business in April 2007 and received a salary increase from $312,000 to $400,000. Mr. Harris was promoted to President and Chief Operating Officer of the Lending business in May 2007 and received a salary increase from $255,000 to $325,000. Mr. Packey was promoted to Chief Financial Officer in October 2007 and received an increase from $210,000 to $241,500. All of these increases were the result of conversations between the company and the relevant executives, and in making its determinations Tree.com took into account a variety of factors, including internal pay structure, its assessment of market salaries, and, in certain instances, survey data.

*2008.* In connection with the employment agreement pursuant to which Mr. Lebda returned to Tree.com as its Chairman and Chief Executive Officer (the "New Lebda Employment Agreement"), Mr. Lebda agreed to a salary of $750,000, which is the same as the salary he had been receiving as President and Chief Operating Officer of IAC.

*Annual Bonuses*

*General.* Tree.com's bonus program is designed to reward performance on an annual basis. Because of the variable nature of the bonus program, and because in any given year bonuses have the potential to make up a significant portion of an executive's total compensation, the bonus program provides an important incentive tool to achieve Tree.com's annual objectives.

After consultation with Tree.com management, IAC establishes the annual bonus pool for the Lending and Real Estate businesses based on its assessment of their respective performances during the completed year. Both the Lending and Real Estate businesses have generally been measured by growth in profitability, but this is measured subjectively both in absolute terms over the prior year and in comparison to their competitors, taking into account economic and other factors, without any pre-established targets. Additionally, consideration has sometimes been given to achievement of various strategic objectives over the course of the year and other factors IAC and Tree.com's management deem relevant. No quantified weight has been given to any particular consideration and there has generally been no formulaic calculation. Rather, IAC has engaged in an overall assessment of appropriate bonus levels based on a subjective interpretation of all the relevant criteria.

IAC determines the bonus amounts for the Presidents of the Lending and Real Estate businesses, based largely on the same considerations used in establishing the bonus pools for the businesses generally.

The Presidents of each business then establish the bonus payments to the other executive officers out of the bonus pool. Specific bonus payouts are determined based loosely on Tree.com's actual bonus pool and the relative role and importance of each executive, with individualized adjustments in certain instances for an executive's individual performance. None of the executives at Tree.com have target bonus opportunities.

Tree.com generally pays bonuses shortly after year-end following finalization of financial results for the prior year.

*2007.* Lending and Real Estate each had difficult years in extremely challenging environments, and bonuses generally reflected these factors. In 2007, Mr. Davies and Mr. Violette each received guaranteed minimum bonuses under the terms of their employment agreements. Given disappointing financial results, IAC determined not to make bonus payments in excess of those minimums. Mr. Davies received a bonus of $350,000 and Mr. Violette received a bonus of $500,000. 2007 financial performance did not warrant the payment of reward bonuses, but in late 2007, Tree.com adopted a retention program in response to lending industry turmoil. For each participating executive, a bonus amount was established, with 50% guaranteed to be paid in February 2008 and 50% mid-year 2008, in each case based on continued employment with Tree.com. For purposes of this compensation disclosure, Tree.com has considered the 50% payout made in February 2008 to Messrs. Harris and Packey as being bonuses paid with respect to 2007. Mr. Harris and Mr. Packey received February payouts of $75,000 and $50,000, respectively. These amounts were established based on a subjective determination by Mr. Davies, in consultation with Mr. Lebda, of the amounts necessary to retain these individuals, given the limited amount of cash provided by IAC for the retention program company-wide.

No bonuses were paid to IAC executive officers on account of 2007 as a result of poor performance of IAC as a whole, and consequently Mr. Lebda was not paid a bonus for 2007.

*Long-Term Incentives*

*General.* Tree.com believes that ownership shapes behavior, and that by providing a meaningful portion of an executive officer's compensation in stock, the executive's incentives are aligned with stockholder interests in a manner that drives better performance over time. As part of IAC, that led to Tree.com's executive officers receiving IAC equity awards on a regular basis.

In setting particular award levels, the predominant objectives are providing the recipient with effective retention incentives, appropriate reward for past performance, and incentives for strong future performance. Appropriate levels to meet these goals may vary from year to year, and from individual to individual, based on a variety of factors.

The annual corporate performance factors relevant to setting bonus amounts that were discussed above, while taken into account, are generally less relevant in setting annual equity awards, as the awards tend to be more forward looking, and are a longer-term retention and reward instrument than Tree.com's annual bonuses.

Awards to the Presidents of Lending and Real Estate have been made by IAC. Additionally, IAC establishes a pool for annual equity awards which the Presidents then allocate to the rest of their businesses, including the other executive officers, subject to IAC's approval. Additionally, IAC approves any equity grants recommended to be made to Tree.com executives outside of the annual process. Executive officers receive grants that are subjectively determined based on IAC's (or the Presidents') view of how best to allocate the equity pool for retention, reward and motivation based on a host of subjective factors (including past contribution, retention risk, contribution potential, and market data).

Except where otherwise noted, Tree.com grants equity awards following year-end after finalization of financial results for the prior year. The meeting of the Compensation and Human Resources Committee of the IAC Board at which the awards are made is generally scheduled months in advance and without regard to the timing of the release of earnings or other material information.

*Restricted Stock Units.* Until 2008, IAC used restricted stock units, or RSUs, as its exclusive equity compensation tool for Tree.com's executive officers. Through 2006, these awards generally vested in equal annual installments over 5 years (annual vesting RSUs), or cliff vested at the end of five years (cliff-vesting RSUs). Annual awards were intended to provide frequent rewards and near-term retention incentives, while cliff-vesting RSUs provided more of a long-term retention mechanism.

In February 2007, IAC implemented a new equity instrument, Growth Shares, which were RSU grants that cliff vested at the end of three years in varying amounts depending upon growth in IAC's publicly reported metric, Adjusted Earnings Per Share, with certain modifications.

These awards were introduced throughout IAC to more closely link long-term reward with IAC's overall performance and to provide greater retentive effect by providing the opportunity to earn greater amounts through increased IAC performance. However, in connection with the spin-off, these awards will be converted into three-year cliff-vesting awards at the "target" value (or 50% of the shares actually granted), without variability based on performance. For information regarding the reasons behind this conversion, see "The Separation—Treatment of Outstanding IAC Compensatory Equity-Based Awards."

*Stock Options.* In 2008, IAC used non-qualified stock options as its primary equity compensation tool throughout IAC. The move to stock options was in part motivated by a desire to continue the shift to performance-based equity that began with the granting of Growth Shares in 2007. It was also motivated by a belief by IAC that as individual companies, the performance of a given Spinco will have a greater correlation to its stock price than to IAC's stock price in the current conglomerated structure. Stock Options generally vest in equal installments over four years and are intended to be granted annually.

*Tree.com Equity.* Mr. Lebda, Mr. Harris and Mr. Packey each received certain equity awards in Lending Tree (Tree.com's predecessor company) at the time of IAC's acquisition of the company. In the spin-off, these awards will be converted into equity awards of a subsidiary of Tree.com which will in turn own the company's operating assets. These awards will be fully vested by the end of 2008, and subject to puts to Tree.com beginning in 2009, and calls by Tree.com beginning in 2011. In connection with his becoming President and Chief Operating Officer of IAC, Mr. Lebda agreed to exchange a portion of his Lending Tree equity awards for 200,000 shares of IAC restricted stock, and negotiated the right to exchange another portion of these units for 300,000 shares of IAC stock in early 2009. The Lending Tree awards are significantly out of the money, and are not expected to result in value to Mr. Lebda, Mr. Harris or Mr. Packey. Accordingly, Mr. Lebda is expected to exercise his exchange right and receive 300,000 shares of IAC common stock in early 2009 or, if earlier, upon consummation of the spin-off.

*2007.* Mr. Davies received 10,659 RSUs when hired by Tree.com and also received 7,500 Growth Shares (at target) to reflect his promotion to Chief Executive Officer of Tree.com. Mr. Harris received 2,509 RSUs and 15,056 Growth Shares (at target) in connection with the annual grant process and also received 5,738 Growth Shares (at target) related to his promotion to President and Chief Operating Officer of Tree.com. Mr. Violette received 10,000 Growth Shares (at target) in connection with his assuming the role of President of the Real Estate business. Each of these awards were arrived at as a result of negotiations relating to the entering into of new employment agreements by the recipients. Mr. Packey also received 5,833 Growth Shares (at target) and 2,447 annual vesting RSUs in connection with the annual grant process.

Mr. Lebda received 62,735 Growth Shares (at Target), the same amount received by the other IAC executive officers (other than the CEO).

*2008.* Mr. Packey received 12,000 RSUs with a five year annual vesting schedule in recognition of his promotion to Chief Financial Officer of Tree.com. This grant was agreed upon in 2007, but not granted until 2008, and was based on the assumption of additional responsibilities, a review of competitive data, internal equity considerations, and discussions with Mr. Packey.

Under the New Lebda Employment Agreement, Mr. Lebda was granted the right to receive, upon consummation of the spin-off, RSUs in Tree.com equal to 2% of the fully diluted equity of the company, as well as four grants of options, each of which represented the right to acquire 2.5% of the fully diluted equity at exercise prices representing a total equity value of the company of $250 million, $300 million, $400 million and $450 million, with possible upward adjustments based on the initial trading value in the spin-off. Fully diluted equity will be measured at the time of the spin-off. The restricted stock units vest equally over five years, while the stock options all cliff vest at the end of five years. The New Lebda Employment Agreement also provides that all of Mr. Lebda's outstanding IAC equity awards will vest immediately prior to the spin-off.

Tree.com plans to grant stock options to the other executive officers at the time of the spin-off, although the size of such grants have not yet been determined.

*Spin-Off Adjustments.* In the spin-off, equity awards denominated in IAC stock will be adjusted as described in "Treatment of Outstanding IAC Compensatory Equity-Based Awards."

Presuming the spin-off transactions occur prior to February 2009, the following table reflects the effect of these adjustments on all equity awards held by Tree.com's executive officers:

| Name | RSUs that will vest upon completion of spin-off transactions (#)* | RSUs that will be converted exclusively into RSUs of Tree.com and vest on regular schedule (#) | RSUs that will be split among the post-transaction companies and vest after February 2009 on regular schedule (#) | Options outstanding at December 31, 2007—all of which will be split among the post-transaction companies (#) |
|---|---|---|---|---|
| Doug Lebda | 192,235(1) | — | — | — |
| C.D. Davies | — | 13,528 | 2,500 | — |
| Bret Violette | 39,029 | 6,667 | 3,333 | — |
| Robert Harris | 19,354 | 17,538 | 22,728 | 10,848 |
| Matt Packey | 1,994 | 16,850 | 3,890 | — |

* Excludes 7,186, 2,131, 39,027, 501 and 1,525 RSUs that vested since December 31, 2007 or will vest prior to August 1, 2008 for Messrs. Lebda, Davies, Violette, Harris and Packey, respectively.

(1) In addition, 500,000 shares of restricted stock held (or to be received by) Mr. Lebda will vest at the time of the spin-offs.

*Violette Long Term Cash Bonus Plan.* In connection with his agreement to serve as the President of Tree.com's Real Estate business, the company agreed to pay a one-time bonus if the Real Estate business' 2009 revenues are at least $130 million and 2009 operating income before amortization is at least $10 million (in which case the bonus shall be $1 million) or at least $20 million (in which case the bonus shall be $2 million). This bonus structure was put in place to provide an incentive for Mr. Violette to grow both the business' top and bottom lines.

***Change of Control and Severance***

Tree.com believes that providing executives with severance and change of control protection is critical to allowing executives to fully value the forward looking elements of their compensation packages, and therefore limit retention risk during uncertain times. Accordingly, Tree.com's employment agreements and equity awards generally provide for salary continuation in the event of certain employment terminations beyond the control of the executive, as well as varying degrees of accelerated vesting in the event of a change of control of the company.

***Other Compensation***

Under limited circumstances, certain Tree.com executive officers have received non-cash and non-equity compensatory benefits. The values of these benefits are reported under the heading "Other Annual Compensation" in this filing pursuant to applicable rules. The executive officers do not participate in any deferred compensation or retirement program other than IAC's 401(k) plan.

***Tax Deductibility***

IAC's practice has been to structure Tree.com's compensation program in such a manner so that the compensation it pays is deductible by IAC for federal income tax purposes. However, because Tree.com's executive officers will now be subject to the limitations on deductibility under Section 162(m) of the Internal Revenue Code of 1986, as amended, and were not previously, certain compensatory arrangements established prior to the spin-off but that will be paid following the spin-off may not result in deductible compensation for Tree.com.

***Summary Compensation Table***

| Name and Principal Position | Year | Salary ($) | Bonus ($) | Stock Awards ($)(1) | All Other Compensation ($) | Total ($) |
|---|---|---|---|---|---|---|
| Douglas R. Lebda(2) | 2007 | 750,000 | — | 6,392,587 | 7,750(4) | 7,150,337 |
| Chairman and CEO | 2006 | 750,000 | 1,300,000 | 5,483,376 | 602,974 | 8,136,350 |
| C. D. Davies(3)<br>Vice Chairman, Mortgage Products | 2007 | 377,885 | 350,000 | 123,105 | 4,689(3) | 855,679 |
| Bret Violette<br>President, Real Estate | 2007 | 375,631 | 500,000 | 1,175,887 | 6,750(4) | 2,058,268 |
| Robert Harris<br>Vice-chairman | 2007 | 299,423 | 75,000 | 482,163 | 6,750(4) | 863,336 |
| Matthew Packey<br>CFO | 2007 | 218,692 | 50,000 | 122,617 | 6,750(4) | 398,059 |

(1) Reflects the dollar amount recognized by IAC for financial statement reporting purposes for the applicable fiscal years ended December 31, in accordance with SFAS 123R, for IAC restricted stock units ("RSUs") awarded in and prior to the applicable year under IAC's stock and annual incentive plans. These amounts do not, therefore, represent the value of IAC equity compensation awarded or realized in the applicable year. For further discussion of IAC's accounting for its equity compensation plans, see note 4 of IAC's audited financial statements for the fiscal year ended December 31, 2007 included in its Annual Report on Form 10-K filed with the SEC on February 29, 2008. For information on awards made and realized in 2007, see the Grants of Plan-Based Awards and Option Exercises and Stock Vested tables below.

(2) Reflects compensation received by Mr. Lebda in his capacity as President and Chief Operating Officer of IAC.

(3) Reflects compensation received in his capacity as CEO, LendingTree.

(4) Reflects matching contributions under IAC's 401(k) plan.

***Grants of Plan-Based Awards***

The table below provides information regarding IAC equity awards granted to Tree.com's named executives in 2007.

| | | Estimated Future Payouts Under Equity Incentive Plan Awards(1)(2) | | | | |
|---|---|---|---|---|---|---|
| Name | Grant Date | Threshold (#) | Target (#) | Maximum (#) | All other stock awards: number of shares of stock or units (#)(2) | Grant Date Fair Value of Stock and Option Awards ($)(3) |
| Douglas R. Lebda | 2/16/07 | 3,488 | 62,735 | 125,470 | — | 2,499,990 |
| C.D. Davies | 6/18/07 | 417 | 7,500 | 15,000 | 10,659 | 623,762 |
| Bret Violette | 6/18/07 | 556 | 10,000 | 20,000 | — | 343,500 |
| Robert Harris | 2/16/07 | 837 | 15,056 | 30,112 | 2,509 | 699,965 |
| | 6/18/07 | 319 | 5,738 | 11,476 | — | 197,101 |
| Matthew Packey | 2/16/07 | 324 | 5,833 | 11,666 | 2,447 | 329,958 |

(1) Reflects performance-based RSU awards which cliff vest at the end of three years in varying amounts depending upon growth in IAC's publicly reported metric, Adjusted Earnings Per Share, with certain modifications. The threshold amount represents 5.56% of the target payout, which amount will vest upon achieving the minimum growth threshold. These awards will be converted into three year cliff-vesting awards in the spin-offs as described under "The Separation—Treatment of Outstanding IAC Compensatory Equity-Based Awards."

(2) RSU award recipients would be credited with amounts for cash dividends paid on IAC common stock, with such additional amounts vesting concurrently with the related RSU award. For information on the treatment of RSU awards granted to Tree.com's named executives upon a

termination of employment or a change in control, see the discussion under "Potential Payments Upon Termination or Change in Control" below.

(3) The fair value of equity incentive plan awards is based on the target payout.

### *Outstanding Equity Awards at Fiscal Year-End*

The table below provides information regarding various IAC equity awards held by Tree.com's named executives as of December 31, 2007. The market value of all RSU and restricted stock awards is based on the closing price of IAC common stock as of December 31, 2007 ($26.92), the last trading day of 2007.

| | Option Awards(1) | | | Stock Awards(1)(2) | | | |
|---|---|---|---|---|---|---|---|
| Name | Number of securities underlying unexercised options (#)(2) (Exercisable) | Option exercise price ($) | Option expiration date | Number of shares or units of stock that have not vested (#)(4) | Market value of shares or units of stock that have not vested ($)(4) | Equity incentive plan awards: Number of unearned shares, units or other rights that have not vested (#)(4) | Equity incentive plan awards: Market or payout value of unearned shares, units or other rights that have not vested ($) (4) |
| Douglas R. Lebda(5) | 17,892 | 9.30 | 12/28/08 | — | — | — | — |
| | 52,304 | $ 10.87 | 9/2/09 | — | — | — | — |
| | 49,204 | $ 16.58 | 1/7/10 | — | — | — | — |
| | 49,592 | $ 5.01 | 12/6/10 | — | — | — | — |
| | 61,990 | $ 6.16 | 4/2/11 | — | — | — | — |
| | 54,241 | $ 14.11 | 3/8/12 | — | — | — | — |
| | 38,744 | $ 23.62 | 12/20/12 | — | — | — | — |
| | — | $ — | — | 200,000 | 5,384,000 | — | — |
| | — | — | — | 136,686(6) | 3,679,587(6) | 3,488 | 93,897 |
| C. D. Davies | — | — | — | 10,659 | 286,940 | 417 | 11,226 |
| Bret Violette | — | — | — | 78,056 | 2,101,268 | 556 | 14,968 |
| Robert Harris(5) | 10,848 | $ 23.62 | 12/20/12 | 39,327 | 1,058,683 | 1,156 | 31,120 |
| Matthew Packey(5) | — | — | — | 6,426 | 172,988 | 324 | 8,722 |

(1) For a discussion regarding how these equity awards will be treated in the spin-offs, see under "Treatment of Outstanding IAC Compensatory Equity-Based Awards."

(2) Amounts shown for equity incentive plan awards are based on achieving the minimum growth threshold in accordance with SEC rules.

(3) On August 9, 2005, IAC completed the separation of its travel and travel-related businesses and investments (other than Interval and TV Travel Shop) into an independent public company (the "Expedia Spin-Off"). In connection with the Expedia Spin-Off, each then-vested option to purchase shares of IAC common stock was converted into an option to purchase shares of IAC common stock and an option to purchase shares of Expedia common stock. Adjustments were made to the number of shares subject to each IAC and Expedia stock option to give effect to the one-for-two reverse stock split effected in connection with the Expedia Spin-Off and to the corresponding exercise prices based on the relative market capitalizations of IAC and Expedia at the time of the Expedia Spin-Off. The adjusted IAC and Expedia stock options otherwise have the same terms and conditions, including exercise periods, as the corresponding vested IAC stock options outstanding immediately prior to the Expedia Spin-Off.

For the named executives, any value realized upon the exercise of Expedia stock options is treated for tax purposes as compensation payable to them in their respective capacities as executive officers of Tree.com. Accordingly, information regarding Expedia stock options held by Tree.com's named executives as of December 31, 2007 appears in the table immediately below and information regarding any exercises of Expedia stock options by such named executives is reported in the Option Exercises and Stock Vested table below.

| Name | Number of Options (#) | Option Exercise Price ($) | Option Expiration Date |
|---|---|---|---|
| Douglas R. Lebda | 38,744 | $ 18.91 | 12/20/12 |
| Robert Harris | 10,848 | $ 18.91 | 12/20/12 |

(4) The table below provides the following information regarding RSU awards held by Tree.com's named executives as of December 31, 2007: (i) the grant date of each award, (ii) the number of RSUs outstanding (on an aggregate and grant-by-grant basis), (iii) the market value of RSUs outstanding as of December 31, 2007, (iv) the vesting schedule for each award and (v) the total number of RSUs that vested or are scheduled to vest in each of the fiscal years ending December 31, 2008, 2009, 2010, 2011 and 2012.

| | Number of Unvested RSUs as of 12/31/07 | Market Value of Unvested RSUs as of 12/31/07 | Vesting Schedule (#) | | | | |
|---|---|---|---|---|---|---|---|
| Grant Date | (#) | ($) | 2008 | 2009 | 2010 | 2011 | 2012 |
| Douglas R. Lebda | | | | | | | |
| 8/8/03(a) | 11,255 | 302,985 | 11,255 | — | — | — | — |
| 2/4/04(b) | 58,982 | 1,587,795 | — | 58,982 | — | — | — |
| 2/10/05(b) | 37,703 | 1,014,965 | — | — | 37,703 | — | — |
| 2/6/06(c) | 28,746 | 773,842 | 7,186 | 7,186 | 7,187 | 7,187 | — |
| 2/16/07(d) | 62,735 | 1,688,826 | — | — | 62,735 | — | — |
| *Total* | 199,421 | 5,368,413 | 18,441 | 66,168 | 107,525 | 7,187 | — |
| C.D. Davies | | | | | | | |
| 6/18/07(e) | 10,659 | 286,940 | 2,131 | 2,132 | 2,132 | 2,132 | 2,132 |
| 6/18/07(d) | 7,500 | 201,900 | — | — | 7,500 | — | — |
| *Total* | 18,159 | 488,840 | 2,131 | 2,132 | 9,632 | 2,132 | 2,132 |
| Bret Violette | | | | | | | |
| 6/15/05(c) | 78,056 | 2,101,268 | 39,027 | 39,029 | — | — | — |
| 6/18/07(d) | 10,000 | 269,200 | — | — | 10,000 | — | — |
| *Total* | 88,056 | 2,370,468 | 39,027 | 39,029 | 10,000 | — | — |
| Robert Harris | | | | | | | |
| 2/10/05(b) | 18,852 | 507,496 | — | — | 18,852 | — | — |
| 2/6/06(b) | 17,966 | 483,645 | — | — | — | 17,966 | — |
| 2/16/07(c) | 2,509 | 67,542 | 501 | 502 | 502 | 502 | 502 |
| 2/16/07(d) | 15,056 | 405,308 | — | — | 15,056 | — | — |
| 6/18/07(d) | 5,738 | 154,467 | — | — | 5,738 | — | — |
| *Total* | 60,121 | 1,618,457 | 501 | 502 | 40,148 | 18,468 | 502 |
| Matthew Packey | | | | | | | |
| 9/30/03(a) | 152 | 4,092 | 152 | — | — | — | — |
| 2/10/05(c) | 952 | 25,628 | 317 | 317 | 318 | — | — |
| 2/6/06(c) | 2,875 | 77,395 | 719 | 718 | 719 | 719 | — |
| 2/16/07(c) | 2,447 | 65,873 | 489 | 489 | 490 | 489 | 490 |
| 2/16/07(d) | 5,833 | 157,024 | — | — | 5,833 | — | — |
| *Total* | 12,259 | 330,012 | 1,677 | 1,524 | 7,360 | 1,208 | 490 |

(a) These awards vest in four equal installments, beginning on the second anniversary of the grant date, subject to continued employment.

(b) These awards vest in one lump sum installment on the fifth anniversary of the grant date, subject to continued employment.

(c) These awards vest in five equal annual installments on each of the first five anniversaries of the grant date, subject to continued employment.

(d) Represents the initial "target" awards. See the Grant of Plan-Based Awards table and footnote (1) thereto.

(e) These awards vest in five equal annual installments on each of the first five anniversaries of January 22, 2007, Mr. Davies' date of hire.

(5) Excludes LendingTree units held as of December 31, 2007 and, in the case of Mr. Lebda, also excludes 300,000 shares of IAC common stock receivable upon the exercise of contractual right to exchange certain LendingTree units in early 2009 (or, if earlier, at the time of the spin-off). For information regarding these equity arrangements, see the discussion under the "Compensation Discussion and Analysis" and "Potential Payments Upon Termination or Change in Control" sections, and the Option Exercises and Stock Vested table.

(6) Reflects shares of restricted stock received by Mr. Lebda upon the effective date of the 2006 agreement relating to his promotion to President and Chief Operating Officer of IAC in exchange for certain of his LendingTree units.

***Option Exercises and Stock Vested***

The table below provides information regarding the number of shares acquired by Tree.com's named executives in 2007 upon the exercise of stock options and the vesting of RSU awards and the related value realized, in each case, excluding the effect of any applicable taxes. The dollar value realized upon exercise of stock options represents the difference between (i) the sale price of the shares acquired on exercise for simultaneous exercise and sale transactions and (ii) the exercise price of the stock option, multiplied by the number of stock options that were exercised. The dollar value realized upon vesting of RSUs represents the closing price of IAC common stock on the applicable vesting date multiplied by the number of RSUs so vesting.

| | Option Awards | | Stock Awards | |
|---|---|---|---|---|
| Name | Number of Shares Acquired on Exercise (#) | Value Realized on Exercise ($) | Number of Shares Acquired on Vesting (#) | Value Realized on Vesting ($) |
| Douglas R. Lebda(1) | 70,832(2) | 1,318,126 | 18,440 | 582,789 |
| C.D. Davies | — | — | — | — |
| Bret Violette | — | — | 39,027 | 1,358,140 |
| Robert Harris(1) | — | — | — | — |
| Matthew Packey(1) | — | — | 1,134 | 43,693 |

(1) In addition, 1.42, 1.4, and 0.15 LendingTree units held by Messrs. Lebda, Harris and Packey, respectively, vested in 2007, which number represents less than 1% of the total outstanding common units of LendingTree. These awards were granted to certain LendingTree employees at the time of its acquisition by IAC in 2003, became fully vested in February 2008, and are subject to put and call rights beginning in 2009. This table also excludes, in the case of Mr. Lebda, LendingTree units held by him that are subject to the 2009 exchange right, as discussed under Compensation Discussion and Analysis. These units are significantly out of the money and are not expected to result in any value.

(2) Includes 49,204 Expedia shares acquired upon the exercise of Expedia stock options received in connection with the Expedia Spin-Off.

***Potential Payments Upon Termination or Change in Control***

*Change of Control*

Pursuant to the terms of IAC's (and, following the spin-off, Tree.com's) equity compensation plans and the award agreements thereunder, upon a change of control the named executive officers are generally entitled to accelerated vesting of (i) equity awards made prior to 2006 and (ii) equity awards made thereafter if, following such change in control, their employment is terminated by the Company for any reason other than death, disability or cause (as defined in the relevant employment agreement), or by the executive for good reason (as defined in the relevant plan or employment agreement) (a "Qualifying Termination").

*Severance*

*Cash.* Upon a Qualifying Termination, Mr. Lebda and Mr. Violette shall be entitled to salary continuation for the remainder of the terms of their employment agreements, provided Mr. Lebda shall not receive such continuation for more than three years. Mr. Harris would receive salary continuation for twelve months following a Qualifying Termination of Mr. Violet would also be entitled to a pro rated portion of his long-term cash bonus plan if any such payout is ultimately earned and his remaining guaranteed bonuses of $500,000 payable in July of 2008 and 2009.

*Equity.* Upon a Qualifying Termination, Mr. Lebda will receive full acceleration of his equity awards outstanding immediately following the spin-off, Mr. Violette will receive full acceleration of any unvested RSUs he received in 2005, and Mr. Harris will receive acceleration of a portion of the cliff-vesting RSU awards granted in 2005 and 2006 equal to 20% of each such award for each full year of service from the date of grant to the date of termination.

*Obligations.* The amounts payable upon a Qualifying Termination are all subject to the execution of a general release and to compliance with confidentiality, non-compete, non-solicitation of employees and non-solicitation of customer covenants set forth in the relevant employment agreements. Salary continuation payments will be offset by the amount of any compensation earned by an executive from other employment during the severance payment period.

The amounts shown in the table assume that the termination or change in control was effective as of December 31, 2007 and that the price of IAC common stock on which certain calculations are based was the closing price of $26.92 on The Nasdaq Stock Market on that date. These amounts are estimates of the incremental amounts that would have been paid out to the executive upon such terminations/change in control, and do not take into account equity grants made, and contractual obligations entered into, after December 31, 2007. The actual amounts to be paid out can only be determined at the time the event actually occurs.

| Name and Benefit | Termination without cause | Resignation for good reason | Death or Disability | Change in Control of IAC | Termination w/o cause or for good reason in connection with Change in Control |
|---|---|---|---|---|---|
| **Douglas Lebda(1)** | | | | | |
| Cash Severance (salary) | 750,000 | 750,000 | — | — | 750,000 |
| RSUs (vesting accelerated) | 13,762,985 | 13,762,985 | 9,130,860 | 10,752,413 | 16,225,654 |
| Total estimated value | 14,512,985 | 14,512,985 | 9,130,860 | 10,752,413 | 16,975,654 |
| **C.D. Davies(2)** | | | | | |
| Cash Severance (salary) | 450,000 | — | — | — | 450,000 |
| RSUs (vesting accelerated) | — | — | — | — | 488,840 |
| Total estimated value | 450,000 | — | — | — | 938,840 |
| **Bret Violette** | | | | | |
| Cash Severance (salary) | 800,000 | 800,000 | — | — | 800,000 |
| Guaranteed Bonus | 1,000,000 | 1,000,000 | — | — | 1,000,000 |
| RSUs (vesting accelerated) | 2,101,268 | 2,101,268 | — | 2,101,268 | 2,370,468 |
| Total estimated value | 3,901,268 | 3,901,268 | — | 2,101,268 | 4,170,468 |
| **Robert Harris(1)** | | | | | |
| Cash Severance (salary) | 325,000 | 325,000 | — | — | 325,000 |
| RSUs (vesting accelerated) | 299,700 | 299,700 | — | 507,496 | 1,618,457 |
| Total estimated value | 624,700 | 624,700 | — | 507,496 | 1,943,457 |
| **Matthew Packey(1)** | | | | | |
| Cash Severance (salary) | — | — | — | — | — |
| RSUs (vesting accelerated) | 2,073 | — | 1,669 | 29,720 | 330,012 |
| Total estimated value | 2,073 | — | 1,669 | 29,720 | 330,012 |

(1) Excludes, in all cases, LendingTree units held at December 31, 2007 (and, in the case of Mr. Lebda, that would accelerate upon the events set forth above), given that the value of these units as of that date was zero.

(2) One year's salary also payable upon a change in control of LendingTree.

**Tree.com Security Ownership of Certain Beneficial Owners and Management**

As of the date hereof, all of Tree.com's outstanding shares of common stock are owned by IAC. After the distribution, IAC will no longer own any shares of Tree.com common stock. The following table presents information relating to the expected beneficial ownership of shares of Tree.com common stock, assuming completion of the distribution as if it occurred on [ ] , 2008, by (i) each individual or entity expected to own beneficially more than 5% of the outstanding shares of Tree.com common stock, (ii) each director of Tree.com assuming that there are 278,735,546 shares of common stock and Class B common stock of IAC outstanding and a distribution ratio of one-thirtieth of a share of Tree common stock for every share of IAC common stock and/or Class B common stock, (iii) the Chief Executive Officer, the Chief Financial Officer and the other three named executive officers in the Tree.com summary compensation table (see "Tree.com Executive Compensation") and (iv) all of Tree.com's executive officers and directors as a group.

Unless otherwise indicated, beneficial owners listed here may be contacted at Tree.com's corporate headquarters at 11115 Rushmore Drive, Charlotte, North Carolina 28277. For each listed person, the number of shares of Tree.com common stock and percent of such class listed assumes the conversion or exercise of any Tree.com equity securities owned by such person that are or will become convertible or exercisable, and the exercise of stock options and the vesting of restricted stock units, if any, that will vest, within 60 days of April 30, 2008, but does not assume the conversion, exercise or vesting of any such equity securities owned by any other person.

The share amounts for each beneficial owner listed here are based on each such individual's beneficial ownership of shares of IAC common stock and/or Class B common stock as of April 30, 2008, and assuming a distribution ratio of one thirtieth of a share of Tree.com common stock for every share of IAC common stock and/or Class B common stock. To the extent that Tree.com directors and executive officers own shares of IAC common stock at the time of the distribution, they will participate in the distribution on the same terms as other holders of IAC common stock. In addition, following the distribution, Tree.com expects that all IAC stock-based awards held by these individuals will be adjusted to become awards relating to common stock of all five companies resulting from the spin-offs. Those awards that will relate to Tree.com common stock are reflected in the table below based upon the expected adjustment formula described under the caption "The Separation—Treatment of Outstanding IAC Compensatory Equity-Based Awards."

The actual number of shares of Tree.com capital stock outstanding as of the date of the distribution may differ due, among other things, to the exercise of stock options or warrants or the vesting of restricted stock units, in each case, between April 30, 2008 and the date of the distribution and to the extent the other assumptions set forth above differ from actual developments.

| | Tree.com Common Stock | |
|---|---|---|
| **Name and Address of Beneficial Owner** | **Shares** | **%** |
| Clearbridge Advisors, LLC, *et al*(1)(2)<br>399 Park Avenue<br>New York, NY 10022 | 441,885 | 4.75 |
| Lord Abbett & Co. LLC(2)(3)<br>90 Hudson Street, 11th Floor<br>Jersey City, N7 07302 | 1,306,628 | 14.06 |
| Liberty Media Corporation(4)(5)<br>12300 Liberty Boulevard<br>Englewood, CO 80112 | 2,773,993 | 29.86 |
| C. D. Davies | | |
| Robert Harris | | |
| Douglas Lebda | | |
| Matthew Packey | | |
| Bret Violette | | |
| All executive officers and directors as a group (        persons) | | |

(1) We have not been able to determine the person or persons controlling the fund through publicly available information.

(2) Based upon information regarding IAC holdings reported on a Schedule 13G, as amended, which was filed with the SEC on February 14, 2008 and a distribution ratio of one-thirtieth of a share of Tree common stock for every share of IAC common stock and/or Class B common stock.

(3) We have not been able to determine the person or persons controlling the fund through publicly available information.

(4) Liberty Media Corporation is a publicly traded corporation. According to Liberty Media Corporation's Schedule 14A, filed April 24, 2008, Liberty's chairman, John C. Malone, controls 33% of the voting power of Liberty Media Corporation.

(5) Based on 58,796,381 shares of IAC common stock held by Liberty and 4,000,000, 15,618,230, 4,005,190 and 800,006 shares of IAC Class B common stock held by each of BDTV Inc., BDTV II Inc., BDTV III Inc. and BDTV IV Inc., respectively and a distribution ratio of one-thirtieth of a share of Tree common stock for every share of IAC common stock and/or Class B common stock.

## DESCRIPTION OF CAPITAL STOCK OF THE SPINCOS

### General

The following is a summary of information concerning the capital stock of each of the Spincos. The description applies to all of the Spincos unless otherwise indicated. The summaries and descriptions below do not purport to be complete statements of the relevant provisions of the Amended and Restated Certificate of Incorporation of each of the Spincos or its by-laws. The summary is qualified by reference to these documents, which you must read for complete information on the capital stock of a Spinco. The Amended and Restated Certificate of Incorporation and by-laws of each Spinco are included as exhibits to its respective registration statement on Form 10.

### Distributions of Securities

In the past three years, none of the Spincos have sold any securities, including sales of reacquired securities, new issues, securities issued in exchange for property, services, or other securities, and new securities resulting from the modification of outstanding securities, that were not registered under the Securities Act of 1933, as amended.

### Common Stock

Immediately following the spin-offs, the authorized capital stock of the Spincos will consist of:

HSNi: [ • ] million shares of common stock, par value $0.01 per share;

ILG: [ • ] million shares of common stock, par value $0.01 per share;

Ticketmaster: [ • ] million shares of common stock, par value $0.01 per share;

Tree.com: [ • ] million shares of common stock, par value $0.01 per share.

*Shares Outstanding.* Immediately following the spin-offs, each of the Spincos expects that the number of shares of common stock that it will have issued and outstanding will be approximately:

HSNi: 55.75 million shares of common stock, par value $0.01 per share (based on a distribution ratio of one-fifth of a share of HSNi for each share of IAC common stock and Class B common stock outstanding);

ILG: 55.75 million shares of common stock, par value $0.01 per share (based on a distribution ratio of one-fifth of a share of ILG for each share of IAC common stock and Class B common stock outstanding);

Ticketmaster: 55.75 million shares of common stock, par value $0.01 per share (based on a distribution ratio of one-fifth of a share of Ticketmaster for each share of IAC common stock and Class B common stock outstanding);

Tree.com: 9.29 million shares of common stock, par value $0.01 per share (based on a distribution ratio of one-thirtieth of a share of Tree.com for each share of IAC common stock and Class B common stock outstanding).

This is based upon approximately 253,135,548 shares of IAC common stock and 25,599,998 shares of Class B common stock outstanding as of March 31, 2008.

*Dividends.* Subject to prior dividend rights of the holders of any preferred shares, holders of shares of common stock of a Spinco are entitled to receive dividends when, as and if declared by its board of directors out of funds legally available for that purpose.

*Voting Rights.* Each share of common stock is entitled to one vote on all matters submitted to a vote of stockholders. Holders of shares of common stock do not have cumulative voting rights. In other words, a holder of a single share of common stock of a Spinco cannot cast more than one vote for each position to be filled on the board of directors of the Spinco.

*Other Rights.* In the event of any liquidation, dissolution or winding up of a Spinco after the satisfaction in full of the liquidation preferences of holders of any preferred shares, holders of shares of its common stock are entitled to ratable distribution of the remaining assets available for distribution to stockholders. Shares of common stock are not subject to redemption by operation of a sinking fund or otherwise. Holders of shares of common stock are not currently entitled to preemptive rights.

*Fully Paid.* The issued and outstanding shares of common stock of each Spinco are fully paid and non-assessable. This means the full purchase price for the outstanding shares of common stock has been paid and the holders of such shares will not be assessed any additional amounts for such shares. Any additional shares of common stock that a Spinco may issue in the future will also be fully paid and non-assessable.

**Preferred Stock**

Each Spinco is authorized to issue up to [ • ] million shares of preferred stock, par value $[ • ] per share. The board of directors of a Spinco, without further action by the holders of its common stock, may issue shares of preferred stock. The board of directors of a Spinco is vested with the authority to fix by resolution the designations, preferences and relative, participating, optional or other special rights, and such qualifications, limitations or restrictions thereof, including, without limitation, redemption rights, dividend rights, liquidation preferences and conversion or exchange rights of any class or series of preferred stock, and to fix the number of classes or series of preferred stock, the number of shares constituting any such class or series and the voting powers for each class or series.

The authority possessed by the board of directors of a Spinco to issue preferred stock could potentially be used to discourage attempts by third parties to obtain control of such Spinco through a merger, tender offer, proxy contest or otherwise by making such attempts more difficult or more costly. A Spinco board of directors may issue preferred stock with voting rights or conversion rights that, if exercised, could adversely affect the voting power of the holders of its common stock. There are no current agreements or understandings with respect to the issuance of preferred stock and none of the respective boards of directors of any of the Spincos has a present intention to issue any shares of preferred stock.

**Restrictions on Payment of Dividends**

Each of the Spincos is incorporated in Delaware and is governed by Delaware law. Delaware law allows a corporation to pay dividends only out of surplus, as determined under Delaware law.

**Inapplicability of Section 203 of the Delaware General Corporation Law**

Section 203 ("Section 203") of the Delaware General Corporation Law prohibits certain transactions between a Delaware corporation and an "interested stockholder." An "interested stockholder" for this purpose is a stockholder who is directly or indirectly a beneficial owner of 15% or more of the outstanding voting power of a Delaware corporation. This provision prohibits certain business combinations between an interested stockholder and a corporation for a period of three years after the date on which the stockholder became an interested stockholder, unless: (1) the transaction which resulted in the stockholder becoming an interested stockholder is approved by the corporation's board of directors before the stockholder became an interested stockholder, (2) the interested stockholder acquired at least 85% of the voting power of the corporation in the transaction in which the stockholder became an interested stockholder, or (3) the business combination is approved by a majority of the board of directors and the affirmative vote of the holders of two-thirds of the outstanding voting power not owned by the interested stockholder at or subsequent to the time that the stockholder became an interested stockholder. These restrictions do not apply if, among other things, the corporation's certificate of incorporation contains a provision expressly electing not to be governed by Section 203. The Spincos have opted out of the provisions of Section 203. Consequently, the Spincos will not be subject to Section 203 following the spin-offs.

**Anti-takeover Effects of the Certificate of Incorporation and By-laws of a Spinco and Delaware Law**

Some provisions of the Amended and Restated Certificate of Incorporation and by-laws of a Spinco and certain provisions of Delaware law could make the following more difficult:

- acquisition of a Spinco by means of a tender offer;
- acquisition of a Spinco by means of a proxy contest or otherwise; or
- removal of incumbent officers and directors of a Spinco.

***Size of Board and Vacancies***

The Amended and Restated Certificate of Incorporation and by-laws of each Spinco provide that the number of directors on that company's board will be fixed exclusively by its board of directors. Newly created directorships resulting from any increase in the authorized number of directors will be filled by a majority of the directors then in office, provided that a majority of the entire board of directors, or a quorum, is present and any vacancies in the board of directors resulting from death, resignation, retirement, disqualification, removal from office or other cause will be filled generally by the majority vote of the remaining directors in office, even if less than a quorum is present.

***Elimination of Stockholder Action by Written Consent***

The Amended and Restated certificate of incorporation and by-laws expressly eliminate the right of Spinco stockholders to act by written consent. Stockholder action must take place at the annual or a special meeting of Spinco stockholders.

***Stockholder Meetings***

Under the Amended and Restated Certificate of Incorporation and by-laws of each of the Spincos, stockholders are not entitled to call special meetings of its stockholders; only a majority of the board of directors or other specified individuals may call such meetings.

***Requirements for Advance Notification of Stockholder Nominations and Proposals***

The Amended and Restated by-laws of each Spinco establish advance notice procedures with respect to stockholder proposals and nomination of candidates for election as directors other than nominations made by or at the direction of the Spinco Board or a committee of the Board. In particular, stockholders must notify the relevant Spinco's corporate secretary in writing prior to the meeting at which the matters are to be acted upon or directors are to be elected. The notice must contain the information specified in the Spinco's Amended and Restated by-laws. To be timely, the notice must be received at the Spinco's principal executive office not later than 45 or more than 75 days prior to the first anniversary of the date on which the Spinco first mailed its proxy materials for the preceding year's annual meeting of stockholders. However, if the date of the annual meeting is advanced more than 30 days prior to or delayed by more than 30 days after the anniversary of the preceding year's annual meeting, notice by the stockholder, to be timely, must be delivered no later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made. Moreover, in the event that the number of directors to be elected to the board of directors of the Spinco is increased and there is no public announcement by the Spinco naming all of the nominees for director or specifying the size of the increased board of directors at least 55 days prior to the first anniversary of the date on which the Spinco first mailed its proxy materials for the preceding year's annual meeting of stockholders, the stockholder's notice will be considered timely, but only with respect to nominees for any new positions created by such increase, if it is delivered to the corporate secretary at the principal executive offices of the Spinco not later than the close of business on the 10th day following the day on which such public announcement is first made by the Spinco.]

***Undesignated Preferred Stock***

The authorization in the Amended and Restated Certificate of Incorporation of each Spinco of undesignated preferred stock makes it possible for the Spinco Board to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to change control of the Spinco. The provision in the Spinco Amended and Restated Certificates of Incorporation authorizing such preferred stock may have the effect of deferring hostile takeovers or delaying changes of control of Spinco management.

**NASDAQ Listing**

Each of the Spincos has applied to list its shares of common stock on NASDAQ. HSNi expects that its shares will trade under the ticker symbol "[HSNI]." ILG expects that its shares will trade under the ticker symbol "[IILG]." Ticketmaster expects that its shares will trade under the ticker symbol "[TKTM]." Tree.com expects that its shares will trade under the ticker symbol "[TREE]."

**Limitation on Liability of Directors and Indemnification of Directors and Officers**

Section 145 of the DGCL provides that a corporation may indemnify directors and officers as well as other employees and individuals against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement in connection with any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, in which such person is made a party by reason of the fact that the person is or was a director, officer, employee or agent of the corporation (other than an action by or in the right of the corporation—a "derivative action"), if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe such person's conduct was unlawful. A similar standard is applicable in the case of derivative actions, except that indemnification only extends to expenses (including attorneys' fees) incurred in connection with the defense or settlement of such action, and the statute requires court approval before there can be any indemnification where the person seeking indemnification has been found liable to the corporation. The statute provides that it is not exclusive of other indemnification that may be granted by a corporation's by-laws, disinterested director vote, stockholder vote, agreement or otherwise.

The Amended and Restated Certificate of Incorporation of each Spinco provides that no director shall be liable to the Spinco or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation on liability is not permitted under the DGCL, as now in effect or as amended. Currently, Section 102(b)(7) of the DGCL requires that liability be imposed for the following:

- any breach of the director's duty of loyalty to the Spinco or its stockholders;
- any act or omission not in good faith or which involved intentional misconduct or a knowing violation of law;

- unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the DGCL; and

- any transaction from which the director derived an improper personal benefit.

The Amended and Restated Certificate of Incorporation and by-laws of each Spinco provide that, to the fullest extent authorized or permitted by the DGCL, as now in effect or as amended, the Spinco will indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding by reason of the fact that such person, or a person of whom he or she is the legal representative, is or was a director or officer of the Spinco, or by reason of the fact that a director or officer of the Spinco is or was serving, at its request, as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans maintained or sponsored by the Spinco. A Spinco will indemnify such persons against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with such action if such person acted in good faith and in a manner reasonably believed to be in the best interests of the Spinco and, with respect to any criminal proceeding, had no reason to believe such person's conduct was unlawful. A similar standard is applicable in the case of derivative actions, except that indemnification only extends to expenses (including attorneys' fees) incurred in connection with the defense or settlement of such actions, and court approval is required before there can be any indemnification where the person seeking indemnification has been found liable to the Spinco. Any amendment of this provision will not reduce the indemnification obligations of the Spinco relating to actions taken before an amendment.

Each Spinco intends to obtain policies that insure its directors and officers and those of its subsidiaries against certain liabilities they may incur in their capacity as directors and officers. Under these policies, the insurer, on behalf of the Spinco, may also pay amounts for which such Spinco has granted indemnification to the directors or officers.

## CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

### Agreements with Liberty Media Corporation

In May 2008, in connection with the settlement of litigation relating to the proposed spin-offs, IAC entered into a "Spinco Agreement" with Liberty Media Corporation and affiliates of Liberty that hold shares of IAC common stock and/or Class B common stock (together with Liberty, the "Liberty Parties"), among others. At the time of the spin-offs, each Spinco will assume from IAC all of those rights and obligations under the Spinco Agreement providing for post-spin-off governance arrangements at the Spincos. As of April 30, 2008, Liberty may be deemed to beneficially own (within the meaning of Rule 13d-3 under the Exchange Act) 83,219,807 shares of IAC common stock that consists of shares of common stock and Class B common stock. Such shares constitute 29.9% of the outstanding shares of IAC common stock. Immediately following the spin-offs, it is expected that Liberty will beneficially own shares of common stock in each of the Spincos representing approximately 29.9% of the outstanding common stock of each of the Spincos. The following summary describes the material terms of those governance arrangements and related matters and is qualified by reference to the full Spinco Agreement, which has been filed as an exhibit to each of the Form 10 registration statements of the Spincos. The Spinco Agreement also requires each Spinco to enter into a registration rights agreement with the Liberty Parties at the time of the spin-offs, as described below.

**Spinco Agreement**

*Representation of Liberty on the Spinco Boards of Directors*

The Spinco Agreement generally provides that so long as Liberty beneficially owns securities of a Spinco representing at least 20% of the total voting power of the Spinco's equity securities, Liberty has the right to nominate up to 20% of the directors serving on the Spinco Board of Directors (rounded up to the nearest whole number). Any director nominated by Liberty must be reasonably acceptable to a majority of the directors on the Spinco's Board who were not nominated by Liberty. All but one of Liberty's nominees serving on the Spinco Board of directors must qualify as "independent" under applicable stock exchange rules. In addition, the Nominating and/or Governance committee of the Spinco Board may include only "Qualified Directors," namely directors other than any who were nominated by Liberty, are officers or employees of the Spinco or were not nominated by the Nominating and/or Governance Committee of the Spinco's Board in their initial election to the Board and for whose election any Liberty Party voted shares.

Until the second anniversary of the spin-off of a Spinco, the Liberty Parties agreed to vote all of the equity securities of a Spinco beneficially owned by them in favor of the election of the full slate of director nominees recommended to stockholders by the Spinco Board of Directors so long as the slate includes the director-candidates that Liberty has the right to nominate.

*Acquisition Restrictions*

The Liberty Parties have agreed in the Spinco Agreement not to acquire beneficial ownership of any equity securities of a Spinco (with specified exceptions) unless:

- the acquisition was approved by a majority of the Qualified Directors;
- the acquisition is permitted under the provisions described in "Competing Offers" below; or
- after giving effect to the acquisition, Liberty's ownership percentage of the equity securities of the Spinco, based on voting power, would not exceed the Applicable Percentage.

The "Applicable Percentage" initially is Liberty's ownership percentage upon the spin-off of a Spinco, based on voting power (expected to be approximately 30%), plus 5%, but in no event more than 35%. Following a spin-off, the Applicable Percentage for the Spinco will be reduced for specified transfers of equity securities of the Spinco by the Liberty Parties. During the first two years following the spin-off of a Spinco, acquisitions by the Liberty Parties are further limited to specified extraordinary transactions and, otherwise, to acquisitions representing no more than one-third of the Spinco Common Stock received by the Liberty Parties in the spin-off.

*Standstill Restrictions*

Until the second anniversary of the spin-off, unless a majority of the Qualified Directors consent or to the extent permitted by the provisions described under "Acquisition Restrictions" or "Competing Offers" or in certain other limited circumstances, no Liberty Party may:

- offer to acquire beneficial ownership of any equity securities of such Spinco;
- initiate or propose any stockholder proposal or seek or propose to influence, advise, change or control the management, Board of Directors, governing instruments or policies or affairs of such Spinco;
- offer, seek or propose, collaborate on or encourage any merger or other extraordinary transaction;
- subject any equity securities of such Spinco to a voting agreement;

- make a request to amend any of the provisions described under "Acquisition Restrictions", "Standstill Restrictions" or "Competing Offers";

- make any public disclosure, or take any action which could reasonably be expected to require such Spinco to make any public disclosure, with respect to any of the provisions described under "Standstill Restrictions"; or

- enter into any discussions, negotiations, arrangements or understandings with any third party with respect to any of the provisions described under "Standstill Restrictions".

*Transfer Restrictions*

Unless a majority of the Qualified Directors consent, the Spinco Agreement prohibits transfers by the Liberty Parties of any equity securities of a Spinco to any person except for certain transfers, including:

- transfers under Rule 144 under the Securities Act of 1933 (or, if Rule 144 is not applicable, in "broker transactions");

- transfers pursuant to a third party tender or exchange offer or in connection with any merger or other business combination, which merger or business combination has been approved by the Spinco;

- transfers in a public offering in a manner designed to result in a wide distribution, provided that no such transfer is made, to the knowledge of the Liberty Parties, to any person whose ownership percentage (based on voting power) of the Spinco's equity securities, giving effect to the transfer, would exceed 15%;

- a transfer of all of the equity securities of the Spinco beneficially owned by the Liberty Parties and their affiliates in a single transaction if the transferee's ownership percentage (based on voting power), after giving effect to the transfer, would not exceed the Applicable Percentage and only if the transferee assumes all of the rights and obligations (subject to limited exceptions) of the Liberty Parties under the Spinco Agreement relating to the Spinco;

- specified transfers in connection with changes in the beneficial ownership of the ultimate parent company of a Liberty Party or a distribution of the equity interests of a Liberty Party or certain similar events; and

- specified transfers relating to certain hedging transactions or stock lending transactions in respect of the Liberty Parties' equity securities in the Spinco, subject to specified restrictions.

During the first two years following the applicable spin-off, transfers otherwise permitted by the first and third bullets above will be prohibited, and transfers otherwise permitted by the fourth and sixth bullets above in respect of which IAC and the Spinco do not make certain determinations with respect to the transferee will be prohibited, unless such transfers represent no more than one-third of the Spinco Common Stock received by the Liberty Parties in the spin-off.

*Competing Offers*

During the period when Liberty continues to have the right to nominate directors to a Spinco's Board of Directors, if the Spinco's Board of Directors determines to pursue certain types of transactions on a negotiated basis (either through an "auction" or with a single bidder), Liberty is granted certain rights to compete with the bidder or bidders, including the right to receive certain notices and information, subject to specified conditions and limitations. In connection with any such transaction that the Spinco is negotiating with a single bidder, the Spinco's Board must consider any offer for a transaction made in good faith by Liberty but is not obligated to accept any such offer or to enter into negotiations with Liberty.

If a third party (x) commences a tender or exchange offer for at least 35% of the capital stock of the Spinco other than pursuant to an agreement with the Spinco or (y) publicly discloses that its ownership percentage (based on voting power) exceeds 20% and the Spinco's Board fails to take certain actions to block such third party from acquiring an ownership percentage of the Spinco (based on voting power) exceeding the Applicable Percentage, the Liberty Parties generally will be relieved of the obligations described under "Standstill Restrictions" and "Acquisition Restrictions" above to the extent reasonably necessary to permit Liberty to commence and consummate a competing offer. If Liberty's ownership percentage (based on voting power) as a result of the consummation of a competing offer in response to a tender or exchange offer described in (x) above exceeds 50%, any consent or approval requirements of the Qualified Directors in the Spinco Agreement will be terminated, and, following the later of the second anniversary of the applicable spin-off and the date that Liberty's ownership percentage (based on voting power) exceeds 50%, the obligations described under "Acquisition Restrictions" will be terminated.

*Other*

Following the spin-off of a Spinco, amendments to the Spinco Agreement and determinations required to be made thereunder (including approval of transactions between a Liberty Party and the Spinco that would be reportable under the proxy rules) will require the approval of the Qualified Directors.

### Registration Rights Agreement

As indicated above under "Spinco Agreement", each Spinco will grant to Liberty the registration rights described below at the time of its spin-off.

Under the registration rights agreement, the Liberty Parties and their permitted transferees (the "Holders") will be entitled to three demand registration rights (and unlimited piggyback registration rights) in respect of the shares of Spinco common stock received by the Liberty Parties as a result of the Spinco's spin-off and other shares of Spinco common stock acquired by the Liberty Parties consistent with the Spinco Agreement (collectively, the "Registrable Shares"). The Holders will be permitted to exercise their registration rights in connection with certain hedging transactions that they may enter into in respect of the Registrable Shares.

The Spinco will be obligated to indemnify the Holders, and each selling Holder will be obligated to indemnify the Spinco, against specified liabilities in connection with misstatements or omissions in any registration statement.

## Relationships Among IAC and the Spincos

Following the spin-offs, the relationships among IAC and the Spincos will be governed by a number of agreements. These agreements include, among others:

- a Separation and Distribution Agreement;
- a Tax Sharing Agreement;
- an Employee Matters Agreement; and
- a Transition Services Agreement (collectively, the "Spin-Off Agreements").

The Spin-Off Agreements will be filed as exhibits to the respective registration statement on Form 10 of each of the Spincos, of which this information statement is a part, and the summaries of each such agreement are qualified by reference to the full text of the applicable agreement.

*Separation and Distribution Agreement*

The Separation and Distribution Agreement will set forth the arrangements among IAC and each of the Spincos regarding the principal transactions necessary to separate each of the Spincos from IAC, as well as govern certain aspects of the relationship of a Spinco with IAC and other Spincos after the completion of the spin-offs.

Each Spinco will agree to indemnify, defend and hold harmless (and to cause the other members of its respective group to indemnify, defend and hold harmless), under the Separation and Distribution Agreement, IAC and each of the other Spincos, and each of their respective current and former directors, officers and employees, from and against any losses arising out of any breach by such indemnifying companies of the Spin-Off Agreements, any failure by such indemnifying company to assume and perform any of the liabilities allocated to such company and any liabilities relating to the indemnifying company's financial and business information included in filings made with the SEC in connection with the spin-offs. IAC will agree to indemnify, defend and hold harmless each of the Spincos, and each of their respective current and former directors, officers and employees, from and against losses arising out of any breach by IAC of the Spin-Off Agreements, and any failure by IAC to perform its obligations under the Separation and Distribution Agreement or any Spin-Off Agreement.

In addition, the Separation and Distribution Agreement will also govern insurance and related reimbursement arrangements, provision and retention of records, access to information and confidentiality, cooperation with respect to governmental filings and third party consents and access to property.

*Tax Sharing Agreement*

The Tax Sharing Agreement governs the respective rights, responsibilities and obligations of IAC and each Spinco after the spin-off of such Spinco with respect to taxes for periods ending on or before the spin-off of such Spinco. In general, pursuant to the Tax Sharing Agreement, IAC will prepare and file the consolidated federal income tax return, and any other tax returns that include IAC (or any of its subsidiaries) and a Spinco (or any of its subsidiaries) for all taxable periods ending on or prior to, or including, the distribution date of such Spinco with the appropriate tax authorities, and, except as otherwise set forth below, IAC will pay any taxes relating thereto to the relevant tax authority (including any taxes attributable to an audit adjustment with respect to such returns; provided that IAC will not be responsible for audit adjustments relating to the business of a Spinco (or any of its subsidiaries) with respect to pre-spin off periods if such Spinco fails to fully cooperate with IAC in the conduct of such audit). Each Spinco will prepare and file all tax returns that include solely such Spinco and/or its subsidiaries and any separate company tax returns for such Spinco and/or its subsidiaries for all taxable periods ending on or prior to, or including, the distribution date of such Spinco, and will pay all taxes due with respect to such tax returns (including any taxes attributable to an audit adjustment with respect to such returns). In the event an adjustment with respect to a pre-spin off period for which IAC is responsible results in a tax benefit to a Spinco in a post-spin off period, such Spinco will be required to pay such tax benefit to IAC. In general, IAC controls all audits and administrative matters and other tax proceedings relating to the consolidated federal income tax return of the IAC group and any other tax returns for which the IAC group is responsible.

Under the Tax Sharing Agreement a Spinco generally (i) may not take (or fail to take) any action that would cause any representation, information or covenant contained in the separation documents or the documents relating to the IRS private letter ruling and the tax opinion regarding the spin-off of such Spinco to be untrue, (ii) may not take (or fail to take) any other action that would cause the spin-off of such Spinco to lose its tax free status, (iii) may not sell, issue, redeem or otherwise acquire any of its equity securities (or equity securities of members of its group), except in certain specified transactions for a period of 25 months following the spin-off of such Spinco and (iv) may not, other than in the ordinary course of business, sell or otherwise dispose of a substantial portion of its assets, liquidate, merge or consolidate with any other person for a period of 25 months following the spin-off. Tree.com will not be subject to certain of the restrictions applicable to the other Spincos during the 25-month period following the spin-off of each such other Spinco. During the 25-month period, a Spinco may take certain actions prohibited by these covenants if (i) it obtains IAC's prior written consent, (ii) it provides IAC with a supplemental IRS private letter ruling or an unqualified opinion of tax counsel to the effect that such actions will not affect the tax free nature of the spin-off of such Spinco, in each case satisfactory to IAC in its sole discretion, or (iii) IAC obtains a supplemental private letter ruling at such Spinco's request. In addition, with respect to actions or transactions involving acquisitions of Spinco stock entered into at least 18 months after the distribution of such Spinco, such Spinco will be permitted to proceed with such transaction if it delivers an unconditional officer's certificate establishing facts evidencing that such acquisition satisfies the requirements of a specified safe harbor set forth in applicable U.S. Treasury Regulations, and IAC, after due diligence, is satisfied with the accuracy of such certification.

Notwithstanding the receipt of any such supplemental IRS ruling, tax opinion or officer's certificate, each Spinco must indemnify IAC and each other Spinco for any taxes and related losses resulting from (i) any act or failure to act by such Spinco described in the covenants above, (ii) any acquisition of equity securities or assets of such Spinco or any member of its group, and (iii) any breach by such Spinco or any member of its group of any representation or covenant contained in the separation documents or the documents relating to the IRS private letter ruling or tax opinion concerning the spin-off of such Spinco.

Under U.S. federal income tax law, IAC and the Spincos are severally liable for all of IAC's federal income taxes attributable to periods prior to and including the current taxable year of IAC, which ends on December 31, 2008. Thus, if IAC failed to pay the federal income taxes attributable to it under the Tax Sharing Agreement for periods prior to and including the current taxable year of IAC, the Spincos would be severally liable for such taxes. In the event a Spinco is required to make a payment in respect of a spin-off related tax liability of the IAC consolidated federal income tax return group under these rules for which such Spinco is not responsible under the Tax Sharing Agreement and full indemnification cannot be obtained from the Spinco responsible for such payment under the Tax Sharing Agreement, IAC will indemnify the Spinco that was required to make the payment from and against the portion of such liability for which full indemnification cannot be obtained from the Spinco responsible for such payment under the Tax Sharing Agreement.

The Tax Sharing Agreement also contains provisions regarding the apportionment of tax attributes of the IAC consolidated federal income tax return group, the allocation of deductions with respect to compensatory equity interests, cooperation, and other customary matters. In general, tax deductions arising by reason of exercises of options to acquire IAC or Spinco stock, vesting of "restricted" IAC or Spinco stock, or settlement of restricted stock units with respect to IAC or Spinco stock held by any person will be claimed by the party that employs such person at the time of exercise, vesting or settlement, as applicable (or in the case of a former employee, the party that last employed such person). With respect to compensatory equity awards that are accelerated by reason of the spin-offs, (i) in the case of certain individuals that will be Spinco employees following the spin-offs, IAC will be treated as the employing party with respect to such individuals, and (ii) in the case of all other individuals that will be Spinco employees following the spin-offs, IAC will be entitled to receive payments from the Spinco employing such individuals in respect of any tax benefits realized by such Spinco as a result of any tax deductions with respect to such equity awards.

*Employee Matters Agreement*

The employee matters agreement covers a wide range of compensation and benefit issues related to the spin-offs. In general, under the employee matters agreement:

- IAC will assume or retain (i) all liabilities with respect to IAC employees, former IAC employees (excluding any former employees of the Spincos) and their dependents and beneficiaries under all IAC employee benefit plans, and (ii) all liabilities with respect to the employment or termination of employment of all IAC employees, former IAC employees (excluding any former employees of the Spincos) and their dependents and beneficiaries.

- Each Spinco will assume or retain (i) all liabilities under its employee benefit plans, and (ii) all liabilities with respect to the employment or termination of employment of all such Spinco's employees, former employees and their dependents and beneficiaries.

Subject to a transition period through the end of 2008 with respect to health and welfare benefits, after the spin-offs, the Spincos no longer will participate in IAC's employee benefit plans, but will have established their own employee benefit plans that are currently expected to be substantially similar to the plans sponsored by IAC prior to the spin-offs. Through the end of 2008, IAC will continue to provide health and welfare benefits to employees of the Spincos and each Spinco will bear the cost of this coverage with respect to its employees. Assets and liabilities from the IAC Retirement Savings Plan relating to Spinco employees and former employees will be transferred to the applicable, newly established Spinco Retirement Savings Plan as soon as practicable following the spin-offs. For a description of the treatment of outstanding IAC equity awards pursuant to the employee matters agreement, see "The Separation—Treatment of Outstanding IAC Compensatory Equity-Based Awards."

*Transition Services Agreement*

Pursuant to a transition services agreement among IAC and the Spincos, each of IAC and the Spincos currently expect that some combination of the following services, among others, will be provided by/to the parties (and/or their respective businesses) as set forth below on an interim, transitional basis following completion of the spin-offs:

- assistance with certain legal, finance, internal audit, human resources, insurance and tax affairs, including assistance with certain public company functions, from IAC to the Spincos;

- continued coverage/participation for employees of the Spincos under IAC health and welfare plans on the same basis as immediately prior to the distribution;

- the leasing/subleasing of office and/or data center space by IAC and its businesses to various Spincos (and vice versa);

- assistance with the implementation and hosting of certain software applications by/from IAC and its businesses for various Spincos (and vice versa);

- call center and customer relations services by Ticketmaster to IAC's Reserve America business and Tree.com;

- payroll processing services by Ticketmaster to certain IAC businesses and an ILG business and by HSNi to IAC;

- tax compliance services by HSNi to ILG and accounting services by Ticketmaster to IAC; and

- such other services as to which any Spinco(s) and IAC may agree.

The charges for these services will be on a cost plus fixed percentage or hourly rate basis to be agreed upon prior to the completion of the spin-offs. In general, the services to be provided by/to the parties (and/or their respective businesses) will begin on the date of the completion of the spin-offs and will cover a period generally not expected to exceed 12 months following the spin-offs. Any party may terminate the agreement with respect to one or more particular services being received by it upon such notice as will be provided for in the transition services agreement.

*Commercial Agreements*

Each of the Spincos currently, and for the foreseeable future, expect to provide certain services to each other pursuant to certain of commercial relationships with IAC and/or other Spincos. Additionally, in connection with the spin-offs, each Spinco is expected to enter or has entered into various commercial agreements, primarily in the form of leases and distribution and services agreements, between their subsidiaries, on the one hand, and subsidiaries of IAC and/or one or more other Spincos, on the other hand, many of which will memorialize (in most material respects) pre-existing arrangements in effect prior to the spin-offs and which are intended to reflect arm's length terms and none of which is expected to constitute a material contract to the applicable Spinco. Below is a brief description of such agreements that, individually or together with similar agreements, involve revenues to either of IAC or a Spinco in excess of $120,000. Distribution agreements generally involve the payment of fees (usually on a fixed-per-transaction, revenue sharing or commission basis) from the party seeking distribution of the product or service to the party that is providing the distribution.

***HSNi.*** Certain subsidiaries of HSNi distribute their respective products and services via arrangements with certain subsidiaries of IAC and/or other Spincos (and vice versa). For example:

- HSNi sells merchandise on behalf of Shoebuy through HSN and various Cornerstone brands; and

- IAC's EPI business makes certain promotional offers available to consumers who purchase merchandise from HSNi businesses.

Aggregate revenues earned in respect of commercial agreements between HSNi and IAC by HSNi subsidiaries from businesses that IAC will own following the distribution were approximately $320,000 in 2007. Aggregate payments made by HSNi subsidiaries to IAC subsidiaries in respect of these commercial agreements were approximately $1.8 million in 2007.

***ILG.*** Certain subsidiaries of ILG distribute their respective products and services via arrangements with certain subsidiaries of IAC and/or other Spincos (and vice versa). For example, IAC's EPI business makes its Entertainment Book and online content available to ILG for inclusion as a membership benefit in the Interval Network, as well as certain promotional offers, discounts and programs for use in ILG travel club programs.

Aggregate revenues earned in respect of commercial agreements between ILG and IAC by ILG subsidiaries from businesses that IAC will own following the distribution were not material in 2007. Aggregate payments made by ILG subsidiaries to IAC subsidiaries in respect of these agreements were approximately $2.1 million in 2007.

***Ticketmaster.*** Certain subsidiaries of Ticketmaster (i) distribute their respective products and services via arrangements with certain subsidiaries of IAC and/or other Spincos (and vice versa), (ii) provide certain subsidiaries of IAC and/or other Spincos with various services (and vice versa) and/or (iii) lease office space from IAC. For example:

- EPI makes certain promotional offers available to consumers who purchase tickets on Ticketmaster websites;

- Ticketmaster leases its corporate headquarters in California, as well as office space for its New York City operations at IAC's headquarters, from IAC; and

- IAC's Advertising Solutions business acts as a sales agent for Ticketmaster in connection with the sale of advertising on *www.ticketmaster.com* and websites of other Ticketmaster businesses.

Aggregate revenues earned in respect of commercial agreements between Ticketmaster and IAC by Ticketmaster subsidiaries from businesses that IAC will own following the distribution were approximately $12.2 million in 2007. Aggregate payments made by Ticketmaster subsidiaries to IAC and its subsidiaries in respect of commercial agreements were approximately $4.2 million in 2007.

***Tree.com.*** Certain subsidiaries of Tree.com (i) distribute their respective products and services via arrangements with certain subsidiaries of IAC and/or other Spincos (and vice versa), (ii) provide certain subsidiaries of IAC and/or other Spincos with various services (and vice versa) and/or (iii) lease office space from IAC. For example:

- Tree.com licenses certain real estate information to IAC's Ask.com business for use in connection with real estate related search results;
- IAC's Ask.com and Citysearch businesses provide search engine marketing services and advertising to Tree.com businesses; and
- Tree.com leases office space for its Chairman at IAC's headquarters, which arrangements commenced in 2008.

Aggregate revenues earned in respect of commercial agreements between Tree.com and IAC by Tree.com subsidiaries from businesses that IAC will own following the distribution were approximately $300,000 in 2007. Aggregate payments made by Tree.com subsidiaries to IAC subsidiaries in respect of these commercial agreements were approximately $400,000 in 2007.

**Certain Other Relationships and Related Person Transactions**

The Spincos are currently subject to the policies and procedures of IAC regarding the review and approval of related person transactions. Immediately prior to the spin-offs, each of the Spincos will adopt a formal written policy governing the review and approval of related person transactions. It is expected that the policies implemented by each Spinco will require the management of such Spinco to determine whether any proposed transaction, arrangement or relationship with a related person fell within the definition of "transaction" set forth in Item 404(a) of Regulation S-K under the Securities Act of 1933, as amended, and if so, will require management to submit such transaction to the Audit Committee of such Spinco for approval. Such Audit Committee, in considering whether to approve related person transactions, would then consider all facts and circumstances that it deemed relevant. The disclosure below describes related person transactions involving certain of the Spincos and related parties of IAC prior to the spin-offs, as well as certain relationships involving Spincos and their respective related parties. The terms "related person" and "transaction" have the meanings set forth in Item 404(a) of Regulations S-K under the Securities Act of 1933, as amended.

*HSNi*

HSNi works with High Fashion Garments, Inc. ("HFG") and a number of other third parties to develop new product lines and source manufacturers for existing product lines in the ordinary course of business. The brother-in-law of HSNi's Chief Executive Officer is an employee of HFG, in which capacity he assisted with the development and manufacturing of three product lines for HSN, and his spouse is a consultant for HFG, in which capacity she assisted with the design and development of a product line for HSN. While HSN purchased merchandise from HFG that was developed, manufactured and/or designed with assistance from these individuals in 2007 and 2006, no amounts were paid by either of HFG or HSN to these individuals in connection with such sales. The arrangements between HFG and the brother-in-law do not provide for the payment of any amounts relating to these purchases, and while the arrangements between HFG and the sister-in-law do provide for the payment of commissions, the relevant targets were not met.

In 2007, an HSNi subsidiary made payments to a subsidiary of Warner Music Group in the aggregate amount of approximately $380,000 for music products. Warner Music Group is a related party of IAC because Mr. Edgar Bronfman, a member of the IAC Board of Directors, is the Chief Executive Officer of Warner Music Group.

*ILG*

In 2007, an ILG subsidiary made payments to Arise Virtual Solutions in the aggregate amount of approximately $3.2 million for call center services. Arise Virtual Solutions is a related party of IAC because it is a portfolio company of Accretive LLC, of which Mr. Edgar Bronfman, a member of the IAC Board of Directors, is a partner.

In 2007, ILG received payments from Expedia subsidiaries in the aggregate amount of approximately $380,000, which amount represents commissions payable to ILG in connection with the booking of travel accommodations from certain Expedia travel suppliers through an existing affiliate distribution relationship. IAC and Expedia are related parties because they are under common control.

*Ticketmaster*

In 2007, a Ticketmaster subsidiary received payments from an Expedia subsidiary in the aggregate amount of approximately $3.0 million for call center services. IAC and Expedia are related parties because they are under common control.

## SPINCO STOCK AND ANNUAL INCENTIVE PLANS

### Introduction

Prior to the completion of the spin-offs, each Spinco expects to adopt a Stock and Annual Incentive Plan. The purpose of these plans will be to assist the Spincos in attracting, retaining and motivating officers and employees, and to provide them with the ability to provide incentives more directly linked to the profitability of their respective businesses and increases in stockholder value. In addition, these plans are expected to provide for the assumption of awards pursuant to the adjustment of awards granted under current plans of IAC and its subsidiaries. See "The Separation—Treatment of Outstanding IAC Compensatory Equity-Based Awards." As of the end of Ticketmaster's most recently completed fiscal year, there were no compensation plans under which equity securities of Ticketmaster were authorized for issuance. Each of HSNi, ILG and Tree.com was incorporated in 2008 and has not yet completed its first fiscal year.

### Description

Each Stock and Annual Incentive Plan is expected to contain important features that are summarized below. The description below is a generic description that will apply to the Stock and Annual Incentive Plan adopted by each Spinco.

### Administration

The Stock and Annual Incentive Plan will be administered by the Compensation and Human Resources Committee or such other committee of the Board as the Spinco Board of Directors may from time to time designate (the "Committee"). Among other things, the Committee will have the authority to select individuals to whom awards may be granted, to determine the type of award as well as the number of shares of Spinco common stock to be covered by each award, and to determine the terms and conditions of any such awards.

### Eligibility

In addition to individuals who hold outstanding adjusted awards, persons who serve or agree to serve as officers, employees, non-employee directors or consultants of Spinco and its subsidiaries and affiliates will be eligible to be granted awards under the Stock and Annual Incentive Plan (other than adjusted awards that are assumed in connection with the spin-offs).

### Shares Subject to the Plan

The Stock and Annual Incentive Plan will authorize the issuance of up to [ • ] shares of Spinco common stock pursuant to new awards under the plan, plus shares to be granted pursuant to the assumption of outstanding adjusted awards. No single participant may be granted awards covering in excess of [ • ] shares of Spinco common stock over the life of the Stock and Annual Incentive Plan.

The shares of Spinco common stock subject to grant under the Stock and Annual Incentive Plan are to be made available from authorized but unissued shares or from treasury shares, as determined from time to time by the Spinco Board. Other than adjusted awards, to the extent that any award is forfeited, or any option or stock appreciation right terminates, expires or lapses without being exercised, or any award is settled for cash, the shares of Spinco common stock subject to such awards not delivered as a result thereof will again be available for awards under the plan. If the exercise price of any option and/or the tax withholding obligations relating to any award are satisfied by delivering shares of Spinco common stock (by either actual delivery or by attestation), only the number of shares of Spinco common stock issued net of the shares of Spinco common stock delivered or attested to will be deemed delivered for purposes of the limits in the plan. To the extent any shares of Spinco common stock 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 of Spinco common stock will not generally be deemed to have been delivered for purposes of the limits set forth in the plan.

In the event of certain extraordinary corporate transactions, the Committee or the Spinco Board will be able to make such substitutions or adjustments as it deems appropriate and equitable to (1) the aggregate number and kind of shares or other securities reserved for issuance and delivery under the plan, (2) the various maximum limitations set forth in the plan, (3) the number and kind of shares or other securities subject to outstanding awards; and (4) the exercise price of outstanding options and stock appreciation rights.

As indicated above, several types of stock grants can be made under the Stock and Annual Incentive Plan. A summary of these grants is set forth below. The Stock and Annual Incentive Plan will govern options and restricted stock units that convert from existing IAC options and IAC restricted stock units in connection with the spin-offs, as well as other award grants made following the spin-offs pursuant to such plans. Notwithstanding the foregoing, the terms that govern IAC options and IAC restricted stock units that convert into options, and restricted stock units of the various Spincos in connection with the spin-offs, will govern such options and restricted stock units to the extent inconsistent with the terms described below.

**Stock Options and Stock Appreciation Rights**

Stock options granted under the Stock and Annual Incentive Plan may either be incentive stock options or nonqualified stock options. Stock appreciation rights granted under the plan may either be granted alone or in tandem with a stock option. The exercise price of options and stock appreciation rights cannot be less than 100% of the fair market value of the stock underlying the options or stock appreciation rights on the date of grant. Optionees may pay the exercise price in cash or, if approved by the Committee, in Spinco common stock (valued at its fair market value on the date of exercise) or a combination thereof, or by "cashless exercise" through a broker or by withholding shares otherwise receivable on exercise. The term of options and stock appreciation rights shall be as determined by the Committee, but an ISO may not have a term longer than ten years from the date of grant. The Committee will determine the vesting and exercise schedule of options and stock appreciation rights, and the extent to which they will be exercisable after the award holder's employment terminates. Generally, unvested options and stock appreciation rights terminate upon the termination of employment, and vested options and stock appreciation rights will remain exercisable for one year after the award holder's death, disability or retirement, and 90 days after the award holder's termination for any other reason. Vested options and stock appreciation rights will also terminate upon the optionee's termination for cause (as defined in the plan). Stock options and stock appreciation rights are transferable only by will or by the laws of descent and distribution, or pursuant to a qualified domestic relations order or in the case of nonqualified stock options or stock appreciation rights, as otherwise expressly permitted by the Committee including, if so permitted, pursuant to a transfer to the participant's family members, to a charitable organization, whether directly or indirectly or by means of a trust or partnership or otherwise.

**Restricted Stock**

Restricted stock may be granted with such restriction periods as the Committee may designate. The Committee may provide at the time of grant that the vesting of restricted stock will be contingent upon the achievement of applicable performance goals and/or continued service. In the case of performance-based awards that are intended to qualify under Section 162(m)(4) of the Internal Revenue Code of 1986, as amended, (i) such goals will 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 shareholder 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 Spinco or any subsidiary, division or department of such Spinco. Such performance goals also may be based upon the attaining of specified levels of Spinco, subsidiary, affiliate or divisional performance under one or more of the measures described above relative to the performance of other entities, divisions or subsidiaries. Performance goals based on the foregoing factors are hereinafter referred to as "Spinco Performance Goals." The terms and conditions of restricted stock awards (including any applicable Spinco Performance Goals) need not be the same with respect to each participant. During the restriction period, the Committee may require that the stock certificates evidencing restricted shares be held by Spinco. Restricted stock may not be sold, assigned, transferred, pledged or otherwise encumbered, and is forfeited upon termination of employment, unless otherwise provided by the Committee. Other than such restrictions on transfer and any other restrictions the Committee may impose, the participant will have all the rights of a stockholder with respect to the restricted stock award.

**Restricted Stock Units**

The Committee may grant restricted stock units payable in cash or shares of Spinco common stock, conditioned upon continued service and/or the attainment of Spinco Performance Goals determined by the Committee. The terms and conditions of restricted stock unit awards (including any Spinco Performance Goals) need not be the same with respect to each participant.

**Other Stock-Based Awards**

Other awards of Spinco common stock and other awards that are valued in whole or in part by reference to, or are otherwise based upon, Spinco common stock, including (without limitation), unrestricted stock, dividend equivalents and convertible debentures, may be granted under the plan.

**Bonus Awards**

Bonus awards granted to eligible employees of Spinco and its subsidiaries and affiliates under the Stock and Annual Incentive Plan shall be based upon the attainment of the Spinco Performance Goals established by the Committee for the plan year or such shorter performance period as may be established by the Committee. Bonus amounts earned by any individual shall be limited to $[ • ] million for any plan year, pro rated (if so determined by the Committee) for any shorter performance period. Bonus amounts will be paid in cash or, in the discretion of Spinco, in Spinco common stock, as soon as practicable following the end of the plan year. The Committee may reduce or eliminate a participant's bonus award in any year notwithstanding the achievement of Spinco Performance Goals.

**Change in Control**

In the event of a Change of Control (as defined in the applicable Stock and Annual Incentive Plan), the Committee shall have the discretion to determine the treatment of awards granted under the Stock and Annual Incentive Plan, including providing for the acceleration of such awards upon the occurrence of the Change of Control and/or upon a qualifying termination of employment (*e.g.*, without cause or for good reason) following the Change of Control.

**Amendment and Discontinuance**

The Stock and Annual Incentive Plan may be amended, altered or discontinued by the Spinco Board, but no amendment, alteration or discontinuance may impair the rights of an optionee under an option or a recipient of an SAR, restricted stock award, restricted stock unit award or bonus award previously granted without the optionee's or recipient's consent. Amendments to each Stock and Annual Incentive Plan will require stockholder approval to the extent such approval is required by law or agreement.

## WHERE YOU CAN FIND MORE INFORMATION

Each of the Spincos has filed a registration statement on Form 10 with the SEC with respect to the shares of its common stock that IAC stockholders will receive in the spin-offs. This information statement, which is a part of each such registration statement, does not include all of the information that you can find in each such registration statement or the exhibits to each such the registration statement. For additional information relating to each of the Spincos and the spin-offs, reference is made to the registration statements and the exhibits to the registration statements. Statements contained in this information statement as to the contents of any contract or document are not necessarily complete and, if the contract or document is filed as an exhibit to a registration statement, is qualified in all respects by reference to the relevant exhibit.

After the spin-offs, each of the Spincos will file annual, quarterly and current reports, proxy statements and other information with the SEC. The registration statements are, and any of these future filings with the SEC will be, available to the public over the Internet on the SEC's website at www.sec.gov. You may read and copy any filed document at the SEC's public reference rooms in Washington, D.C. at 100 F Street, N.E., Washington, D.C. 20549 and at the SEC's regional offices in New York at 233 Broadway, New York, New York 10279 and in Chicago at Citicorp Center, 500 W. Madison Street, Suite 1400, Chicago, Illinois 60661. Please call the SEC at 1-800-SEC-0330 for further information about the public reference rooms.

## HSN, INC. AND SUBSIDIARIES
## COMBINED FINANCIAL STATEMENTS

### TABLE OF CONTENTS

## Report of Independent Registered Public Accounting Firm

We have audited the accompanying combined balance sheets of HSN, Inc. and subsidiaries as of December 31, 2007 and 2006, and the related combined statements of operations, invested equity, and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule on page A-33. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of HSN, Inc. and subsidiaries at December 31, 2007 and 2006, and the combined results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic combined financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

New York, New York
May 5, 2008

**HSN, INC. AND SUBSIDIARIES**

**COMBINED STATEMENTS OF OPERATIONS**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | | (In thousands) | |
| Revenue | $ 2,908,242 | $ 2,877,954 | $ 2,670,951 |
| Cost of sales (exclusive of depreciation shown separately below) | 1,820,048 | 1,765,203 | 1,647,857 |
| Gross margin | 1,088,194 | 1,112,751 | 1,023,094 |
| Selling and marketing expense | 595,911 | 584,997 | 500,877 |
| General and administrative expense | 211,955 | 186,261 | 171,180 |
| Production and programming expense | 59,051 | 56,800 | 55,494 |
| Amortization of non-cash marketing | 4,442 | — | — |
| Amortization of intangibles | 12,681 | 34,224 | 59,444 |
| Depreciation | 34,363 | 37,273 | 40,947 |
| Operating income | 169,791 | 213,196 | 195,152 |
| Other income (expense): | | | |
| Interest income | 252 | 586 | 345 |
| Interest expense | — | — | (992) |
| Other expense | (256) | (1,040) | (1,118) |
| Total other expense, net | (4) | (454) | (1,765) |
| Earnings from continuing operations before income taxes | 169,787 | 212,742 | 193,387 |
| Income tax provision | (64,554) | (79,210) | (66,310) |
| **Earnings from continuing operations** | 105,233 | 133,532 | 127,077 |
| Gain on sale of discontinued operations, net of tax | 30,572 | — | 73,335 |
| Income (loss) from discontinued operations, net of tax | 28,999 | (10,715) | 22,809 |
| **Net income** | $ 164,804 | $ 122,817 | $ 223,221 |

The accompanying Notes to Combined Financial Statements are an integral part of these statements.

**HSN, INC. AND SUBSIDIARIES**

**COMBINED BALANCE SHEETS**

| | December 31, 2007 | December 31, 2006 |
|---|---|---|
| | (In thousands) | |
| **ASSETS** | | |
| Cash and cash equivalents | $ 6,220 | $ 53,367 |
| Accounts receivable, net of allowance of $8,112 and $5,994, respectively | 192,609 | 158,416 |
| Inventories | 317,411 | 313,913 |
| Deferred income taxes | 24,606 | 22,864 |
| Assets held for sale | — | 226,880 |
| Prepaid expenses and other current assets | 55,182 | 53,323 |
| Total current assets | 596,028 | 828,763 |
| Property and equipment, net | 155,805 | 143,209 |
| Goodwill | 2,884,389 | 2,883,769 |
| Intangible assets, net | 571,662 | 584,343 |
| Other non-current assets | 12,747 | 18,083 |
| **TOTAL ASSETS** | $ 4,220,631 | $ 4,458,167 |
| **LIABILITIES AND INVESTED EQUITY** | | |
| **LIABILITIES:** | | |
| Accounts payable, trade | $ 260,531 | $ 250,782 |
| Income taxes payable | 1,811 | 2,606 |
| Liabilities held for sale | — | 64,345 |
| Accrued expenses and other current liabilities | 186,501 | 170,438 |
| Total current liabilities | 448,843 | 488,171 |
| Other long-term liabilities | 8,933 | 9,709 |
| Deferred income taxes | 819,969 | 836,571 |
| Commitments and contingencies | | |
| **INVESTED EQUITY:** | | |
| Invested capital | 4,522,873 | 4,569,019 |
| Receivables from IAC and subsidiaries | (1,581,157) | (1,483,873) |
| Accumulated other comprehensive income | 1,170 | 38,570 |
| Total invested equity | 2,942,886 | 3,123,716 |
| **TOTAL LIABILITIES AND INVESTED EQUITY** | $ 4,220,631 | $ 4,458,167 |

The accompanying Notes to Combined Financial Statements are an integral part of these statements.

## HSN, INC. AND SUBSIDIARIES

## COMBINED STATEMENTS OF INVESTED EQUITY

| | Total | Invested Capital | Receivables from IAC and Subsidiaries | Accumulated Other Comprehensive Income |
|---|---|---|---|---|
| | | (In thousands) | | |
| **Balance as of December 31, 2004** | $ 2,464,651 | $ 2,791,731 | $ (358,947) | $ 31,867 |
| Comprehensive income: | | | | |
| Net income for the year ended December 31, 2005 | 223,221 | 223,221 | — | — |
| Foreign currency translation | (13,561) | — | — | (13,561) |
| Net losses on derivative contracts | (496) | — | — | (496) |
| Comprehensive income | 209,164 | | | |
| Net transfers from IAC(a) | 1,430,971 | 1,430,971 | — | — |
| Net change in receivables from IAC and subsidiaries | (946,426) | — | (946,426) | — |
| **Balance as of December 31, 2005** | 3,158,360 | 4,445,923 | (1,305,373) | 17,810 |
| Comprehensive income: | | | | |
| Net income for the year ended December 31, 2006 | 122,817 | 122,817 | — | — |
| Foreign currency translation | 16,441 | — | — | 16,441 |
| Net gains on derivative contracts | 4,319 | — | — | 4,319 |
| Comprehensive income | 143,577 | | | |
| Net transfers from IAC | 279 | 279 | — | — |
| Net change in receivables from IAC and subsidiaries | (178,500) | — | (178,500) | — |
| **Balance as of December 31, 2006** | 3,123,716 | 4,569,019 | (1,483,873) | 38,570 |
| Comprehensive income: | | | | |
| Net income for the year ended December 31, 2007 | 164,804 | 164,804 | — | — |
| Foreign currency translation | (35,045) | — | — | (35,045) |
| Net losses on derivative contracts | (2,355) | — | — | (2,355) |
| Comprehensive income | 127,404 | | | |
| Cumulative effect of adoption of FIN 48 | (225) | (225) | — | — |
| Net transfers to IAC (principally transfer of investment and contingent value right)(b) | (210,725) | (210,725) | — | — |
| Net change in receivables from IAC and subsidiaries | (97,284) | — | (97,284) | — |
| **Balance as of December 31, 2007** | $ 2,942,886 | $ 4,522,873 | $ (1,581,157) | $ 1,170 |

(a) Consists principally of a capital contribution made in connection with restructuring steps implemented in order for IAC to spin-off its travel related businesses and funding for the acquisition of Cornerstone Brands. See Note 3 for a further discussion of the acquisition of Cornerstone Brands.

(b) See Note 15 for a further discussion of these transfers.

The accompanying Notes to Combined Financial Statements are an integral part of these statements.

HSN, INC. AND SUBSIDIARIES

COMBINED STATEMENTS OF CASH FLOWS

| | Years Ended December 31, 2007 | 2006 | 2005 |
|---|---|---|---|
| | (In thousands) | | |
| **Cash flows from operating activities attributable to continuing operations:** | | | |
| Net income | $ 164,804 | $ 122,817 | $ 223,221 |
| Less: (income) loss from discontinued operations, net of tax | (59,571) | 10,715 | (96,144) |
| **Earnings from continuing operations** | 105,233 | 133,532 | 127,077 |
| Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities attributable to continuing operations: | | | |
| Amortization of intangibles | 12,681 | 34,224 | 59,444 |
| Depreciation | 34,363 | 37,273 | 40,947 |
| Non-cash compensation expense | 12,160 | 11,746 | 13,725 |
| Amortization of cable and satellite distribution fees | 4,866 | 29,565 | 70,401 |
| Amortization of non-cash marketing | 4,442 | — | — |
| Deferred income taxes | (11,803) | (15,282) | (38,945) |
| Excess tax benefits from stock-based awards | — | — | 49,889 |
| Bad debt expense | 14,598 | 10,734 | 10,793 |
| Inventory carrying value adjustment | 9,100 | 6,164 | (833) |
| Increase in cable and satellite distribution fees | — | (16,876) | (24,011) |
| Changes in current assets and liabilities: | | | |
| Accounts receivable | (53,130) | (15,382) | (28,206) |
| Inventories | (12,598) | (29,579) | 9,491 |
| Prepaid expenses and other current assets | (2,212) | (1,459) | 4,325 |
| Accounts payable and other current liabilities | 29,001 | (16,138) | (20,073) |
| Income taxes payable | (9,799) | 1,016 | (74,365) |
| Other, net | 682 | (1,833) | 396 |
| **Net cash provided by operating activities attributable to continuing operations** | 137,584 | 167,705 | 200,055 |
| **Cash flows from investing activities attributable to continuing operations:** | | | |
| Transfers to IAC | (91,560) | (188,269) | (803,768) |
| Acquisitions, net of cash acquired | (935) | (338) | (704,531) |
| Capital expenditures | (48,714) | (35,985) | (36,037) |
| Other, net | 1,048 | 164 | 4,475 |
| **Net cash used in investing activities attributable to continuing operations** | (140,161) | (224,428) | (1,539,861) |
| **Cash flows from financing activities attributable to continuing operations:** | | | |
| Capital contributions from IAC | — | — | 1,429,660 |
| Principal payments on long-term obligations | — | — | (36,876) |
| Excess tax benefits from stock-based awards | 2,401 | 2,269 | — |
| Other, net | (10) | — | — |
| **Net cash provided by financing activities attributable to continuing operations** | 2,391 | 2,269 | 1,392,784 |
| **Total cash (used in) provided by continuing operations** | (186) | (54,454) | 52,978 |
| Net cash (used in) provided by operating activities attributable to discontinued operations | (8,956) | (27,931) | 2,881 |
| Net cash (used in) provided by investing activities attributable to discontinued operations | (965) | (8,526) | 180,406 |
| Net cash used in financing activities attributable to discontinued operations | (38,571) | (1,748) | (167,210) |
| **Total cash (used in) provided by discontinued operations** | (48,492) | (38,205) | 16,077 |
| Effect of exchange rate changes on cash and cash equivalents | 1,531 | 7,788 | (17,138) |
| **Net (decrease) increase in cash and cash equivalents** | (47,147) | (84,871) | 51,917 |
| Cash and cash equivalents at beginning of period | 53,367 | 138,238 | 86,321 |
| **Cash and cash equivalents at end of period** | $ 6,220 | $ 53,367 | $ 138,238 |

The accompanying Notes to Combined Financial Statements are an integral part of these statements.

## NOTE 1—ORGANIZATION AND BASIS OF PRESENTATION

### Spin-Off

On November 5, 2007, IAC/InterActiveCorp ("IAC") announced that its Board of Directors approved a plan to separate IAC into five publicly traded companies, identifying HSN, Inc. ("HSNi") as one of those five companies. In these combined financial statements, we refer to the separation transaction herein as the "spin-off." In connection with the spin-off, HSNi was incorporated as a Delaware corporation in May 2008. HSNi currently does not have any material assets or liabilities, nor does it engage in any business or other activities and, other than in connection with the spin-off, will not acquire or incur any material assets or liabilities, nor will it engage in any business or other activities. Upon completion of the spin-off, HSNi will primarily consist of HSN and Cornerstone, the businesses that formerly comprised IAC's Retailing segment. HSN consists of the HSN television network and *HSN.com*, and Cornerstone includes the Cornerstone Brands portfolio of leading print catalogs and related websites, as well as a limited number of retail stores. HSNi will not include the equity investment in Jupiter Shop Channel, the investment in Arcandor AG and the related contingent value right. The businesses to be operated by HSNi following the spin-off are referred to herein as the "HSNi Businesses." HSNi will also include the entities described below in "Discontinued Operations."

### Basis of Presentation

The historical combined financial statements of HSNi and its subsidiaries reflect the contribution or other transfer to HSNi of all of the subsidiaries and assets and the assumption by HSNi of all of the liabilities relating to the HSNi Businesses in connection with the spin-off and the allocation to HSNi of certain IAC corporate expenses relating to the HSNi Businesses. Accordingly, the historical combined financial statements of HSNi reflect the historical financial position, results of operations and cash flows of the HSNi Businesses since their respective dates of acquisition by IAC, based on the historical consolidated financial statements and accounting records of IAC and using the historical results of operations and historical bases of the assets and liabilities of the HSNi Businesses with the exception of accounting for income taxes. For purposes of these financial statements, income taxes have been computed for HSNi on an as if stand-alone, separate tax return basis. These financial statements are prepared on a combined, rather than a consolidated, basis because they exclude certain investments and assets that were owned, either directly or indirectly, by legal entities that comprise the HSNi Businesses. The ownership of these investments and assets will be retained by IAC after the spin-off. These combined financial statements present IAC's and its subsidiaries net investment in the HSNi Businesses as invested equity in lieu of shareholders' equity. Intercompany transactions and accounts have been eliminated.

In the opinion of HSNi's management, the assumptions underlying the historical combined financial statements of HSNi are reasonable. However, this financial information does not necessarily reflect what the historical financial position, results of operations and cash flows of HSNi would have been had HSNi been a stand-alone company during the periods presented.

### Company Overview

HSNi markets and sells a wide range of third party and private label merchandise directly to consumers through (i) television home shopping programming broadcast on the HSN television network, (ii) catalogs, which consist primarily of the Cornerstone Brands portfolio of leading print catalogs which includes Frontgate, Garnet Hill, Ballard Designs, Improvements, Smith & Noble, The Territory Ahead and TravelSmith and (iii) websites, which consist primarily of *HSN.com* and branded websites operated by Cornerstone Brands. HSNi's television home shopping business and related internet commerce is referred to herein as "HSN" and all catalog operations, including related internet commerce, are collectively referred to herein as "Cornerstone."

HSN offerings primarily consist of jewelry, apparel & accessories, health & beauty and home & other. Merchandise offered by Cornerstone primarily consists of home furnishings (including indoor/outdoor furniture, window treatments and other home related goods) and apparel & accessories.

**Discontinued Operations**

Discontinued operations consist of HSNi Businesses that engaged in television retailing and other forms of television-based commerce in Europe, primarily in Germany and the United Kingdom. Discontinued operations in Germany consist of EUVÍA, a group of companies that were primarily engaged in television game-based entertainment and commerce; and Home Shopping Europe GmbH & Co. KG, and its affiliated station HSE24 ("HSE"), a television and internet retailer. Discontinued operations in the United Kingdom consist of Quiz TV Limited a television game-based entertainment network and iBuy, a television and internet auction formatted retailer.

During the second quarter of 2005, HSNi sold its 48.6% ownership interest in EUVÍA. During the second quarter of 2006, Quiz TV Limited ceased operations and during the fourth quarter of 2006, iBuy was classified as held for sale. Additionally, in the second quarter of 2007, both iBuy's assets and HSNi's German TV and internet retailer, HSE, were sold. Accordingly, discontinued operations in the accompanying combined statements of operations and cash flows include EUVÍA and HSE through June 2, 2005 and June 19, 2007, respectively. The assets of HSE are included in "Assets held for sale" and the liabilities of HSE are included in "Liabilities held for sale" in the accompanying combined balance sheet at December 31, 2006. Quiz TV Limited and iBuy are presented as discontinued operations in the accompanying combined balance sheets and combined statements of operations and cash flows for all periods presented. See Note 10 for a further description of discontinued operations.

**NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Revenue Recognition**

Revenue primarily consists of merchandise sales and is reduced by incentive discounts and sales returns to arrive at net sales. In accordance with Staff Accounting Bulletin 104, revenue is recorded when delivery to the customer has occurred. Delivery is considered to have occurred when the customer takes title and assumes the risks and rewards of ownership, which is generally on the date of shipment. HSNi's sales policy allows customers to return merchandise for a full refund or exchange, subject in some cases to restocking fees and exceptions for certain merchandise. Allowances for returned merchandise and other adjustments (including reimbursed shipping and handling costs) are provided based upon past experience. HSNi believes that actual returns of product sales have not materially varied from estimates in any of the periods presented. HSNi's estimated return rates were 18.4% in 2007, 17.7% in 2006 and 16.5% in 2005. Sales taxes collected are not included in revenue.

**Shipping and Handling Fees and Costs**

Shipping and handling fees billed to customers are recorded as revenue. The costs associated with shipping goods to customers are recorded as cost of sales.

## NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Cash and Cash Equivalents

Cash and cash equivalents include cash and money market instruments.

### Accounts Receivable

Accounts receivable are stated at amounts due from customers, net of an allowance for doubtful accounts. HSN provides extended payment terms to its customers known as Flexpay. Flexpay is offered on certain products sold by HSN. Revenue is recorded when delivery to the customer has occurred, at which time HSN collects the first payment, sales tax and all shipping and handling fees. Subsequent collections are due from customers in 30-day increments payable automatically by credit or debit card. HSN offers Flexpay programs ranging from two to six interest-free payments. Flexpay receivables consist of outstanding balances owed by customers, less a reserve for uncollectible balances. The balance of Flexpay receivables, net of allowance, at December 31, 2007 and 2006 was $149.9 million and $119.1 million, respectively. Flexpay sales were 54%, 48% and 48% of total HSN's net merchandise sales for the years ended December 31, 2007, 2006 and 2005, respectively.

Accounts receivable outstanding longer than the contractual payment terms are considered past due. HSNi determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, HSNi's previous loss history and the condition of the general economy. HSNi writes off accounts receivable when they become uncollectible.

### Inventories

Inventories, which primarily consist of finished goods, are valued at the lower of cost or market, with the cost being determined based upon the first-in, first-out method. Cost includes inbound freight and duties and, in the case of HSN, certain allocable general and administrative costs, including certain warehouse costs. Inventories include approximately $4.9 million and $5.0 million of these allocable general and administrative overhead costs at December 31, 2007 and 2006, respectively, and approximately $17.8 million, $19.8 million and $19.4 million of such costs were included in "General and administrative expense" in the accompanying combined statements of operations for the years ended December 31, 2007, 2006 and 2005, respectively. Market is determined on the basis of net realizable value, giving consideration to obsolescence and other factors.

### Property and Equipment

Property and equipment, including significant improvements, are recorded at cost. Repairs and maintenance and any gains or losses on dispositions are included in operations.

Depreciation is recorded on a straight-line basis to allocate the cost of depreciable assets to operations over their estimated service lives.

| Asset Category | Depreciation Period |
|---|---|
| Computer equipment and capitalized software | 3 to 6 Years |
| Buildings and leasehold improvements | 3 to 39 Years |
| Furniture and other equipment | 3 to 10 Years |

In accordance with American Institute of Certified Public Accountants' Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," HSNi capitalizes certain qualified costs incurred in connection with the development of internal use software. Capitalization of internal use software costs begins when the preliminary project stage is completed, management with the relevant authority authorizes and commits to the funding of the software project, and it is probable that the project will be completed and the software will be used to perform the function intended. Capitalized internal use software is depreciated on a straight-line basis over the estimated useful life of the software, not to exceed three years. Capitalized internal software costs, net of accumulated depreciation, totaled $24.1 million and $16.6 million at December 31, 2007 and 2006, respectively, and are included in "Property and equipment, net" in the accompanying combined balance sheets.

**Goodwill and Indefinite-Lived Intangible Assets**

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), goodwill acquired in business combinations is assigned to the reporting units that are expected to benefit from the combination as of the acquisition date.

Goodwill impairment is determined using a two-step process. The first step of the process is to compare the fair value of a reporting unit with its carrying amount, including goodwill. In performing the first step, HSNi determines the fair value of its reporting units by using a discounted cash flow ("DCF") analysis. Determining fair value using a DCF analysis requires the exercise of significant judgments, including judgments about appropriate discount rates, perpetual growth rates and the amount and timing of expected future cash flows. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step of the impairment test is not required. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is required to be performed to measure the amount of impairment, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

The impairment test for indefinite-lived intangible assets involves a comparison of the estimated fair value of the intangible asset with its carrying value. If the carrying value of the indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. The estimates of fair value of indefinite-lived intangible assets are determined using a DCF valuation analysis that employs a "relief from royalty" methodology in estimating the fair value of its trade names and trademarks. Significant judgments inherent in this analysis include the determination of royalty rates, discount rates and the terminal growth rates.

Goodwill and indefinite-lived intangible assets, primarily trade names and trademarks, are tested annually for impairment as of October 1 or earlier upon the occurrence of certain events or substantive changes in circumstances. HSNi's 2007 annual impairment assessment did not identify an impairment. HSNi's reporting units are currently operating in dynamic and challenged industry segments. To illustrate the magnitude of potential impairment charges relative to future changes in estimated fair value, had the estimated fair value of HSNi's reporting units and their respective indefinite-lived intangible assets been hypothetically lower by 10% as of October 1, 2007 the aggregate book value of goodwill and indefinite-lived intangible assets would have exceeded fair value by approximately $166.0 million at HSN and $74.0 million at Cornerstone. Had the estimated fair values of HSNi's reporting units and their respective indefinite-lived intangible assets been hypothetically lower by 20%

as of October 1, 2007, the book value of goodwill and indefinite lived-intangible assets would have exceeded fair value by approximately $441.0 million at HSN and $156.0 million at Cornerstone.

**Long-Lived Assets and Intangible Assets with Definite Lives**

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"), long-lived assets, including property and equipment and intangible assets with definite lives, are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the carrying amount is deemed to not be recoverable, an impairment loss is recorded as the amount by which the carrying amount of the long-lived asset exceeds its fair value. Amortization of definite lived intangible assets is recorded on a straight-line basis over their estimated lives.

**Cable and Satellite Distribution Fees**

Cable and satellite distribution fees relate to fees paid in connection with annual or multi-year cable and satellite contracts for carriage of HSN's programming. Fees that are paid upfront are amortized on a straight-line basis over the terms of the respective contracts. Unpaid fees are accrued.

Cable and satellite distribution fees and amortization totalled $91.8 million, $88.7 million and $70.4 million for the years ended December 31, 2007, 2006 and 2005, respectively, and are included in "Selling and marketing expense" in the accompanying combined statements of operations. Prepaid cable and satellite distribution fees were $5.7 million and $2.4 million at December 31, 2007 and 2006, respectively, and are included in "Prepaid expenses and other current assets" in the accompanying combined balance sheets. The long-term portions of upfront payments relating to multi-year cable and satellite contracts were $11.6 million and $16.2 million at December 31, 2007 and 2006, respectively, and are included in "Other non-current assets" in the accompanying combined balance sheets. Accrued cable and satellite distribution fees were $32.6 million and $21.0 million at December 31, 2007 and 2006, respectively, and are included in "Accrued expenses and other current liabilities" in the accompanying combined balance sheets.

**Advertising**

Advertising costs principally represent offline costs, including catalog production and distribution costs, and online advertising costs. Advertising costs are expensed in the period incurred, except for Cornerstone's direct costs of producing and distributing its catalogs, which are capitalized. These capitalized costs are amortized over the expected future revenue stream, which is generally three months from the date catalogs are mailed. Such capitalized costs totaled $26.8 million and $27.8 million at of December 31, 2007 and 2006, respectively, and are included in "Prepaid expenses and other current assets" in the accompanying combined balance sheets. Of these amounts, $18.6 million and $19.4 million at December 31, 2007 and 2006, respectively, related to catalogs that had not yet been mailed. Advertising expense was $282.5 million, $278.1 million and $224.3 million for the years ended December 31, 2007, 2006 and 2005, respectively.

**NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Amortization of Non-Cash Marketing**

Amortization of non-cash marketing consists of non-cash marketing and advertising provided to HSNi by IAC. The non-cash marketing was secured by IAC from Universal Television as part of the transaction pursuant to which Vivendi Universal Entertainment LLLP ("VUE") was created, and the subsequent transaction by which IAC sold its partnership interests in VUE. HSNi used the non-cash advertising for television advertising on various NBC Universal network and cable channels without any cash cost.

**Income Taxes**

HSNi accounts for income taxes under the liability method, and deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided on deferred tax assets if it is determined that it is more likely than not that the deferred tax asset will not be realized. HSNi records interest on potential tax contingencies as a component of income tax expense and records interest net of any applicable related income tax benefit.

Effective January 1, 2007, HSNi adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" ("FIN 48"). As a result of the adoption of FIN 48, HSNi recognizes liabilities for uncertain tax positions based on the two-step process prescribed by the interpretation. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement.

**Foreign Currency Translation and Transaction Gains and Losses**

The financial position and operating results of substantially all foreign operations are consolidated using the local currency as the functional currency. Local currency assets and liabilities are translated at the rates of exchange as of the balance sheet date, and local currency revenue and expenses are translated at average rates of exchange during the period. Resulting translation gains or losses are included as a component of accumulated other comprehensive income (loss), a separate component of invested equity. Transaction gains and losses arising from transactions denominated in a currency other than the functional currency of the entity are included in the combined statements of operations.

Foreign currency transaction gains and losses arose from entities that are presented in these statements as discontinued operations and, accordingly, are included in "Income from discontinued operations, net of tax" in the accompanying combined statements of operations.

**Stock-Based Compensation**

Effective January 1, 2006, HSNi adopted the provisions of SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), using the modified prospective transition method and therefore has not restated results for prior periods. See Note 4 for a further description of the impact of the adoption of SFAS 123R and Staff Accounting Bulletin No. 107 ("SAB 107").

**NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Accounting Estimates**

HSNi's management is required to make certain estimates and assumptions during the preparation of the combined financial statements in accordance with U.S. generally accepted accounting principles. 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 combined 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 combined financial statements include: the determination of the lower of cost or market adjustment for inventory; sales returns and other revenue allowances; the allowance for doubtful accounts; the recoverability of long-lived assets; the recovery of goodwill and intangible assets; the determination of deferred income taxes, including related valuation allowances; and assumptions related to the determination of stock-based compensation.

**Certain Risks and Concentrations**

HSNi'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. HSNi also depends on third-party service providers for processing certain fulfillment services.

**Recent Accounting Pronouncements**

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51" ("SFAS No. 160"). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. The Statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. SFAS No. 160 will be applied prospectively, except as it relates to disclosures, for which the effects will be applied retrospectively for all periods presented. Early adoption is not permitted. HSNi is currently assessing the impact of SFAS No. 160 on its combined financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS No. 141R"), which replaces FASB Statement No. 141. SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. The Statement also establishes disclosure requirements that will enable users to evaluate the nature and financial effects of the business combination. SFAS No. 141R applies prospectively to business combinations in fiscal years beginning after December 15, 2008. Early adoption is not permitted. HSNi is currently assessing the potential impact, if any, of the adoption of SFAS No. 141R on its combined financial position, results of operations and cash flows.

**NOTE 3—BUSINESS ACQUISITIONS**

On April 1, 2005, HSNi completed its acquisition of Cornerstone Brands, a portfolio of leading print catalogs and online retailing sites that sell home products and leisure and casual apparel, for approximately $715 million, principally in cash. The acquisition was funded by IAC and such funding has been recorded as a transfer from IAC within the statement of invested equity. Cornerstone Brands is included in HSNi's Cornerstone reporting segment. HSNi performed valuations of identifiable intangible assets acquired. This valuation identified $309.1 million of intangible assets other than goodwill. The goodwill recognized amounted to $456.4 million. The trade names acquired were identified as indefinite-lived intangible assets and $269.4 million was allocated to these assets. Intangibles with definite lives included customer lists ($31.4 million), existing technology ($4.1 million), vendor and supply agreements ($3.0 million) and intellectual property ($1.2 million) and are being amortized over a weighted-average period of 4.5 years. None of the amount allocated to goodwill is tax deductible. The purchase price paid for Cornerstone Brands was based on historical as well as expected performance metrics. HSNi viewed Cornerstone Brands' revenue, operating income, Operating Income Before Amortization, net income and cash flow as its most important valuation metrics. HSNi agreed to a purchase price that resulted in recognition of a significant amount of goodwill for a number of reasons including: Cornerstone Brands' market position and brands; Cornerstone Brands' business model which complements the business model of HSNi; growth opportunities in the markets in which Cornerstone Brands operates; and Cornerstone Brands' distinctly unique, proprietary and exclusive product lines which should enable HSNi to grow. As a result, a significant portion of the purchase price was based on the expected financial performance of Cornerstone Brands, and not the asset value on the books of Cornerstone Brands at the time of the acquisition.

**Pro Forma Results**

The following unaudited pro forma condensed combined financial information for the year ended December 31, 2005, is presented to show the results of HSNi to give effect to the acquisition of Cornerstone Brands completed on April 1, 2005 as if the transaction had occurred on January 1, 2005. The pro forma results include certain adjustments, including increased amortization related to intangible assets and compensation expense, and are not necessarily indicative of what the results would have been had the transaction actually occurred on the aforementioned date.

| | Year Ended December 31, 2005 |
|---|---|
| | (In thousands) |
| Revenue | $ 2,852,550 |
| Net income | 221,695 |

**NOTE 4—SFAS 123R AND STOCK-BASED COMPENSATION**

The equity awards described below principally relate to awards to HSNi employees that were granted under various IAC stock and annual incentive plans.

Effective January 1, 2006, HSNi adopted SFAS 123R using the modified prospective transition method and has applied the classification provisions of SAB 107 regarding the SEC's interpretation of SFAS 123R and the valuation of share-based payments for public companies in its adoption of SFAS 123R.

The adoption of SFAS 123R did not impact the amount of stock-based compensation expense recorded in the accompanying combined statements of operations as HSNi had previously adopted the

**NOTE 4—SFAS 123R AND STOCK-BASED COMPENSATION (Continued)**

expense recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"). On August 9, 2005, HSNi began recognizing expense for all stock-based compensation instruments granted prior to January 1, 2003 due to the modification of all such instruments in connection with the Expedia spin-off.

Prior to the adoption of SFAS 123R, the entire tax benefit from stock-based compensation was reported as a component of operating cash flows. Upon the adoption of SFAS 123R, tax benefits resulting from tax deductions in excess of the stock-based compensation expense recognized in the combined statement of operations are reported as a component of financing cash flows. For the years ended December 31, 2007 and 2006, excess tax benefits from stock-based compensation of $2.4 million and $2.3 million, respectively, are included as a component of financing cash flows. For the year ended December 31, 2005, excess tax benefits from stock-based compensation of $49.9 million is included as a component of operating cash flows.

Non-cash stock-based compensation expense related to equity awards is included in the following line items in the accompanying combined statements of operations for the years ended December 31, 2007, 2006 and 2005 (in thousands):

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Cost of sales | $ 937 | $ 755 | $ 524 |
| Selling and marketing expense | 1,025 | 1,117 | 1,143 |
| General and administrative expense | 10,189 | 9,867 | 12,057 |
| Production and programming expense | 9 | 7 | 1 |
| Non-cash stock-based compensation expense before income taxes | 12,160 | 11,746 | 13,725 |
| Income tax benefit | (4,434) | (4,017) | (4,322) |
| Non-cash stock-based compensation expense after income taxes | $ 7,726 | $ 7,729 | $ 9,403 |

The form of awards granted to HSNi employees are principally restricted stock units ("RSUs") and performance stock units ("PSUs"). RSUs and PSUs are awards in the form of phantom shares or units, denominated in a hypothetical equivalent number of shares of IAC common stock and with the value of each award equal to the fair value of IAC common stock at the date of grant. RSUs may be settled in cash, stock or both, as determined by IAC's Compensation Committee at the time of grant. All outstanding award agreements provide for settlement, upon vesting, in stock for U.S. employees and in cash for non-U.S. employees. Each RSU, PSU and restricted stock grant is subject to service-based vesting, where a specific period of continued employment must pass before an award vests, and certain grants also include performance-based vesting, where certain performance targets set at the time of grant must be achieved before an award vests. HSNi recognizes expense for all RSU, PSU and restricted stock for which vesting is considered probable. For RSUs and restricted stock grants to U.S. employees, the accounting charge is measured at the grant date as the fair value of IAC common stock and expensed ratably as non-cash compensation over the vesting term. For PSU grants to U.S. employees, the expense is measured at the grant date as the fair value of IAC common stock and expensed as non-cash compensation when the performance targets are considered probable of being achieved. The expense associated with RSU and PSU awards to non-U.S. employees is initially measured at fair value at the grant date and expensed ratably over the vesting term, subject to mark-to-market adjustments for changes in the price of IAC common stock, as compensation expense

**NOTE 4—SFAS 123R AND STOCK-BASED COMPENSATION (Continued)**

within general and administrative expense. The expense related to awards to international employees totaled $0.1 million, $0.2 million and $0.1 million for the years ended December 31, 2007, 2006 and 2005, respectively. Cash payments related to awards to international employees totaled $0.2 million, $0.2 million and $0.1 million for the years ended December 31, 2007, 2006 and 2005, respectively.

The amount of stock-based compensation expense recognized in the combined statement of operations is reduced by estimated forfeitures, as the amount recorded is based on awards ultimately expected to vest. The forfeiture rate is estimated at the grant date based on historical experience and revised, if necessary, in subsequent periods if the actual forfeiture rate differs from the estimated rate.

In connection with the Expedia spin-off, all of HSNi's outstanding share-based compensation were modified. Accordingly, on August 9, 2005, HSNi recorded a pre-tax modification charge of $3.5 million related to the treatment of vested stock options. In conjunction with the Expedia spin-off and the adoption of SFAS 123R, HSNi conducted an assessment of certain assumptions used in determining the expense related to stock-based compensation which was completed in the third quarter of 2005. The cumulative effect of a change in HSNi's estimate related to the number of stock-based awards that were expected to vest resulted in a reduction in stock-based compensation expense of $0.7 million. The after-tax effect of this change in estimate on net income was $0.4 million.

As of December 31, 2007, there was approximately $23.0 million of unrecognized compensation cost, net of estimated forfeitures, related to all equity-based awards. This cost is expected to be recognized over a weighted-average period of approximately 2.7 years. At December 31, 2007 there were less than 0.1 million awards outstanding to non-U.S. employees.

In connection with the acquisition of Cornerstone Brands by IAC in 2005 certain members of Cornerstone's Brands management were granted restricted common equity in Cornerstone Brands. These awards were granted on April 1, 2005 and were initially measured at fair value, which is being amortized to expense over the vesting period. These awards vest ratably over four years, or earlier based upon the occurrence of certain prescribed events. The awards vest in non-voting restricted common shares of Cornerstone Brands.

These shares are subject to a put right by the holders, which is not exercisable until the first quarter of 2010 and annually thereafter, and a call right by IAC, which is not exercisable until the first quarter of 2012 and annually thereafter. The value of these shares upon exercise of the put or call is equal to their fair market value, determined by negotiation or arbitration, reduced by the accreted value of the preferred interest that was taken by IAC upon the purchase of Cornerstone Brands. The initial value of the preferred interest was equal to the acquisition price of Cornerstone Brands. The preferred interest accretes value at a 15% annual rate. Upon exercise of the put or call the consideration is payable in IAC shares or cash or a combination thereof at IAC's option. As of December 31, 2007, these awards are significantly out of the money and are not expected to result in any value. Prior to the separation, this put and call arrangement will be modified so that the consideration payable in IAC's shares will be replaced with HSNi shares.

The unrecognized compensation cost related to these equity awards is $0.3 million at December 31, 2007.

## NOTE 5—GOODWILL AND INTANGIBLE ASSETS

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

| | December 31, 2007 | December 31, 2006 |
|---|---|---|
| Goodwill | $ 2,884,389 | $ 2,883,769 |
| Intangible assets with indefinite lives | 554,848 | 556,348 |
| Intangible assets with definite lives, net | 16,814 | 27,995 |
| Total goodwill and intangible assets, net | $ 3,456,051 | $ 3,468,112 |

Intangible assets with indefinite lives relate principally to trade names and trademarks acquired in various acquisitions. At December 31, 2007, intangible assets with definite lives relate to the following (in thousands):

| | Cost | Accumulated Amortization | Net | Weighted-Average Amortization Life (Years) |
|---|---|---|---|---|
| Distribution agreements | $ 159,268 | $ (159,268) | $ — | 4.1 |
| Customer lists | 36,773 | (22,468) | 14,305 | 4.7 |
| Merchandise agreements | 33,257 | (33,257) | — | 4.7 |
| Technology | 28,007 | (27,665) | 342 | 3.9 |
| Other | 7,409 | (5,242) | 2,167 | 8.5 |
| Total | $ 264,714 | $ (247,900) | $ 16,814 | |

At December 31, 2006, intangible assets with definite lives relate to the following (in thousands):

| | Cost | Accumulated Amortization | Net | Weighted-Average Amortization Life (Years) |
|---|---|---|---|---|
| Distribution agreements | $ 159,268 | $ (159,268) | $ — | 4.1 |
| Customer lists | 36,773 | (16,013) | 20,760 | 4.7 |
| Merchandise agreements | 33,257 | (30,865) | 2,392 | 4.7 |
| Technology | 28,007 | (26,298) | 1,709 | 3.9 |
| Other | 7,409 | (4,275) | 3,134 | 8.5 |
| Total | $ 264,714 | $ (236,719) | $ 27,995 | |

Amortization of intangible assets with definite lives is computed on a straight-line basis and, based on December 31, 2007 balances, such amortization for the next four years is estimated to be as follows (in thousands):

| Years Ending December 31, | |
|---|---|
| 2008 | $ 7,463 |
| 2009 | 6,844 |
| 2010 | 2,132 |
| 2011 | 375 |
| | $ 16,814 |

**NOTE 5—GOODWILL AND INTANGIBLE ASSETS (Continued)**

The following table presents the balance of goodwill by segment, including the changes in carrying amount of goodwill, for the year ended December 31, 2007 (in thousands):

| | Balance as of January 1, 2007 | Additions | (Deductions) | Balance as of December 31, 2007 |
|---|---|---|---|---|
| HSN | $ 2,390,330 | $ — | $ (133) | $ 2,390,197 |
| Cornerstone | 493,439 | 865 | (112) | 494,192 |
| Total | $ 2,883,769 | $ 865 | $ (245) | $ 2,884,389 |

The following table presents the balance of goodwill by segment, including the changes in carrying amount of goodwill, for the year ended December 31, 2006 (in thousands):

| | Balance as of January 1, 2006 | Additions | (Deductions) | Balance as of December 31, 2006 |
|---|---|---|---|---|
| HSN | $ 2,390,326 | $ 4 | $ — | $ 2,390,330 |
| Cornerstone | 499,908 | — | (6,469) | 493,439 |
| Total | $ 2,890,234 | $ 4 | $ (6,469) | $ 2,883,769 |

Deductions principally relate to a reduction in acquired tax liabilities and the income tax benefit realized pursuant to the exercise of stock options assumed in a business acquisition that were vested at the transaction date and are treated as a reduction in goodwill when the income tax deductions are realized.

**NOTE 6—PROPERTY AND EQUIPMENT**

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

| | December 31, | |
|---|---|---|
| | 2007 | 2006 |
| Capitalized software | $ 169,709 | $ 159,170 |
| Computer and broadcast equipment | 81,821 | 73,600 |
| Buildings and leasehold improvements | 72,815 | 65,098 |
| Furniture and other equipment | 58,058 | 51,487 |
| Projects in progress | 19,572 | 18,773 |
| Land | 11,778 | 11,617 |
| | 413,753 | 379,745 |
| Less: accumulated depreciation and amortization | (257,948) | (236,536) |
| Total property and equipment, net | $ 155,805 | $ 143,209 |

## NOTE 7—ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

| | December 31, | |
|---|---|---|
| | 2007 | 2006 |
| Accrued sales returns | $ 37,596 | $ 35,942 |
| Accrued cable and satellite distribution fees | 32,637 | 20,968 |
| Accrued fulfillment expenses | 25,624 | 21,945 |
| Accrued compensation and benefits | 15,502 | 17,544 |
| Other accrued expenses and current liabilities | 75,142 | 74,039 |
| Total accrued expenses and other current liabilities | $ 186,501 | $ 170,438 |

## NOTE 8—INCOME TAXES

HSNi is a member of IAC's consolidated federal and state tax returns. In all periods presented, current and deferred tax expense has been computed for HSNi on a separate return basis. HSNi's share of IAC's consolidated federal and state tax return liabilities have been reflected within cash flows from operating activities in the accompanying combined statements of cash flows.

The components of the provision for income taxes attributable to continuing operations are as follows (in thousands):

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| **Current income tax provision:** | | | |
| Federal | $ 68,969 | $ 85,370 | $ 93,678 |
| State | 7,388 | 9,122 | 11,577 |
| Current income tax provision | 76,357 | 94,492 | 105,255 |
| **Deferred income tax (benefit) provision:** | | | |
| Federal | (10,683) | (13,423) | (24,844) |
| State | (1,120) | (1,859) | (14,101) |
| Deferred income tax (benefit) | (11,803) | (15,282) | (38,945) |
| Income tax provision | $ 64,554 | $ 79,210 | $ 66,310 |

Current income taxes payable has been reduced by $2.4 million, $2.3 million and $49.9 million for the years ended December 31, 2007, 2006 and 2005, respectively, for tax deductions attributable to stock- based compensation. The related income tax benefits of this stock-based compensation were recorded as amounts charged or credited to invested capital or a reduction in goodwill.

The tax effects of cumulative temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2007 and 2006 are presented below (in

**NOTE 8—INCOME TAXES (Continued)**

thousands). The valuation allowance is related to items for which it is more likely than not that the tax benefit will not be realized.

| | December 31, | |
|---|---|---|
| | 2007 | 2006 |
| **Deferred tax assets:** | | |
| Provision for accrued expenses | $ 35,631 | $ 25,838 |
| Inventories | 14,916 | 10,628 |
| Investments in nonconsolidated subsidiaries | 6,665 | 7,224 |
| Stock-based compensation | 5,451 | 4,953 |
| Other | 2,997 | 821 |
| Total deferred tax assets | 65,660 | 49,464 |
| Less valuation allowance | (6,222) | (6,222) |
| Net deferred tax assets | 59,438 | 43,242 |
| **Deferred tax liabilities:** | | |
| Intangible and other assets | (840,938) | (844,042) |
| Prepaid expenses | (10,805) | (9,276) |
| Property and equipment | (3,058) | (3,631) |
| Total deferred tax liabilities | (854,801) | (856,949) |
| Net deferred tax liability | $ (795,363) | $ (813,707) |

At December 31, 2007, HSNi did not have any significant net operating loss carryforwards. At December 31, 2007, HSNi had a valuation allowance of approximately $6.2 million primarily related to unrealized capital losses for which it is more likely than not that the tax benefit will not be realized. There was no change in the valuation allowance for the year ended December 31, 2007.

A reconciliation of the income tax provision to the amounts computed by applying the statutory federal income tax rate to earnings from continuing operations before income taxes and minority interest is shown as follows (in thousands):

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Income tax provision at the federal statutory rate of 35% | $ 59,425 | $ 74,460 | $ 67,684 |
| State income taxes, net of effect of federal tax benefit | 4,182 | 4,721 | 6,031 |
| Change in state effective tax rate | — | — | (7,672) |
| Other, net | 947 | 29 | 267 |
| Income tax provision | $ 64,554 | $ 79,210 | $ 66,310 |

HSNi adopted the provisions of FIN 48 effective January 1, 2007. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The cumulative effect of the adoption resulted in a decrease of $0.2 million to invested capital. A

**NOTE 8—INCOME TAXES (Continued)**

reconciliation of the beginning and ending amount of unrecognized tax benefits, excluding interest, is as follows (in thousands):

| | | |
|---|---|---|
| Balance at January 1, 2007 | $ | 4,316 |
| Additions based on tax positions related to the current year | | 2,298 |
| Additions for tax positions of prior years | | 2,330 |
| Reductions for tax positions of prior years | | — |
| Settlements | | — |
| Balance at December 31, 2007 | $ | 8,944 |

As of January 1, 2007 and December 31, 2007, the unrecognized tax benefits, including interest, were $5.2 million and $11.7 million, respectively. Included in unrecognized tax benefits at December 31, 2007 is approximately $8.8 million for tax positions included in IAC's consolidated tax return filings. Included within "Receivables from IAC and subsidiaries" in the accompanying combined balance sheet at December 31, 2007 is approximately $11.6 million of unrecognized tax benefits and related interest that will remain a liability of IAC after the spin-off. Also included in unrecognized tax benefits at December 31, 2007 is approximately $8.8 million for tax positions which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility.

HSNi recognizes interest and, if applicable, penalties related to unrecognized tax benefits in income tax expense. Included in income tax expense from continuing operations for the year ended December 31, 2007 is $1.2 million, net of related deferred taxes of $0.7 million, for interest on unrecognized tax benefits. At January 1, 2007 and December 31, 2007 HSNi has accrued $0.9 million and $2.8 million, respectively for the payment of interest. There are no material accruals for penalties.

By virtue of previously filed separate company and consolidated tax returns with IAC, HSNi is routinely under audit by federal, state, local and foreign authorities in the area of income tax. These audits include questioning the timing and the amount of deductions and the allocation of income among various tax jurisdictions. Income taxes payable include amounts considered sufficient to pay assessments that may result from examination of prior year returns; however, the amount paid upon resolution of issues raised may differ from the amount provided. Differences between the reserves for tax contingencies and the amounts owed by HSNi are recorded in the period they become known.

The Internal Revenue Service ("IRS") is currently examining the IAC consolidated tax returns for the years ended December 31, 2001 through 2003, which includes the operations of HSNi. The statute of limitations for these years has been extended to December 31, 2008. Various IAC consolidated tax returns filed with state, local and foreign jurisdictions are currently under examination, the most significant of which are Florida, New York state and New York City, for various tax years after December 31, 2001. These examinations are expected to be completed by late 2008.

HSNi believes that it is reasonably possible that its unrecognized tax benefits could decrease by approximately $2.3 million within twelve months of the current reporting date due to the reversal of deductible temporary differences which will result in a corresponding increase in net deferred tax liabilities. An estimate of other changes in unrecognized tax benefits cannot be made, but are not expected to be significant.

## NOTE 9—SEGMENT INFORMATION

The overall concept that HSNi employs in determining its operating segments and related financial information is to present them in a manner consistent with how the chief operating decision maker and executive management view the businesses, how the businesses are organized as to segment management, and the focus of the businesses with regards to the types of products or services offered or the target market. HSNi has two operating segments, HSN and Cornerstone. Entities included in discontinued operations, as described in Note 1 and further in Note 10, are excluded from the below schedules except for the schedule of assets.

HSNi's primary metric is Operating Income Before Amortization, which is defined as operating income excluding, if applicable: (1) non-cash compensation expense and amortization of non-cash marketing, (2) amortization of intangibles and goodwill impairment, (3) pro forma adjustments for significant acquisitions and (4) one-time items. HSNi believes this measure is useful to investors because it represents the combined operating results from HSNi's segments, taking into account depreciation, which it believes is an ongoing cost of doing business, but excluding the effects of any other non-cash expenses. Operating Income Before Amortization has certain limitations in that it does not take into account the impact to HSNi's statement of operations of certain expenses, including non-cash compensation, amortization of non-cash marketing and acquisition-related accounting.

The following tables reconcile Operating Income Before Amortization to operating income for HSNi's reporting segments and to net income in total (in thousands):

| | Year Ended December 31, 2007 | | | | |
|---|---|---|---|---|---|
| | Operating Income Before Amortization | Non-Cash Compensation Expense | Amortization of Non-Cash Marketing | Amortization of Intangibles | Operating Income |
| HSN | $ 148,303 | $ (6,411) | $ (4,442) | $ (2,584) | $ 134,866 |
| Cornerstone | 50,771 | (5,749) | — | (10,097) | 34,925 |
| Total | $ 199,074 | $ (12,160) | $ (4,442) | $ (12,681) | 169,791 |
| Other expense, net | | | | | (4) |
| Earnings from continuing operations before income taxes | | | | | 169,787 |
| Income tax provision | | | | | (64,554) |
| Earnings from continuing operations | | | | | 105,233 |
| Gain on sale of discontinued operations, net of tax | | | | | 30,572 |
| Income from discontinued operations, net of tax | | | | | 28,999 |
| Net income | | | | | $ 164,804 |

**NOTE 9—SEGMENT INFORMATION (Continued)**

| | Year Ended December 31, 2006 | | | |
|---|---|---|---|---|
| | Operating Income Before Amortization | Non-Cash Compensation Expense | Amortization of Intangibles | Operating Income |
| HSN | $ 193,139 | $ (4,733) | $ (24,502) | $ 163,904 |
| Cornerstone | 66,027 | (7,013) | (9,722) | 49,292 |
| Total | $ 259,166 | $ (11,746) | $ (34,224) | 213,196 |
| Other expense, net | | | | (454) |
| Earnings from continuing operations before income taxes | | | | 212,742 |
| Income tax provision | | | | (79,210) |
| Earnings from continuing operations | | | | 133,532 |
| Loss from discontinued operations, net of tax | | | | (10,715) |
| Net income | | | | $ 122,817 |

| | Year Ended December 31, 2005 | | | |
|---|---|---|---|---|
| | Operating Income Before Amortization | Non-Cash Compensation Expense | Amortization of Intangibles | Operating Income |
| HSN | $ 220,013 | $ (8,110) | $ (52,109) | $ 159,794 |
| Cornerstone | 48,308 | (5,615) | (7,335) | 35,358 |
| Total | $ 268,321 | $ (13,725) | $ (59,444) | 195,152 |
| Other expense, net | | | | (1,765) |
| Earnings from continuing operations before income taxes | | | | 193,387 |
| Income tax provision | | | | (66,310) |
| Earnings from continuing operations | | | | 127,077 |
| Gain on sale of discontinued operations, net of tax | | | | 73,335 |
| Income from discontinued operations, net of tax | | | | 22,809 |
| Net income | | | | $ 223,221 |

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | (In thousands) | | |
| **Revenue:** | | | |
| HSN | $ 1,892,582 | $ 1,884,650 | $ 1,887,661 |
| Cornerstone | 1,016,091 | 994,621 | 783,743 |
| Inter-segment elimination | (431) | (1,317) | (453) |
| **Total** | $ 2,908,242 | $ 2,877,954 | $ 2,670,951 |

HSNi does not report revenue from external customers for each product or each group of similar products as it is impracticable to do so.

**NOTE 9—SEGMENT INFORMATION (Continued)**

| | December 31, 2007 | December 31, 2006 |
|---|---|---|
| | (In thousands) | |
| **Assets:** | | |
| HSN | $ 3,205,428 | $ 3,195,255 |
| Cornerstone | 1,011,923 | 981,976 |
| Discontinued operations | 3,280 | 280,936 |
| **Total** | $ 4,220,631 | $ 4,458,167 |

| | Years Ended December 31, 2007 | 2006 | 2005 |
|---|---|---|---|
| | (In thousands) | | |
| **Depreciation and amortization of intangibles and cable and satellite distribution fees:** | | | |
| HSN | $ 32,855 | $ 83,150 | $ 157,726 |
| Cornerstone | 19,055 | 17,912 | 13,066 |
| **Total** | $ 51,910 | $ 101,062 | $ 170,792 |

| | Years Ended December 31, 2007 | 2006 | 2005 |
|---|---|---|---|
| | (In thousands) | | |
| **Capital expenditures:** | | | |
| HSN | $ 34,288 | $ 23,415 | $ 25,998 |
| Cornerstone | 14,426 | 12,570 | 10,039 |
| **Total** | $ 48,714 | $ 35,985 | $ 36,037 |

HSNi maintains operations principally in the United States. Geographic information about the United States and international territories is presented below:

| | Years Ended December 31, 2007 | 2006 | 2005 |
|---|---|---|---|
| | (In thousands) | | |
| **Revenue** | | | |
| United States | $ 2,907,053 | $ 2,876,840 | $ 2,668,779 |
| All other countries | 1,189 | 1,114 | 2,172 |
| **Total** | $ 2,908,242 | $ 2,877,954 | $ 2,670,951 |

| | December 31, 2007 | December 31, 2006 |
|---|---|---|
| | (In thousands) | |
| **Long-lived assets (excluding goodwill and intangible assets):** | | |
| United States | $ 167,444 | $ 159,413 |
| All other countries | — | — |
| **Total** | $ 167,444 | $ 159,413 |

## NOTE 10—DISCONTINUED OPERATIONS

During the second quarter of 2006, Quiz TV Limited ceased operations. During the fourth quarter of 2006, iBuy was classified as held for sale and its assets were subsequently sold during the second quarter of 2007. Additionally, on June 19, 2007, HSNi sold HSE for approximately $216.5 million, which resulted in a pre-tax gain of $45.7 million and an after-tax gain of $30.6 million. The pre-tax gain included $22.8 million of foreign currency translation gains that were recognized into earnings at the time of the sale. In June 2005, HSNi sold its 48.6% ownership in EUVÍA for approximately $204.0 million, which resulted in a pre-tax gain of $127.1 million and an after-tax gain of $73.3 million. Accordingly, discontinued operations in the accompanying combined statements of operations include Quiz TV Limited, iBuy and HSE for all periods presented and EUVÍA through June 2, 2005.

The net revenue and net income (loss), net of the effect of any minority interest, for the aforementioned discontinued operations for the applicable periods were as follows (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Net revenue | $ 192,701 | $ 387,281 | $ 408,871 |
| Earnings (loss) before income taxes | $ 28,786 | $ (9,511) | $ 43,099 |
| Income tax benefit (provision) | 213 | (1,204) | (14,362) |
| Minority interest in income of consolidated subsidiaries | — | — | (5,928) |
| Net income (loss) | $ 28,999 | $ (10,715) | $ 22,809 |

Income from discontinued operations, net of tax, in 2007 primarily includes the income of HSE. Loss from discontinued operations, net of tax, in 2006 primarily includes the losses of iBuy and Quiz TV Limited, partially offset by the income of HSE. Income from discontinued operations, net of tax, in 2005 primarily includes the income of HSE and EUVÍA.

The assets and liabilities of HSE at December 31, 2006 have been classified in the accompanying combined balance sheet as "Assets held for sale" and "Liabilities held for sale." Such net assets held for sale consist of the following (in thousands):

| | December 31, 2006 |
|---|---|
| Current assets | $ 81,834 |
| Goodwill | 122,721 |
| Other non-current assets | 22,325 |
| Total assets held for sale | 226,880 |
| Current liabilities | (56,353) |
| Other long term liabilities | (7,992) |
| Total liabilities held for sale | (64,345) |
| Total net assets held for sale | $ 162,535 |

Cash flows from discontinued operations are presented separately in the accompanying combined statements of cash flows. HSNi does not expect future cash flows associated with existing discontinued operations to be material.

## NOTE 11—DERIVATIVE INSTRUMENTS

During the second quarter of 2003, one of HSNi's foreign subsidiaries entered into a five-year foreign exchange forward contract with a notional amount of $38.6 million, which was used to hedge against the change in value of a liability denominated in a currency other than the subsidiary's functional currency. This derivative contract was designated as a cash flow hedge for accounting purposes and foreign exchange remeasurement gains and losses related to the contract and liability were recognized each period in the statement of operations and were offsetting. In addition, the remaining effective portion of the derivative gain or loss was recorded in other comprehensive income until the derivative liability was extinguished in June 2007 in connection with the sale of HSE. Subsequent to the sale of HSE, HSNi does not have any significant exposure to foreign currency risk and does not hold any derivative instruments at December 31, 2007.

## NOTE 12—COMMITMENTS

HSNi leases satellite transponders, computers, warehouse and office space, equipment and services used in connection with its operations under various operating leases, many of which contain escalation clauses.

Future minimum payments under operating lease agreements are as follows (in thousands):

| Years Ending December 31, | |
|---|---|
| 2008 | $ 29,832 |
| 2009 | 25,482 |
| 2010 | 23,222 |
| 2011 | 17,218 |
| 2012 | 15,302 |
| Thereafter | 20,115 |
| Total | $ 131,171 |

Expenses charged to operations under these agreements were $29.3 million, $28.7 million and $25.1 million for the years ended December 31, 2007, 2006 and 2005, respectively.

HSNi also has funding commitments that could potentially require its performance in the event of demands by third parties or contingent events, as follows (in thousands):

| | Amount of Commitment Expiration Per Period | | | | |
|---|---|---|---|---|---|
| | Total Amounts Committed | Less Than 1 Year | 1-3 Years | 3-5 Years | More Than 5 Years |
| Letters of credit and surety bonds | $ 25,390 | $ 25,078 | $ — | $ 312 | $ — |
| Purchase obligations | 135,023 | 43,871 | 80,698 | 10,454 | — |
| Total commercial commitments | $ 160,413 | $ 68,949 | $ 80,698 | $ 10,766 | $ — |

The letters of credit ("LOCs") primarily consist of trade LOCs, which are used for inventory purchases. Trade LOCs are guarantees of payment based upon the delivery of goods. The surety bonds primarily consist of customs bonds, which relate to the import of merchandise into the United States.

**NOTE 12—COMMITMENTS (Continued)**

The purchase obligations primarily relate to cable contracts and include obligations for future cable distribution and commission guarantees.

**NOTE 13—CONTINGENCIES**

In the ordinary course of business, HSNi is a party to various lawsuits. HSNi establishes reserves for specific legal matters when it determines that the likelihood of an unfavorable outcome is probable and the loss is reasonably estimable. Management has also identified certain other legal matters where it believes an unfavorable outcome is not probable and, therefore, no reserve is established. Although management currently believes that an unfavorable resolution of claims against HSNi, including claims where an unfavorable outcome is reasonably possible, will not have a material impact on the liquidity, results of operations, or financial condition of HSNi, these matters are subject to inherent uncertainties and management's view of these matters may change in the future. HSNi also evaluates other contingent matters, including tax contingencies, to assess the probability and estimated extent of potential loss. See Note 8 for discussion related to income tax contingencies.

**NOTE 14—FINANCIAL INSTRUMENTS**

| | December 31, 2007 | | December 31, 2006 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | (In thousands) | | | |
| Cash and cash equivalents | $ 6,220 | $ 6,220 | $ 53,367 | $ 53,367 |
| Accounts receivable, net | 192,609 | 192,609 | 158,416 | 158,416 |
| Letters of credit and surety bonds | N/A | (25,390) | N/A | (29,537) |

The carrying amount of cash and cash equivalents reflected in the accompanying combined balance sheets approximate fair value as they are maintained at high quality financial institutions. The majority of HSNi's receivables result from the Flexpay program, which is further described in Note 2 to the combined financial statements. These receivables approximate fair value as they are short-term in nature and are generally settled within two to six months after the sale.

**NOTE 15—SUPPLEMENTAL CASH FLOW INFORMATION**

**Supplemental Disclosure of Non-Cash Transactions for 2007**

On June 19, 2007, in consideration for the sale of HSE to Arcandor AG ("ARO"), formerly known as KarstadtQuelle AG, HSNi received approximately 5.5 million shares of ARO stock valued at €141 million (the "ARO Shares"), plus additional consideration in the form of a contingent value right, that has a value of up to €54 million within three years. In accordance with the terms of the spin-off, the ARO Shares and the contingent value right were transferred to IAC in 2007. This transfer totaled approximately $217.2 million, of which $190.1 million related to the ARO Shares and $27.1 million related to the contingent value right, and is included in "Net transfers to IAC" in the accompanying combined statements of invested equity.

**NOTE 15—SUPPLEMENTAL CASH FLOW INFORMATION (Continued)**

**Supplemental Disclosure of Cash Flow Information:**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | (In thousands) | | |
| Cash paid during the period for: | | | |
| Income tax payments including amounts paid to IAC for HSNi's share of IAC's consolidated tax liability | $ 84,516 | $ 94,383 | $ 130,396 |
| Income tax refunds | (761) | (3,176) | (665) |

**NOTE 16—RELATED PARTY TRANSACTIONS**

HSNi's expenses include allocations from IAC of costs associated with IAC's accounting, treasury, legal, tax, corporate support, human resources and internal audit functions. These expenses were allocated based on the ratio of HSNi's revenue as a percentage of IAC's total revenue. Allocated costs were $8.1 million, $6.8 million and $7.2 million in 2007, 2006 and 2005, respectively, and are included in "General and administrative expense" in the accompanying combined statements of operations. It is not practicable to determine the amounts of these expenses that would have been incurred had HSNi operated as an unaffiliated entity. In the opinion of management, the allocation method is reasonable.

During 2007, IAC provided HSNi with non-cash advertising totaling $4.4 million. See the amortization of non-cash marketing discussion in Note 2 for a further description of this arrangement.

In accordance with the terms of the spin-off, HSNi transferred its investment in ARO stock and related derivative asset to IAC. See Note 15 for a further description of this transfer.

The portion of the interest expense reflected in the combined statements of operations that is intercompany in nature was $1.7 million, $2.4 million and $1.8 million for the years ended December 31, 2007, 2006 and 2005, respectively. This intercompany interest expense, which is included in discontinued operations, arose from the transfer of cash from IAC to HSNi that occurred in connection with IAC's treasury operations.

An analysis of HSNi's receivables from IAC and subsidiaries is as follows (in thousands):

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Receivables from IAC and subsidiaries, beginning of year | $ 1,483,873 | $ 1,305,373 | $ 358,947 |
| Cash transfers to IAC related to its centrally managed U.S. treasury function | 193,742 | 252,587 | 1,017,439 |
| Interest expense | (1,728) | (2,428) | (1,793) |
| Employee equity instruments and associated tax withholdings | 4,408 | 4,225 | 1,598 |
| Taxes (excludes tax withholdings associated with employee equity instruments) | (9,788) | (1,269) | (3,486) |
| Goodwill | — | (15) | (9,590) |
| Amortization of non-cash marketing | (4,442) | — | — |
| Allocation of non-cash compensation expense | (11,850) | (11,246) | (13,312) |
| Administrative expenses and other | (73,058) | (63,354) | (44,430) |
| Receivables from IAC and subsidiaries, end of year | $ 1,581,157 | $ 1,483,873 | $ 1,305,373 |

**NOTE 16—RELATED PARTY TRANSACTIONS (Continued)**

HSNi launched a co-branded credit card program with a subsidiary of GE during 2004. Pursuant to the arrangement, HSNi received approximately $1.9 million during the period from January 1, 2005 through June 6, 2005 in payments from the GE subsidiary, primarily in the form of revenue share payments in respect of purchases made pursuant to the co-branded card and sales and marketing support for the program. As a result of the sale of IAC's common and preferred interests in VUE on June 7, 2005, GE and its subsidiaries are no longer related parties.

In 2007, a subsidiary of HSNi made payments to a subsidiary of Warner Music Group in the aggregate amount of approximately $0.4 million for music products. Warner Music Group is a related party of IAC because Mr. Edgar Bronfman, a member of the IAC Board of Directors, is the Chief Executive Officer of Warner Music Group.

**Relationship Between IAC and HSNi after the spin-off**

For purposes of governing certain of the ongoing relationships between HSNi and IAC at and after the spin-off, and to provide for an orderly transition, HSNi and IAC are expected to enter into a separation agreement, a tax sharing agreement, an employee matters agreement and a transition services agreement (the "Spin-Off Agreements"), among other agreements.

***Separation Agreement***

The separation agreement is expected to provide generally that (i) immediately prior to the spin-off, IAC will contribute or otherwise transfer to HSNi all of the subsidiaries and assets comprising the HSNi Businesses, (ii) HSNi will assume all of the liabilities related to the HSNi Businesses, (iii) each party will indemnify the other and its respective affiliates, current and former directors, officers and employees for any losses arising out of any breach of any of the Spin-Off Agreements and (iv) HSNi will indemnify IAC for its failure to assume and perform any assumed liabilities and any liabilities relating to HSNi financial and business information included in the SEC documentation filed with respect to the spin-off, as well as such other terms as to which IAC and HSNi mutually agree.

***Tax Sharing Agreement***

The tax sharing agreement will govern the respective rights, responsibilities and obligations of IAC and HSNi after the spin-off with respect to taxes for the periods ending on or before the spin-off. Generally, IAC will pay taxes with respect to HSNi income included on its consolidated, unitary or combined federal or state tax returns, including audit adjustments with respect thereto. Other pre-distribution taxes that are attributable to the HSNi Businesses including taxes reported on separately filed and all foreign returns and audit adjustments with respect thereto, will be borne solely by HSNi. The tax sharing agreement is expected to contain certain customary restrictive covenants that generally prohibit HSNi (absent a supplemental IRS ruling or an unqualified opinion of counsel to the contrary, in each case, in a form and substance satisfactory acceptable to IAC in its sole discretion) from taking actions that could jeopardize the tax free nature of the spin-off. HSNi is expected to agree to indemnify IAC for any taxes and related losses resulting from its non-compliance with these restrictive covenants, as well as for the breach of certain representations in the Spin-Off Agreements and other documentation relating to the tax-free nature of the spin-off.

**NOTE 16—RELATED PARTY TRANSACTIONS (Continued)**

***Employee Matters Agreement***

The employee matters agreement will generally provide that HSNi will be responsible for, among other obligations, all employment and benefit-related obligations and liabilities related to its employees immediately prior to the spin-off (and their dependents and beneficiaries) and former employees who most recently worked for the HSNi Businesses. This agreement is also expected to provide that assets and liabilities from the IAC Retirement Savings Plan of HSNi employees will be transferred to a newly established HSNi Retirement Savings Plan as soon as practicable following the spin-off.

***Transition Services Agreement***

Under the transition services agreement, beginning on the date of the completion of the spin-off, IAC will provide to HSNi on an interim, transitional basis, various services, which are expected to relate primarily to public company and operational matters, and such other services as to which IAC and HSNi mutually agree. The agreed upon charges for these services will generally allow IAC to recover fully the allocated costs of providing the services, plus all out-of-pocket costs and expenses. HSNi may terminate the agreement with respect to one or more particular services upon prior written notice.

***Commercial Agreements***

IAC and HSNi currently, and for the foreseeable future, expect to provide certain services to each other pursuant to certain commercial relationships. In connection with the spin-off, IAC and HSNi will enter into a number of commercial agreements between subsidiaries of IAC, on the one hand, and subsidiaries of HSNi, on the other hand, many of which will memorialize (in most material respects) pre-existing arrangements in effect prior to the spin-off and all of which are intended to reflect arm's length terms. In addition, IAC and HSNi believe that such agreements, whether taken individually or in the aggregate, do not constitute a material contract to either IAC or HSNi.

Aggregate revenue earned with respect to these commercial agreements by the HSNi Businesses was not material in 2007, 2006 and 2005. HSNi Businesses incurred approximately $1.8 million, $1.3 million and $0.3 million in 2007, 2006 and 2005, respectively, in expenses related to these commercial agreements with IAC subsidiaries.

**NOTE 17—COMPREHENSIVE INCOME**

Accumulated other comprehensive income, net of tax, is comprised of (in thousands):

| | December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Foreign currency translation | $ 1,170 | $ 36,215 | $ 19,774 |
| Net gains (losses) on derivative contracts | — | 2,355 | (1,964) |
| Accumulated other comprehensive income | $ 1,170 | $ 38,570 | $ 17,810 |

## NOTE 18—BENEFIT PLANS

During the three years ended December 31, 2007, HSNi either participated in a retirement savings plan sponsored by IAC or had a retirement savings plan in the United States that was qualified under Section 401(k) of the Internal Revenue Code. Subsequent to the spin-off, the net assets available for benefits of the employees of HSNi are expected to be transferred from the IAC plan to a newly created HSNi plan. Under the IAC plan, participating employees may contribute up to 16% of their pretax earnings, but not more than statutory limits. HSNi's match under the IAC plan is fifty cents for each dollar a participant contributes in this plan, with a maximum contribution of 3% of a participant's eligible earnings. Matching contributions for all plans were approximately $4.4 million, $4.1 million and $3.1 million in 2007, 2006, and 2005, respectively. The increase in matching contributions in 2006 is primarily related to the acquisition of Cornerstone Brands in 2005. Matching contributions are invested in the same manner as each participant's voluntary contributions in the investment options provided under the plan. Investment options in the plan include IAC common stock, but neither participant nor matching contributions are required to be invested in IAC common stock.

## NOTE 19—QUARTERLY RESULTS (UNAUDITED)

| | Quarter Ended March 31, | Quarter Ended June 30, (a) | Quarter Ended September 30, | Quarter Ended December 31, |
|---|---|---|---|---|
| | (In thousands) | | | |
| **Year Ended December 31, 2007** | | | | |
| Revenue | $ 666,705 | $ 681,506 | $ 680,763 | $ 879,268 |
| Gross margin | 247,999 | 260,032 | 256,295 | 323,868 |
| Operating income | 30,147 | 29,763 | 36,428 | 73,453 |
| Earnings from continuing operations | 18,652 | 18,420 | 22,590 | 45,571 |
| (Loss) income from discontinued operations, net of tax | (1,566) | 56,186 | (5,934) | 10,885 |
| Net income | 17,086 | 74,606 | 16,656 | 56,456 |
| **Year Ended December 31, 2006** | | | | |
| Revenue | $ 665,587 | $ 682,349 | $ 671,753 | $ 858,265 |
| Gross margin | 254,846 | 271,479 | 258,190 | 328,236 |
| Operating income | 38,670 | 45,053 | 48,724 | 80,749 |
| Earnings from continuing operations | 24,263 | 28,176 | 30,489 | 50,604 |
| Income (loss) from discontinued operations, net of tax | 469 | (7,934) | (3,963) | 713 |
| Net income | 24,732 | 20,242 | 26,526 | 51,317 |

(a) The second quarter of 2007 includes an after-tax gain of $34.8 million related to the sale of HSE, IAC's former Retailing International segment.

## HSN, INC. AND SUBSIDIARIES
## VALUATION AND QUALIFYING ACCOUNTS

| Description | Balance at Beginning of Period | Charges to Earnings | Charges to Other Accounts | Deductions | Balance at End of Period |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| **2007** | | | | | |
| Allowance for doubtful accounts | $ 5,994 | $ 14,598 | $ (23) | $ (12,457)(1) | $ 8,112 |
| Sales returns accrual | 35,942 | 592,679 | — | (591,025) | 37,596 |
| Deferred tax valuation allowance | 6,222 | — | — | — | 6,222 |
| Other reserves | 971 | | | | 331 |
| **2006** | | | | | |
| Allowance for doubtful accounts | $ 8,329 | $ 10,734 | $ (147) | $ (12,922)(1) | $ 5,994 |
| Sales returns accrual | 34,462 | 559,990 | — | (558,510) | 35,942 |
| Deferred tax valuation allowance | 6,222 | — | — | — | 6,222 |
| Other reserves | 1,271 | | | | 971 |
| **2005** | | | | | |
| Allowance for doubtful accounts | $ 10,194 | $ 10,793 | $ 2,120(2) | $ (14,778)(1) | $ 8,329 |
| Sales returns accrual | 25,760 | 488,510 | 4,997(2) | (484,805) | 34,462 |
| Deferred tax valuation allowance | 6,222 | — | — | — | 6,222 |
| Other reserves | 2,188 | | | | 1,271 |

(1) Write-off of uncollectible accounts receivable.

(2) Amounts are primarily related to the acquisition of Cornerstone Brands in 2005.

**HSN, INC. AND SUBSIDIARIES**

**COMBINED STATEMENTS OF OPERATIONS**

**(Unaudited)**

| | Three Months Ended March 31, | |
|---|---|---|
| | **2008** | **2007** |
| | (In thousands) | |
| Revenue | $ 676,886 | $ 666,705 |
| Cost of sales (exclusive of depreciation shown separately below) | 441,402 | 418,706 |
| Gross margin | 235,484 | 247,999 |
| Selling and marketing expense | 136,750 | 136,453 |
| General and administrative expense | 54,374 | 53,966 |
| Production and programming expense | 14,343 | 14,880 |
| Amortization of non-cash marketing | 3,715 | — |
| Amortization of intangibles | 2,198 | 4,085 |
| Depreciation | 9,026 | 8,468 |
| Operating income | 15,078 | 30,147 |
| Other income (expense): | | |
| Interest income | 15 | 69 |
| Other expense | — | (108) |
| Total other income (expense), net | 15 | (39) |
| Earnings from continuing operations before income taxes | 15,093 | 30,108 |
| Income tax provision | (5,687) | (11,456) |
| **Earnings from continuing operations** | 9,406 | 18,652 |
| Loss from discontinued operations, net of tax | (1,060) | (1,566) |
| **Net income** | $ 8,346 | $ 17,086 |

The accompanying Notes to Combined Financial Statements are an integral part of these statements.

**HSN, INC. AND SUBSIDIARIES**

**COMBINED BALANCE SHEETS**

| | March 31, 2008 | December 31, 2007 |
|---|---|---|
| | (unaudited) | (audited) |
| | (In thousands) | |
| **ASSETS** | | |
| Cash and cash equivalents | $ 8,017 | $ 6,220 |
| Accounts receivable, net of allowance of $9,194 and $8,112, respectively | 159,048 | 192,609 |
| Inventories | 335,806 | 317,411 |
| Deferred income taxes | 24,221 | 24,606 |
| Prepaid expenses and other current assets | 55,713 | 55,182 |
| Total current assets | 582,805 | 596,028 |
| Property and equipment, net | 152,168 | 155,805 |
| Goodwill | 2,884,389 | 2,884,389 |
| Intangible assets, net | 569,464 | 571,662 |
| Other non-current assets | 11,503 | 12,747 |
| **TOTAL ASSETS** | $ 4,200,329 | $ 4,220,631 |
| **LIABILITIES AND INVESTED EQUITY** | | |
| **LIABILITIES:** | | |
| Accounts payable, trade | $ 220,684 | $ 260,531 |
| Income taxes payable | 666 | 1,811 |
| Accrued expenses and other current liabilities | 161,220 | 186,501 |
| Total current liabilities | 382,570 | 448,843 |
| Other long-term liabilities | 8,832 | 8,933 |
| Deferred income taxes | 822,556 | 819,969 |
| Commitments and contingencies | | |
| **INVESTED EQUITY:** | | |
| Invested capital | 4,530,799 | 4,522,873 |
| Receivables from IAC and subsidiaries | (1,545,670) | (1,581,157) |
| Accumulated other comprehensive income | 1,242 | 1,170 |
| Total invested equity | 2,986,371 | 2,942,886 |
| **TOTAL LIABILITIES AND INVESTED EQUITY** | $ 4,200,329 | $ 4,220,631 |

The accompanying Notes to Combined Financial Statements are an integral part of these statements.

**HSN, INC. AND SUBSIDIARIES**
**COMBINED STATEMENTS OF INVESTED EQUITY**
**(Unaudited)**

| | Total | Invested Capital | Receivables from IAC and Subsidiaries | Accumulated Other Comprehensive Income |
|---|---|---|---|---|
| | | (In thousands) | | |
| **Balance as of December 31, 2007** | $ 2,942,886 | $ 4,522,873 | $ (1,581,157) | $ 1,170 |
| Comprehensive income: | | | | |
| Net income for the three months ended March 31, 2008 | 8,346 | 8,346 | — | — |
| Foreign currency translation | 72 | — | — | 72 |
| Comprehensive income | 8,418 | | | |
| Net transfers to IAC | (420) | (420) | — | — |
| Net change in receivables from IAC and subsidiaries | 35,487 | — | 35,487 | — |
| **Balance as of March 31, 2008** | $ 2,986,371 | $ 4,530,799 | $ (1,545,670) | $ 1,242 |

The accompanying Notes to Combined Financial Statements are an integral part of these statements.

HSN, INC. AND SUBSIDIARIES

COMBINED STATEMENTS OF CASH FLOWS

(Unaudited)

| | Three Months Ended March 31, 2008 | Three Months Ended March 31, 2007 |
|---|---|---|
| | (In thousands) | |
| **Cash flows from operating activities attributable to continuing operations:** | | |
| Net income | $ 8,346 | $ 17,086 |
| Less: loss from discontinued operations, net of tax | 1,060 | 1,566 |
| **Earnings from continuing operations** | 9,406 | 18,652 |
| Adjustments to reconcile earnings from continuing operations to net cash used in operating activities attributable to continuing operations: | | |
| Amortization of intangibles | 2,198 | 4,085 |
| Depreciation | 9,026 | 8,468 |
| Non-cash compensation expense | 3,040 | 3,035 |
| Amortization of cable and satellite distribution fees | 1,120 | 1,241 |
| Amortization of non-cash marketing | 3,715 | — |
| Deferred income taxes | 2,972 | (2,095) |
| Bad debt expense | 4,596 | 2,389 |
| Inventory carrying value adjustment | (3,831) | 2,588 |
| Changes in current assets and liabilities: | | |
| Accounts receivable | 28,964 | 20,215 |
| Inventories | (14,564) | (30,577) |
| Prepaid expenses and other current assets | (525) | (11,272) |
| Accounts payable and other current liabilities | (65,744) | (56,839) |
| Income taxes payable | (1,604) | (194) |
| Other, net | 446 | 1,134 |
| **Net cash used in operating activities attributable to continuing operations** | (20,785) | (39,170) |
| **Cash flows from investing activities attributable to continuing operations:** | | |
| Transfers from IAC | 28,280 | 43,104 |
| Capital expenditures | (6,629) | (8,183) |
| Other, net | — | 67 |
| **Net cash provided by investing activities attributable to continuing operations** | 21,651 | 34,988 |
| **Cash flows from financing activities attributable to continuing operations:** | | |
| Principal payments on long-term obligations | (30) | — |
| Excess tax benefits from stock-based awards | 5 | 1,152 |
| **Net cash (used in) provided by financing activities attributable to continuing operations** | (25) | 1,152 |
| **Total cash provided by (used in) by continuing operations** | 841 | (3,030) |
| Net cash provided by operating activities attributable to discontinued operations | 751 | 7,945 |
| Net cash used in investing activities attributable to discontinued operations | — | (1,459) |
| Net cash provided by financing activities attributable to discontinued operations | 925 | 4,208 |
| **Total cash provided by discontinued operations** | 1,676 | 10,694 |
| Effect of exchange rate changes on cash and cash equivalents | (720) | 1,248 |
| **Net increase in cash and cash equivalents** | 1,797 | 8,912 |
| Cash and cash equivalents at beginning of period | 6,220 | 53,367 |
| **Cash and cash equivalents at end of period** | $ 8,017 | $ 62,279 |

The accompanying Notes to Combined Financial Statements are an integral part of these statements.

## NOTE 1—ORGANIZATION

### Spin-Off

On November 5, 2007, IAC/InterActiveCorp ("IAC") announced that its Board of Directors approved a plan to separate IAC into five publicly traded companies, identifying HSN, Inc. ("HSNi") as one of those five companies. In these combined financial statements, we refer to the separation transaction as the "spin-off." In connection with the spin-off, HSNi was incorporated as a Delaware corporation in May 2008. HSNi currently does not have any material assets or liabilities, nor does it engage in any business or other activities and, other than in connection with the spin-off, will not acquire or incur any material assets or liabilities, nor will it engage in any business or other activities. Upon completion of the spin-off, HSNi will consist of HSN and Cornerstone, the businesses that formerly comprised IAC's Retailing segment. HSN consists of the HSN television network and *HSN.com*, and Cornerstone includes the Cornerstone Brands portfolio of leading print catalogs and related websites, as well as a limited number of retail stores. HSNi will not include the equity investment in Jupiter Shop Channel, the investment in Arcandor AG and the related contingent value right. The businesses to be operated by HSNi following the spin-off are referred to herein as the "HSNi Businesses." HSNi will also include the entities classified as discontinued operations in Note 6.

### Basis of Presentation

The historical combined financial statements of HSNi and its subsidiaries reflect the contribution or other transfer to HSNi of all of the subsidiaries and assets and the assumption by HSNi of all of the liabilities relating to the HSNi Businesses in connection with the spin-off and the allocation to HSNi of certain IAC corporate expenses relating to the HSNi Businesses. Accordingly, the historical combined financial statements of HSNi reflect the historical financial position, results of operations and cash flows of the HSNi Businesses since their respective dates of acquisition by IAC, based on the historical consolidated financial statements and accounting records of IAC and using the historical results of operations and historical bases of the assets and liabilities of the HSNi Businesses with the exception of accounting for income taxes. For purposes of these financial statements, income taxes have been computed for HSNi on an as if stand-alone, separate tax return basis. These financial statements are prepared on a combined, rather than a consolidated, basis because they exclude certain investments and assets that were owned, either directly or indirectly, by legal entities that comprise the HSNi Businesses. The ownership of these investments and assets will be retained by IAC after the spin-off. These combined financial statements present IAC's and its subsidiaries net investment in the HSNi Businesses as invested equity in lieu of shareholders' equity. Intercompany transactions and accounts have been eliminated.

In the opinion of HSNi's management, the assumptions underlying the historical combined financial statements of HSNi are reasonable. However, this financial information does not necessarily reflect what the historical financial position, results of operations and cash flows of HSNi would have been had HSNi been a stand-alone company during the periods presented.

The accompanying unaudited combined financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of HSNi's management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Interim results are not necessarily indicative of the results that may be expected for a full year. The accompanying unaudited combined financial statements should be read in conjunction with HSNi's audited combined financial statements and notes thereto for the year ended December 31, 2007.

**Company Overview**

HSNi markets and sells a wide range of third party and private label merchandise directly to consumers through (i) television home shopping programming broadcast on the HSN television network, (ii) catalogs, which consist primarily of the Cornerstone Brands portfolio of leading print catalogs which includes Frontgate, Garnet Hill, Ballard Designs, Improvements, Smith & Noble, The Territory Ahead and TravelSmith and (iii) websites, which consist primarily of *HSN.com* and branded websites operated by Cornerstone Brands. HSNi's television home shopping business and related internet commerce is referred to herein as "HSN" and all catalog operations, including related internet commerce, are collectively referred to herein as "Cornerstone."

HSN offerings primarily consist of jewelry, apparel & accessories, health & beauty and home & other. Merchandise offered by Cornerstone primarily consists of home furnishings (including indoor/outdoor furniture, window treatments and other home related goods) and apparel & accessories.

**NOTE 2—SIGNIFICANT ACCOUNTING POLICIES**

**Accounting Estimates**

HSNi's management is required to make certain estimates and assumptions during the preparation of the combined financial statements in accordance with U.S. generally accepted accounting principles. These estimates and assumptions impact the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the combined 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 combined financial statements include: the determination of the lower of cost or market adjustment for inventory; sales returns and other revenue allowances; the allowance for doubtful accounts; the recoverability of long-lived assets; the recovery of goodwill and intangible assets; the determination of deferred income taxes, including related valuation allowances; and assumptions related to the determination of stock-based compensation.

**Recent Accounting Pronouncements**

In December 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51" ("SFAS No. 160"). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. The Statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. SFAS No. 160 will be applied prospectively, except as it relates to disclosures, for

**NOTE 2—SIGNIFICANT ACCOUNTING POLICIES (Continued)**

which the effects will be applied retrospectively for all periods presented. Early adoption is not permitted. HSNi is currently assessing the impact of SFAS No. 160 on its combined financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS No. 141R"), which replaces FASB Statement No. 141. SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. The Statement also establishes disclosure requirements that will enable users to evaluate the nature and financial effects of the business combination. SFAS No. 141R applies prospectively to business combinations in fiscal years beginning after December 15, 2008. Early adoption is not permitted. HSNi is currently assessing the impact of the adoption of SFAS No. 141R on its combined financial position, results of operations and cash flows.

**NOTE 3—GOODWILL AND INTANGIBLE ASSETS**

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

| | March 31, 2008 | December 31, 2007 |
|---|---|---|
| Goodwill | $ 2,884,389 | $ 2,884,389 |
| Intangible assets with indefinite lives | 554,848 | 554,848 |
| Intangible assets with definite lives, net | 14,616 | 16,814 |
| Total goodwill and intangible assets, net | $ 3,453,853 | $ 3,456,051 |

Intangible assets with indefinite lives relate principally to trade names and trademarks acquired in various acquisitions. At March 31, 2008, intangible assets with definite lives relate to the following (in thousands):

| | Cost | Accumulated Amortization | Net | Weighted Average Amortization Life (Years) |
|---|---|---|---|---|
| Distribution agreements | $ 159,268 | $ (159,268) | $ — | 4.1 |
| Customer lists | 36,773 | (24,082) | 12,691 | 4.7 |
| Merchandise agreements | 33,257 | (33,257) | — | 4.7 |
| Technology | 28,007 | (28,007) | — | 3.9 |
| Other | 7,409 | (5,484) | 1,925 | 8.5 |
| Total | $ 264,714 | $ (250,098) | $ 14,616 | |

## NOTE 3—GOODWILL AND INTANGIBLE ASSETS (Continued)

At December 31, 2007, intangible assets with definite lives relate to the following (in thousands):

| | Cost | Accumulated Amortization | Net | Weighted Average Amortization Life (Years) |
|---|---|---|---|---|
| Distribution agreements | $ 159,268 | $ (159,268) | $ — | 4.1 |
| Customer lists | 36,773 | (22,468) | 14,305 | 4.7 |
| Merchandise agreements | 33,257 | (33,257) | — | 4.7 |
| Technology | 28,007 | (27,665) | 342 | 3.9 |
| Other | 7,409 | (5,242) | 2,167 | 8.5 |
| Total | $ 264,714 | $ (247,900) | $ 16,814 | |

Amortization of intangible assets with definite lives is computed on a straight-line basis and, based on December 31, 2007 balances, such amortization for the next four years is estimated to be as follows (in thousands):

| Years Ending December 31, | |
|---|---|
| 2008 | $ 7,463 |
| 2009 | 6,844 |
| 2010 | 2,132 |
| 2011 | 375 |
| | $ 16,814 |

## NOTE 4—PROPERTY AND EQUIPMENT

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

| | March 31, 2008 | December 31, 2007 |
|---|---|---|
| Capitalized software | $ 174,407 | $ 169,709 |
| Computer and broadcast equipment | 83,100 | 81,821 |
| Buildings and leasehold improvements | 75,530 | 72,815 |
| Furniture and other equipment | 59,789 | 58,058 |
| Projects in progress | 13,873 | 19,572 |
| Land | 11,778 | 11,778 |
| | 418,477 | 413,753 |
| Less: accumulated depreciation and amortization | (266,309) | (257,948) |
| Total property and equipment, net | $ 152,168 | $ 155,805 |

## NOTE 5—SEGMENT INFORMATION

The overall concept that HSNi employs in determining its operating segments and related financial information is to present them in a manner consistent with how the chief operating decision maker and executive management view the businesses, how the businesses are organized as to segment

**NOTE 5—SEGMENT INFORMATION (Continued)**

management, and the focus of the businesses with regards to the types of products or services offered or the target market. HSNi has two operating segments, HSN and Cornerstone. Entities included in discontinued operations, as described in Note 6, are excluded from the schedules below.

HSNi's primary metric is Operating Income Before Amortization, which is defined as operating income excluding, if applicable: (1) non-cash compensation expense and amortization of non-cash marketing, (2) amortization of intangibles and goodwill impairment, (3) pro forma adjustments for significant acquisitions, and (4) one-time items. HSNi believes this measure is useful to investors because it represents the combined operating results from HSNi's segments, taking into account depreciation, which it believes is an ongoing cost of doing business, but excluding the effects of any other non-cash expenses. Operating Income Before Amortization has certain limitations in that it does not take into account the impact to HSNi's statement of operations of certain expenses, including non-cash compensation, amortization of non-cash marketing and acquisition-related accounting.

The following tables reconcile Operating Income Before Amortization to operating income for HSNi's operating segments and to net income in total (in thousands):

| | For the Three Months Ended March 31, 2008: | | | | |
|---|---|---|---|---|---|
| | Operating Income Before Amortization | Non-Cash Compensation Expense | Amortization of Non-Cash Marketing | Amortization of Intangibles | Operating Income (Loss) |
| HSN | $ 29,935 | $ (1,586) | $ (3,715) | $ (143) | $ 24,491 |
| Cornerstone | (5,904) | (1,454) | — | (2,055) | (9,413) |
| Total | $ 24,031 | $ (3,040) | $ (3,715) | $ (2,198) | 15,078 |
| Other income, net | | | | | 15 |
| Earnings from continuing operations before income taxes | | | | | 15,093 |
| Income tax provision | | | | | (5,687) |
| Earnings from continuing operations | | | | | 9,406 |
| Loss from discontinued operations, net of tax | | | | | (1,060) |
| Net income | | | | | $ 8,346 |

**NOTE 5—SEGMENT INFORMATION (Continued)**

| | For the Three Months Ended March 31, 2007: | | | |
|---|---|---|---|---|
| | Operating Income Before Amortization | Non-Cash Compensation Expense | Amortization of Intangibles | Operating Income |
| HSN | $ 30,271 | $ (1,169) | $ (1,654) | $ 27,448 |
| Cornerstone | 6,996 | (1,866) | (2,431) | 2,699 |
| Total | $ 37,267 | $ (3,035) | $ (4,085) | 30,147 |
| Other expense, net | | | | (39) |
| Earnings from continuing operations before income taxes | | | | 30,108 |
| Income tax provision | | | | (11,456) |
| Earnings from continuing operations | | | | 18,652 |
| Loss from discontinued operations, net of tax | | | | (1,566) |
| Net income | | | | $ 17,086 |

Non-cash compensation expense in the tables above is included in the following line items in the accompanying consolidated statements of operations for the three months ended March 31, 2008 and 2007 (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2008 | 2007 |
| Cost of sales | $ 236 | $ 231 |
| Selling and marketing expense | 258 | 253 |
| General and administrative expense | 2,544 | 2,549 |
| Production and programming expense | 2 | 2 |
| Non-cash compensation expense | $ 3,040 | $ 3,035 |

| | Three Months Ended March 31, | |
|---|---|---|
| | 2008 | 2007 |
| | (In thousands) | |
| **Revenue:** | | |
| HSN | $ 478,973 | $ 454,053 |
| Cornerstone | 197,954 | 212,775 |
| Inter-segment elimination | (41) | (123) |
| Total | $ 676,886 | $ 666,705 |

HSNi does not report revenue from external customers for each product or each group of similar products as it is impracticable to do so.

**NOTE 5—SEGMENT INFORMATION (Continued)**

HSNi maintains operations principally in the United States. Geographic information about the United States and international territories is presented below (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2008 | 2007 |
| **Revenue:** | | |
| United States | $ 676,522 | $ 666,457 |
| All Other countries | 364 | 248 |
| Total | $ 676,886 | $ 666,705 |

| | March 31, 2008 | December 31, 2007 |
|---|---|---|
| **Long-lived assets (excluding goodwill and intangible assets):** | | |
| United States | $ 162,687 | $ 167,444 |
| All Other countries | — | — |
| Total | $ 162,687 | $ 167,444 |

**NOTE 6—DISCONTINUED OPERATIONS**

On June 19, 2007, HSNi sold Home Shopping Europe GMbH & Co. KG, and its affiliated station HSE24 ("HSE"). Accordingly, HSE is presented as a discontinued operation in the statement of operations for the three months ended March 31, 2007. Quiz TV Limited and iBuy are also presented as discontinued operations for all periods presented.

**NOTE 6—DISCONTINUED OPERATIONS (Continued)**

The net revenue and net loss for the aforementioned discontinued operations for the applicable periods were as follows (in thousands):

| | Three Months Ended March 31, 2008 | Three Months Ended March 31, 2007 |
|---|---|---|
| Net revenue | $ 3 | $ 105,917 |
| (Loss) earnings before income taxes | $ (1,722) | $ 898 |
| Income tax benefit (provision) | 662 | (2,464) |
| Net loss | $ (1,060) | $ (1,566) |

**NOTE 7—COMPREHENSIVE INCOME**

Comprehensive income is comprised of (in thousands):

| | Three Months Ended March 31, 2008 | Three Months Ended March 31, 2007 |
|---|---|---|
| Net income | $ 8,346 | $ 17,086 |
| Foreign currency translation | 72 | 2,049 |
| Net losses on derivative contracts | — | (2,462) |
| Other comprehensive income | 72 | (413) |
| Comprehensive income | $ 8,418 | $ 16,673 |

Accumulated other comprehensive income at March 31, 2008 and December 31, 2007 is solely related to foreign currency translation and is recorded net of tax.

**NOTE 8—INCOME TAXES**

HSNi calculates its interim income tax provision in accordance with Accounting Principles Board Opinion No. 28 and FASB Interpretation No. 18. At the end of each interim period, HSNi makes its best estimate of the annual expected effective tax rate and applies that rate to its ordinary year-to-date earnings or loss. The tax or benefit related to significant, unusual, or extraordinary items that will be separately reported or reported net of their related tax effect are individually computed and recognized in the interim period in which those items occur. In addition, the effect of changes in enacted tax laws or rates, tax status, or judgment on the realizability of a beginning-of-the-year deferred tax asset in future years is recognized in the interim period in which the change occurs.

The computation of the annual expected effective tax rate at each interim period requires certain estimates and assumptions including, but not limited to, the expected operating income for the year, permanent and temporary differences, and the likelihood of recovering deferred tax assets generated in the current year. The accounting estimates used to compute the provision for income taxes may change as new events occur, more experience is acquired, additional information is obtained or HSNi's tax environment changes. To the extent that the estimated annual effective tax rate changes during a quarter, the effect of the change on prior quarters is included in tax expense for the current quarter.

**NOTE 8—INCOME TAXES (Continued)**

For the three months ended March 31, 2008 and 2007, HSNi recorded tax provisions for continuing operations of $5.7 million and $11.5 million, respectively, which represent effective tax rates of 38%. The tax rates for the three months ended March 31, 2008 and March 31, 2007 are higher than the federal statutory rate of 35% due principally to state taxes.

As of December 31, 2007 and March 31, 2008, HSNi had unrecognized tax benefits of approximately $8.9 million. Included in unrecognized tax benefits at March 31, 2008 is approximately $8.8 million for tax positions included in IAC's consolidated tax return filings that will remain a liability of IAC after the spin-off. HSNi recognizes interest and, if applicable, penalties related to unrecognized tax benefits in income tax expense. Included in income tax expense for the three months ended March 31, 2008 is $0.1 million, net of related deferred taxes, for interest on unrecognized tax benefits. At March 31, 2008, HSNi has accrued $3.0 million for the payment of interest. There are no material accruals for penalties.

By virtue of previously filed separate company and consolidated tax returns with IAC, HSNi is routinely under audit by federal, state, local and foreign authorities in the area of income tax. These audits include questioning the timing and the amount of deductions and the allocation of income among various tax jurisdictions. Income taxes payable include amounts considered sufficient to pay assessments that may result from examination of prior year returns; however, the amount paid upon resolution of issues raised may differ from the amount provided. Differences between the reserves for tax contingencies and the amounts owed by HSNi are recorded in the period they become known.

The Internal Revenue Service is currently examining the IAC consolidated tax returns for the years ended December 31, 2001 through 2003, which includes the operations of HSNi. The statute of limitations for these years has been extended to December 31, 2008. Various IAC consolidated tax returns filed with state, local and foreign jurisdictions are currently under examination, the most significant of which are California, Florida, New York state and New York City, for various tax years after December 31, 2001. These examinations are expected to be completed by late 2008.

HSNi believes that it is reasonably possible that its unrecognized tax benefits could decrease by approximately $2.5 million within twelve months of the current reporting date due to the reversal of deductible temporary differences which will result in a corresponding increase in net deferred tax liabilities. An estimate of other changes in unrecognized tax benefits cannot be made, but are not expected to be significant.

**NOTE 9—CONTINGENCIES**

In the ordinary course of business, HSNi is a party to various lawsuits. HSNi establishes reserves for specific legal matters when it determines that the likelihood of an unfavorable outcome is probable and the loss is reasonably estimable. Management has also identified certain other legal matters where it believes an unfavorable outcome is not probable and, therefore, no reserve is established. Although management currently believes that an unfavorable resolution of claims against HSNi, including claims where an unfavorable outcome is reasonably possible, will not have a material impact on the liquidity, results of operations, or financial condition of HSNi, these matters are subject to inherent uncertainties and management's view of these matters may change in the future. HSNi also evaluates other contingent matters, including tax contingencies, to assess the probability and estimated extent of potential loss. See Note 8 for discussion related to income tax contingencies.

## NOTE 10—RELATED PARTY TRANSACTIONS

HSNi's expenses include allocations from IAC of costs associated with IAC's accounting, treasury, legal, tax, corporate support, human resources and internal audit functions. These expenses were allocated based on the ratio of HSNi's revenue as a percentage of IAC's total revenue. Allocated costs were $1.8 million and $1.8 million for the three months ended March 31, 2008 and 2007, respectively, and are included in "General and administrative expense" in the accompanying combined statements of operations. It is not practicable to determine the amounts of these expenses that would have been incurred had HSNi operated as an unaffiliated entity. In the opinion of management, the allocation method is reasonable.

The portion of the interest expense reflected in the combined statements of operations that is intercompany in nature was $0.9 million for the three months ended March 31, 2007. There was no interest expense that is intercompany in nature for the three months ended March 31, 2008. This intercompany interest expense, which is included in discontinued operations, arose from the transfer of cash from IAC to HSNi that occurred in connection with IAC's treasury operations.

An analysis of HSNi's receivables from IAC and subsidiaries is as follows (in thousands):

| | March 31, 2008 |
|---|---|
| Receivables from IAC and subsidiaries at December 31, 2007 | $ 1,581,157 |
| Cash transfers from IAC related to its centrally managed U.S. treasury function | (21,429) |
| Employee equity instruments and associated tax withholdings | 1,305 |
| Taxes (excludes tax withholdings associated with employee equity instruments) | 662 |
| Amortization of non-cash marketing | (3,715) |
| Allocation of non-cash compensation expense | (2,983) |
| Administrative expenses and other | (9,327) |
| Receivables from IAC and subsidiaries at March 31, 2008 | $ 1,545,670 |

### Relationship Between IAC and HSNi after the Spin-Off

For purposes of governing certain of the ongoing relationships between HSNi and IAC at and after the spin-off, and to provide for an orderly transition, HSNi and IAC are expected to enter into a separation agreement, a tax sharing agreement, an employee matters agreement and a transition services agreement (the "Spin-Off Agreements"), among other agreements. See HSNi's combined financial statements for the year ended December 31, 2007 for descriptions of these agreements.

## INTERVAL LEISURE GROUP, INC. AND SUBSIDIARIES
## CONSOLIDATED FINANCIAL STATEMENTS

### TABLE OF CONTENTS

## Report of Independent Registered Public Accounting Firm

We have audited the accompanying consolidated balance sheets of Interval Leisure Group, Inc. and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule on page B-28. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Interval Leisure Group, Inc. and subsidiaries at December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

New York, New York
May 5, 2008

## INTERVAL LEISURE GROUP, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | | (In thousands) | |
| Revenue | $ 360,407 | $ 288,646 | $ 260,843 |
| Cost of sales (exclusive of depreciation shown separately below) | 100,799 | 66,293 | 60,794 |
| Gross profit | 259,608 | 222,353 | 200,049 |
| Selling and marketing expense | 45,835 | 41,635 | 38,424 |
| General and administrative expense | 71,913 | 61,538 | 56,213 |
| Amortization of intangibles | 26,879 | 25,220 | 25,220 |
| Depreciation | 8,415 | 7,832 | 7,368 |
| Operating income | 106,566 | 86,128 | 72,824 |
| Other income (expense): | | | |
| Interest income | 10,345 | 8,914 | 6,518 |
| Interest expense | (205) | (357) | (623) |
| Other expense | (606) | (774) | (272) |
| Total other income, net | 9,534 | 7,783 | 5,623 |
| Earnings before income taxes and minority interest | 116,100 | 93,911 | 78,447 |
| Income tax provision | (45,032) | (35,868) | (29,204) |
| Minority interest in income of consolidated subsidiaries | (12) | — | — |
| **Net income** | $ 71,056 | $ 58,043 | $ 49,243 |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

## INTERVAL LEISURE GROUP, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

| | December 31, 2007 | December 31, 2006 |
|---|---|---|
| | (In thousands) | |
| **ASSETS** | | |
| Cash and cash equivalents | $ 67,113 | $ 37,557 |
| Restricted cash and cash equivalents | 5,817 | 293 |
| Accounts receivable, net of allowance of $352 and $255, respectively | 15,750 | 9,301 |
| Deferred income taxes | 28,109 | 18,417 |
| Deferred membership costs | 13,688 | 12,440 |
| Prepaid expenses and other current assets | 17,086 | 14,816 |
| Total current assets | 147,563 | 92,824 |
| Property and equipment, net | 34,963 | 21,330 |
| Goodwill | 514,308 | 473,879 |
| Intangible assets, net | 188,895 | 153,220 |
| Deferred membership costs | 21,217 | 18,218 |
| Deferred income taxes | 12,549 | 7,074 |
| Other non-current assets | 3,122 | 1,132 |
| **TOTAL ASSETS** | $ 922,617 | $ 767,677 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **LIABILITIES:** | | |
| Accounts payable, trade | $ 10,981 | $ 7,142 |
| Deferred revenue | 97,898 | 88,157 |
| Income taxes payable | 2,489 | — |
| Accrued compensation and benefits | 11,635 | 7,493 |
| Member deposits | 11,167 | 10,692 |
| Accrued expenses and other current liabilities | 26,105 | 22,544 |
| Total current liabilities | 160,275 | 136,028 |
| Other long-term liabilities | 2,286 | 1,509 |
| Deferred revenue | 139,044 | 123,181 |
| Deferred income taxes | 107,133 | 98,072 |
| Minority interest | 512 | — |
| Commitments and contingencies | | |
| **SHAREHOLDERS' EQUITY:** | | |
| Invested capital | 726,919 | 612,532 |
| Receivables from IAC and subsidiaries | (436,475) | (355,057) |
| Retained earnings | 222,484 | 151,198 |
| Accumulated other comprehensive income | 439 | 214 |
| Total shareholders' equity | 513,367 | 408,887 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | $ 922,617 | $ 767,677 |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

## INTERVAL LEISURE GROUP, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| | Total | Invested Capital | Receivables from IAC and Subsidiaries | Retained Earnings | Accumulated Other Comprehensive (Loss) Income |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| **Balance as of December 31, 2004** | $ 467,746 | $ 607,316 | $ (182,876) | $ 43,912 | $ (606) |
| Comprehensive income: | | | | | |
| Net income for the year ended December 31, 2005 | 49,243 | — | — | 49,243 | — |
| Foreign currency translation | (1,096) | — | — | — | (1,096) |
| Comprehensive income | 48,147 | | | | |
| Net transfers from IAC | 300 | 300 | — | — | — |
| Net changes in receivables from IAC and subsidiaries | (76,246) | — | (76,246) | — | — |
| **Balance as of December 31, 2005** | 439,947 | 607,616 | (259,122) | 93,155 | (1,702) |
| Comprehensive income: | | | | | |
| Net income for the year ended December 31, 2006 | 58,043 | — | — | 58,043 | — |
| Foreign currency translation | 1,916 | — | — | — | 1,916 |
| Comprehensive income | 59,959 | | | | |
| Net transfers from IAC (principally the pushdown of IAC's acquisition of a minority interest in Interval) | 4,916 | 4,916 | — | | |
| Net changes in receivables from IAC and subsidiaries | (95,935) | — | (95,935) | — | — |
| **Balance as of December 31, 2006** | 408,887 | 612,532 | (355,057) | 151,198 | 214 |
| Comprehensive income: | | | | | |
| Net income for the year ended December 31, 2007 | 71,056 | — | — | 71,056 | — |
| Foreign currency translation | 225 | — | — | — | 225 |
| Comprehensive income | 71,281 | | | | |
| Cumulative effect of adoption of FIN 48 | 230 | — | — | 230 | — |
| Net transfers from IAC (principally the funding of ILG's acquisition of RQH) | 114,387 | 114,387 | — | | |
| Net changes in receivables from IAC and subsidiaries | (81,418) | — | (81,418) | — | — |
| **Balance as of December 31, 2007** | $ 513,367 | $ 726,919 | $ (436,475) | $ 222,484 | $ 439 |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

**INTERVAL LEISURE GROUP, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | | (In thousands) | |
| **Cash flows from operating activities:** | | | |
| Net income | $ 71,056 | $ 58,043 | $ 49,243 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Amortization of intangibles | 26,879 | 25,220 | 25,220 |
| Depreciation | 8,415 | 7,832 | 7,368 |
| Non-cash compensation expense | 3,629 | 3,286 | 1,259 |
| Deferred income taxes | (6,106) | (7,275) | (9,884) |
| Excess tax benefits from stock-based awards | — | — | 25 |
| Minority interest in income of consolidated subsidiaries | 12 | — | — |
| Changes in current assets and liabilities: | | | |
| Accounts receivable | (3,552) | 228 | (760) |
| Prepaid expenses and other current assets | (2,222) | 185 | (796) |
| Accounts payable and other current liabilities | 6,741 | 2,490 | 3,078 |
| Income taxes payable | 3,015 | 1,184 | 1,042 |
| Deferred revenue | 18,134 | 15,118 | 18,461 |
| Other, net | (421) | 76 | 775 |
| **Net cash provided by operating activities** | 125,580 | 106,387 | 95,031 |
| **Cash flows from investing activities:** | | | |
| Transfers to IAC | (84,520) | (103,565) | (80,129) |
| Acquisitions, net of cash acquired | (114,071) | — | — |
| Capital expenditures | (10,319) | (6,682) | (8,966) |
| **Net cash used in investing activities** | (208,910) | (110,247) | (89,095) |
| **Cash flows from financing activities:** | | | |
| Capital contributions from IAC | 114,071 | — | — |
| Principal payments on short-term obligations | (215) | — | — |
| Excess tax benefits from stock-based awards | 259 | 328 | — |
| Other, net | (1,923) | 137 | (33) |
| **Net cash provided by (used in) financing activities** | 112,192 | 465 | (33) |
| Effect of exchange rate changes on cash and cash equivalents | 694 | 4,509 | (3,270) |
| **Net increase in cash and cash equivalents** | 29,556 | 1,114 | 2,633 |
| Cash and cash equivalents at beginning of period | 37,557 | 36,443 | 33,810 |
| **Cash and cash equivalents at end of period** | $ 67,113 | $ 37,557 | $ 36,443 |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

## NOTE 1—ORGANIZATION AND BASIS OF PRESENTATION

### Spin-Off

On November 5, 2007, IAC/InterActiveCorp ("IAC") announced that its Board of Directors approved a plan to separate IAC into five publicly traded companies, identifying Interval Leisure Group, Inc. ("ILG") as one of those five companies. In these consolidated financial statements, we refer to the separation transaction herein as the "spin-off." In connection with the spin-off, ILG was incorporated as a Delaware corporation in May 2008. ILG currently does not have any material assets or liabilities, nor does it engage in any business or other activities and, other than in connection with the spin-off, will not acquire or incur any material assets or liabilities, nor will it engage in any business or other activities. Upon completion of the spin-off, ILG will consist of Interval and ResortQuest Hawaii and ResortQuest Real Estate of Hawaii, collectively referred to herein as "RQH", which was acquired on May 31, 2007, the businesses that formerly comprised IAC's Interval segment. The businesses to be operated by ILG following the spin-off are referred to herein as the "ILG Businesses."

### Basis of Presentation

The historical consolidated financial statements of ILG and its subsidiaries reflect the contribution or other transfer to ILG of all of the subsidiaries and assets and the assumption by ILG of all of the liabilities relating to the ILG Businesses in connection with the spin-off and the allocation to ILG of certain IAC corporate expenses relating to the ILG Businesses. Accordingly, the historical consolidated financial statements of ILG reflect the historical financial position, results of operations and cash flows of the ILG Businesses since their respective dates of acquisition by IAC, based on the historical consolidated financial statements and accounting records of IAC and using the historical results of operations and historical bases of the assets and liabilities of the ILG Businesses with the exception of accounting for income taxes. For purposes of these financial statements, income taxes have been computed for ILG on an as if stand-alone, separate tax return basis. Intercompany transactions and accounts have been eliminated.

In the opinion of ILG's management, the assumptions underlying the historical consolidated financial statements of ILG are reasonable. However, this financial information does not necessarily reflect what the historical financial position, results of operations and cash flows of ILG would have been had ILG been a stand-alone company during the periods presented.

### Company Overview

ILG is a leading provider of membership services, primarily to the vacation ownership industry, through Interval. With the acquisition of RQH in May 2007, ILG also entered the vacation rental and property management services industry.

## NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Revenue Recognition

Revenue, net of sales incentives, from Interval membership fees is deferred and recognized over the terms of the applicable memberships ranging from one to five years, on a straight-line basis. Generally, memberships are cancelable and refundable on a pro-rata basis. Direct costs of acquiring members and direct costs of sales related to deferred membership revenue are also deferred and amortized on a straight-line basis over the terms of the applicable memberships. Revenue from vacation transactions is recognized when Interval provides confirmation of the vacation, at which time the fee is nonrefundable.

RQH revenue primarily consists of property management fees and service fees. Property management fees, which are generally a percentage (ranging from 1% to 25%) of the rental price of the vacation property, are generated when the property is rented. The management fee rate is based upon the type of services provided to the property owner and the type of rental unit managed. RQH's proportionate share of the rental price of the property is recognized over the rental period. RQH also provides, or arranges through third parties, certain services for property owners or guests including reservations, housekeeping, long-distance telephone, beach equipment rental and pool cleaning. Service fee revenue is recognized when the service is provided by RQH. Services provided by third parties are generally billed directly to property owners or guests and are not included in the accompanying consolidated financial statements.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash, money market instruments and time deposits with maturities of less than 91 days.

**Restricted Cash**

Restricted cash primarily includes amounts held in trust and lock box accounts in connection with certain transactions with RQH's managed properties.

**Accounts Receivable**

Accounts receivable are stated at amounts due from customers, principally resort developers and members, net of an allowance for doubtful accounts. Accounts receivable outstanding longer than the contractual payment terms are considered past due. ILG determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, ILG's previous loss history, the specific customer's current ability to pay its obligation to ILG and the condition of the general economy. ILG writes off accounts receivable when they become uncollectible.

**Property and Equipment**

Property and equipment, including significant improvements, are recorded at cost. Repairs and maintenance and any gains or losses on dispositions are included in operations.

Depreciation is recorded on a straight-line basis to allocate the cost of depreciable assets to operations over their estimated service lives.

| Asset Category | Depreciation Period |
|---|---|
| Computer equipment | 3 to 8 Years |
| Capitalized software | 3 to 5 Years |
| Buildings and leasehold improvements | 1 to 40 Years |
| Furniture and other equipment | 3 to 10 Years |

**NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In accordance with American Institute of Certified Public Accountants' Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," Interval capitalizes certain qualified costs incurred in connection with the development of internal use software. Capitalization of internal use software costs begins when the preliminary project stage is completed, management with the relevant authority authorizes and commits to the funding of the software project, and it is probable that the project will be completed and the software will be used to perform the function intended. Capitalized internal software costs, net of accumulated depreciation, totaled $12.9 million and $11.0 million at December 31, 2007 and 2006, respectively, and are included in "Property and equipment, net" in the accompanying consolidated balance sheets.

**Goodwill and Indefinite-Lived Intangible Assets**

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), goodwill acquired in business combinations is assigned to the reporting unit that is expected to benefit from the combination as of the acquisition date. ILG tests goodwill and indefinite-lived intangible assets for impairment annually as of October 1, or more frequently if events or changes in circumstances indicate that the assets might be impaired. If the carrying amount of a reporting unit's goodwill exceeds its implied fair value, an impairment loss equal to the excess is recorded. If the carrying amount of an indefinite-lived intangible asset exceeds its estimated fair value, an impairment loss equal to the excess is recorded.

**Long-Lived Assets and Intangible Assets with Definite Lives**

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"), long-lived assets, including property and equipment and intangible assets with definite lives, are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the carrying amount is deemed to not be recoverable, an impairment loss is recorded as the amount by which the carrying amount of the long-lived asset exceeds its fair value. Amortization of definite lived intangible assets is recorded on a straight-line basis over their estimated lives.

**Advertising**

Advertising costs are expensed in the period incurred and principally represent printing and postage costs of directories and magazines, promotions, trade shows and agency fees. Advertising expense was $18.6 million, $19.1 million and $18.6 million for the years ended December 31, 2007, 2006 and 2005, respectively.

**Income Taxes**

ILG accounts for income taxes under the liability method, and deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided on

**NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

deferred tax assets if it is determined that it is more likely than not that the deferred tax asset will not be realized. ILG records interest on potential tax contingencies as a component of income tax expense and records interest net of any applicable related income tax benefit.

Effective January 1, 2007, ILG adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" ("FIN 48"). As a result of the adoption of FIN 48, ILG recognizes liabilities for uncertain tax positions based on the two-step process prescribed by the interpretation. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement.

**Foreign Currency Translation and Transaction Gains and Losses**

The financial position and operating results of substantially all foreign operations are consolidated using the local currency as the functional currency. Local currency assets and liabilities are translated at the rates of exchange as of the balance sheet date, and local currency revenue and expenses are translated at average rates of exchange during the period. Resulting translation gains or losses are included as a component of accumulated other comprehensive income (loss), a separate component of shareholders' equity. Accumulated other comprehensive income is solely related to foreign currency translation and is recorded net of tax. Transaction gains and losses arising from transactions denominated in a currency other than the functional currency of the entity involved are included in the consolidated statements of operations.

Foreign currency transaction net losses for the years ended December 31, 2007, 2006 and 2005 were $0.6 million, $0.5 million and $0.2 million, respectively, and are included in "Other expense" in the accompanying consolidated statements of operations.

**Stock-Based Compensation**

Effective January 1, 2006, ILG adopted the provisions of SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), using the modified prospective transition method and therefore has not restated results for prior periods. See Note 4 for a further description of the impact of the adoption of SFAS 123R and Staff Accounting Bulletin No. 107 ("SAB 107").

**Minority Interest**

Minority interest in 2007 represents minority ownership in RQH. In connection with the acquisition of RQH, a member of senior management of this business purchased an ownership interest at the same per share price as ILG. ILG is party to a fair value put and call arrangement with respect to this interest. This put and call arrangement allows this member of management to require ILG to purchase their interest or allows ILG to acquire such interest at fair value, respectively. This put and call arrangement becomes exercisable by ILG and the counter-party, respectively, at a date no earlier than 2013. Upon such exercise, the consideration payable can be denominated in either shares of IAC or cash at IAC's option. This put and call arrangement will be modified prior to the spin-off so that the consideration payable in IAC shares will be replaced with ILG shares. This put arrangement is exercisable by the counter-party outside the control of ILG and is accounted for in accordance with

EITF D-98 "Classification and Measurement of Redeemable Securities." Accordingly, to the extent that the fair value of this interest exceeds the value determined by normal minority interest accounting, the value of such interest is adjusted to fair value with a corresponding adjustment to invested capital. At and for the year ended December 31, 2007, ILG did not record an adjustment as this interest is recorded at fair value.

**Accounting Estimates**

ILG's management is required to make certain estimates and assumptions during the preparation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles. 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 include: the recovery of goodwill and intangible assets; the determination of deferred income taxes, including related valuation allowances; the determination of deferred revenue; and assumptions related to the determination of stock-based compensation.

**Certain Risks and Concentrations**

ILG's business is subject to certain risks and concentrations including exposure to risks associated with online commerce security and credit card fraud. A substantial percentage of the vacation ownership resorts in the Interval network are located in Florida, Hawaii, Las Vegas, Mexico and Southern California and all of the vacation properties for which RQH provides vacation rental and property management services are located in Hawaii. ILG also depends on relationships with developers and vacation property owners, as well as third party service providers for processing certain fulfillment services.

Financial instruments, which potentially subject ILG to concentration of credit risk, consist primarily of cash and cash equivalents. Cash and cash equivalents are maintained with quality financial institutions of high credit.

ILG conducts business in one foreign country where a currency restriction exists. At December 31, 2007 and 2006, ILG had $5.1 million and $4.0 million of cash which can only be repatriated upon the approval of that country's government. ILG has requested approval for a portion of the cash to be repatriated. This request is currently pending.

**Recent Accounting Pronouncements**

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51" ("SFAS No. 160"). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. The Statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. SFAS No. 160 will be applied prospectively, except as it relates to disclosures, for which the effects will be applied retrospectively for all periods presented. Early adoption is not permitted. ILG is currently assessing the impact of SFAS No. 160 on its consolidated financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS No. 141R"), which replaces FASB Statement No. 141. SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. The Statement also establishes disclosure requirements that will enable users to evaluate the nature and financial effects of the business combination. SFAS No. 141R applies prospectively to business combinations in fiscal years beginning after December 15, 2008. Early adoption is not permitted. ILG is currently assessing the impact of the adoption of SFAS No. 141R on its consolidated financial position, results of operations and cash flows.

**NOTE 3—BUSINESS ACQUISITIONS**

On May 31, 2007, ILG completed the acquisition of RQH, a vacation rental and property management services company, for approximately $110 million in cash. The acquisition was funded by IAC, and such funding has been recorded as a transfer from IAC within the statement of shareholders' equity. ILG performed valuations of certain tangible and intangible assets acquired. These valuations identified $56.2 million of intangible assets other than goodwill. The goodwill recognized amounted to $40.4 million. Intangible assets with definite lives included property management contracts ($45.7 million), wholesaler agreements ($5.9 million), trade names and trademarks ($4.3 million) and other agreements ($0.3 million) and are being amortized over a weighted-average period of 12.7 years. IAC also allocated $9.0 million of the purchase price to increase the recorded value of two vacation property front desk units to fair value. The entire amount allocated to goodwill is tax deductible. ILG viewed RQH's revenue, operating income, Operating Income Before Amortization, net income and cash flow as its most important valuation metrics. ILG agreed to consideration that resulted in recognition of a significant amount of goodwill because RQH's business model complements the business model of ILG and because of RQH's market position, brand and growth opportunities in its market. As a result, a significant portion of the consideration was based on the expected financial performance of RQH, and not the asset value on the books of RQH at the time of acquisition.

**NOTE 4—SFAS 123R AND STOCK-BASED COMPENSATION**

The equity awards described below principally relate to awards to ILG employees that were granted under various IAC stock and annual incentive plans.

Effective January 1, 2006, ILG adopted SFAS 123R using the modified prospective transition method and has applied the classification provisions of SAB 107 regarding the SEC's interpretation of SFAS 123R and the valuation of share-based payments for public companies in its adoption of SFAS 123R.

The adoption of SFAS 123R did not impact the amount of stock-based compensation expense recorded in the accompanying consolidated statements of operations as ILG had previously adopted the

**NOTE 4—SFAS 123R AND STOCK-BASED COMPENSATION (Continued)**

expense recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123").

Prior to the adoption of SFAS 123R, the entire tax benefit from stock-based compensation was reported as a component of operating cash flows. Upon the adoption of SFAS 123R, tax benefits resulting from tax deductions in excess of the stock-based compensation expense recognized in the consolidated statement of operations are reported as a component of financing cash flows. For the years ended December 31, 2007 and 2006, excess tax benefits from stock-based compensation of $0.3 million and $0.3 million, respectively, are included as a component of financing cash flows. For the year ended December 31, 2005, excess tax benefits from stock-based compensation of less than $0.1 million is included as a component of operating cash flows.

Non-cash stock-based compensation expense related to equity awards is included in the following line items in the accompanying consolidated statements of operations for the years ended December 31, 2007, 2006 and 2005 (in thousands):

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Cost of sales | $ 282 | $ 225 | $ 82 |
| Selling and marketing expense | 308 | 210 | 46 |
| General and administrative expense | 3,039 | 2,851 | 1,131 |
| Non-cash stock-based compensation expense before income taxes | 3,629 | 3,286 | 1,259 |
| Income tax benefit | (1,400) | (1,268) | (486) |
| Non-cash stock-based compensation expense after income taxes | $ 2,229 | $ 2,018 | $ 773 |

The form of awards granted to ILG employees are principally restricted stock units ("RSUs") and performance stock units ("PSUs"). RSUs and PSUs are awards in the form of phantom shares or units, denominated in a hypothetical equivalent number of shares of IAC common stock and with the value of each award equal to the fair value of IAC common stock at the date of grant. All outstanding award agreements provide for settlement, upon vesting, in stock for U.S. employees and in cash for non-U.S. employees. Each RSU, PSU and restricted stock grant is subject to service-based vesting, where a specific period of continued employment must pass before an award vests, and certain grants also include performance-based vesting, where certain performance targets set at the time of grant must be achieved before an award vests. ILG recognizes expense for all RSUs, PSUs and restricted stock, for which vesting is considered probable. For RSU and restricted stock grants to U.S. employees, the accounting charge is measured at the grant date as the fair value of IAC common stock and expensed ratably as non-cash compensation over the vesting term. For PSU grants to U.S. employees, the expense is measured at the grant date as the fair value of IAC common stock and expensed as non-cash compensation when the performance targets are considered probable of being achieved. The expense associated with RSU and PSU awards to non-U.S. employees is initially measured at fair value at the grant date and expensed ratably over the vesting term, subject to mark-to-market adjustments for changes in the price of IAC common stock, as compensation expense within general and administrative expense. The expense related to awards to international employees totaled $0.2 million, $0.2 million and $0.1 million for the years ended December 31, 2007, 2006 and 2005, respectively.

**NOTE 4—SFAS 123R AND STOCK-BASED COMPENSATION (Continued)**

The amount of stock-based compensation expense recognized in the consolidated statements of operations is reduced by estimated forfeitures, as the amount recorded is based on awards ultimately expected to vest. The forfeiture rate is estimated at the grant date based on historical experience and revised, if necessary, in subsequent periods if the actual forfeiture rate differs from the estimated rate.

As of December 31, 2007, there was approximately $14.0 million of unrecognized compensation cost, net of estimated forfeitures, related to all equity-based awards. This cost is expected to be recognized over a weighted-average period of approximately 3.0 years. At December 31, 2007, there were less than 0.1 million awards outstanding to non-U.S. employees.

In connection with the acquisition of RQH by IAC in 2007 a member of RQH's management was granted restricted common equity in RQH. This award was granted on May 31, 2007 and was initially measured at fair value, which is being amortized to expense over the vesting period. This award vests ratably over four and a half years, or earlier based upon the occurrence of certain prescribed events. The award vests in non-voting restricted common shares of RQH.

These shares are subject to a put right by the holder and a call right by IAC, which are not exercisable until the first quarter of 2013 and annually thereafter. The value of these shares upon exercise of the put or call is equal to their fair market value, determined by negotiation or arbitration, reduced by the accreted value of the preferred interest that was taken by IAC upon the purchase of RQH. The initial value of the preferred interest was equal to the acquisition price of RQH. The preferred interest accretes value at a 10% annual rate. Upon exercise of the put or call the consideration is payable in IAC shares or cash or a combination thereof at IAC's option. Prior to the separation, this put and call arrangement will be modified so that the consideration payable in IAC's shares will be replaced with ILG shares.

The unrecognized compensation cost related to this equity award is $0.4 million at December 31, 2007.

**NOTE 5—GOODWILL AND INTANGIBLE ASSETS**

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

| | December 31, | |
|---|---|---|
| | 2007 | 2006 |
| Goodwill | $ 514,308 | $ 473,879 |
| Intangible assets with indefinite lives | 33,300 | 33,300 |
| Intangible assets with definite lives, net | 155,595 | 119,920 |
| Total goodwill and intangible assets, net | $ 703,203 | $ 627,099 |

**NOTE 5—GOODWILL AND INTANGIBLE ASSETS (Continued)**

Intangible assets with indefinite lives relate principally to acquired trade names and trademarks. At December 31, 2007, intangible assets with definite lives relate to the following (in thousands):

| | Cost | Accumulated Amortization | Net | Weighted-Average Amortization Life (Years) |
|---|---|---|---|---|
| Customer relationships | $ 129,500 | $ (68,257) | $ 61,243 | 10.0 |
| Purchase agreements | 73,500 | (38,741) | 34,759 | 10.0 |
| Property management contracts | 45,700 | (1,904) | 43,796 | 14.0 |
| Technology | 24,630 | (24,600) | 30 | 5.0 |
| Other | 16,854 | (1,087) | 15,767 | 8.2 |
| Total | $ 290,184 | $ (134,589) | $ 155,595 | |

At December 31, 2006, intangible assets with definite lives relate to the following (in thousands):

| | Cost | Accumulated Amortization | Net | Weighted-Average Amortization Life (Years) |
|---|---|---|---|---|
| Customer relationships | $ 129,500 | $ (55,307) | $ 74,193 | 10.0 |
| Purchase agreements | 73,500 | (31,391) | 42,109 | 10.0 |
| Technology | 24,630 | (21,012) | 3,618 | 5.0 |
| Total | $ 227,630 | $ (107,710) | $ 119,920 | |

Amortization of intangible assets with definite lives is computed on a straight-line basis and, based on December 31, 2007 balances, such amortization for the next five years and thereafter is estimated to be as follows (in thousands):

| Years Ending December 31, | |
|---|---|
| 2008 | $ 25,917 |
| 2009 | 25,887 |
| 2010 | 25,887 |
| 2011 | 25,826 |
| 2012 | 19,892 |
| 2013 and thereafter | 32,186 |
| | $ 155,595 |

The following table presents the balance of goodwill by segment, including the changes in carrying amount of goodwill, for the year ended December 31, 2007 (in thousands):

| | Balance as of January 1, 2007 | Additions | (Deductions) | Balance as of December 31, 2007 |
|---|---|---|---|---|
| Interval | $ 473,879 | $ — | $ — | $ 473,879 |
| RQH | — | 40,429 | — | 40,429 |
| Total | $ 473,879 | $ 40,429 | $ — | $ 514,308 |

**NOTE 5—GOODWILL AND INTANGIBLE ASSETS (Continued)**

Additions in 2007 relate to the acquisition of RQH.

The following table presents the balance of goodwill by segment, including the changes in carrying amount of goodwill, for the year ended December 31, 2006 (in thousands):

| | Balance as of January 1, 2006 | Additions | (Deductions) | Balance as of December 31, 2006 |
|---|---|---|---|---|
| Interval | $ 467,504 | $ 6,822 | $ (447) | $ 473,879 |
| RQH | — | — | — | — |
| Total | $ 467,504 | $ 6,822 | $ (447) | $ 473,879 |

Additions in 2006 principally relate to the pushdown of IAC's acquisition of a minority interest in Interval.

**NOTE 6—PROPERTY AND EQUIPMENT**

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

| | December 31, | |
|---|---|---|
| | 2007 | 2006 |
| Computer equipment | $ 14,443 | $ 11,900 |
| Capitalized software | 31,312 | 26,869 |
| Buildings and leasehold improvements | 19,182 | 8,114 |
| Furniture and other equipment | 8,096 | 6,638 |
| Projects in progress | 5,848 | 3,347 |
| | 78,881 | 56,868 |
| Less: accumulated depreciation and amortization | (43,918) | (35,538) |
| Total property and equipment, net | $ 34,963 | $ 21,330 |

**NOTE 7—INCOME TAXES**

ILG is a member of IAC's consolidated federal and state tax returns. In all periods presented, current and deferred tax expense has been computed for ILG on a separate return basis. ILG's payments to IAC related to its share of IAC's consolidated federal and state tax return liabilities have been reflected within cash flows from operating activities in the accompanying consolidated statements of cash flows.

U.S. and foreign earnings from continuing operations before income tax and minority interest are as follows (in thousands):

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| U.S. | $ 104,021 | $ 82,258 | $ 67,914 |
| Foreign | 12,079 | 11,653 | 10,533 |
| Total | $ 116,100 | $ 93,911 | $ 78,447 |

**NOTE 7—INCOME TAXES (Continued)**

The components of the provision for income taxes attributable to continuing operations are as follows (in thousands):

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Current income tax provision: | | | |
| Federal | $ 40,619 | $ 33,902 | $ 30,413 |
| State | 5,945 | 4,744 | 5,456 |
| Foreign | 4,574 | 4,497 | 3,219 |
| Current income tax provision | 51,138 | 43,143 | 39,088 |
| Deferred income tax (benefit) provision: | | | |
| Federal | (6,161) | (6,268) | (8,355) |
| State | 412 | (14) | (1,400) |
| Foreign | (357) | (993) | (129) |
| Deferred income tax (benefit) | (6,106) | (7,275) | (9,884) |
| Income tax provision | $ 45,032 | $ 35,868 | $ 29,204 |

Current income taxes payable has been reduced by $0.3 million and $0.3 million for the years ended December 31, 2007 and 2006, respectively, for tax deductions attributable to stock-based compensation. There was no significant reduction for the year ended December 31, 2005. The related income tax benefits of this stock-based compensation were recorded as amounts charged or credited to invested capital or a reduction in goodwill.

The tax effects of cumulative temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2007 and 2006 are presented below (in thousands). The valuation allowance is related to items for which it is more likely than not that the tax benefit will not be realized.

| | December 31, | |
|---|---|---|
| | 2007 | 2006 |
| **Deferred tax assets:** | | |
| Deferred revenue | $ 50,243 | $ 46,838 |
| Provision for accrued expenses | 4,015 | 2,556 |
| Net operating loss carryforwards | 837 | 936 |
| Other | 3,565 | 2,522 |
| Total deferred tax assets | 58,660 | 52,852 |
| Less valuation allowance | (679) | (714) |
| Net deferred tax assets | 57,981 | 52,138 |
| **Deferred tax liabilities:** | | |
| Intangible and other assets | (110,831) | (111,258) |
| Deferred membership costs | (12,612) | (11,106) |
| Property and equipment | (737) | (2,299) |
| Other | (276) | (56) |
| Total deferred tax liabilities | (124,456) | (124,719) |
| Net deferred tax liability | $ (66,475) | $ (72,581) |

**NOTE 7—INCOME TAXES (Continued)**

At December 31, 2007, ILG had foreign net operating losses ("NOLs") of approximately $2.6 million available to offset future income. Of these foreign losses, approximately $2.0 million can be carried forward indefinitely, and approximately $0.6 million will expire within ten years. During 2007, ILG did not recognize any significant tax benefits related to NOLs.

During 2007, ILG's valuation allowance did not significantly change. At December 31, 2007, ILG had a valuation allowance of approximately $0.7 million related to the portion of tax operating loss carryforwards for which it is more likely than not that the tax benefit will not be realized.

A reconciliation of total income tax provision to the amounts computed by applying the statutory federal income tax rate to earnings from continuing operations before income taxes and minority interest is shown as follows (in thousands):

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Income tax provision at the federal statutory rate of 35% | $ 40,635 | $ 32,869 | $ 27,456 |
| State income taxes, net of effect of federal tax benefit | 4,132 | 3,075 | 2,637 |
| Foreign income taxed at a different statutory tax rate | (520) | (789) | (979) |
| Other, net | 785 | 713 | 90 |
| Income tax provision | $ 45,032 | $ 35,868 | $ 29,204 |

In accordance with APB No. 23, no federal and state income taxes have been provided on permanently reinvested earnings of certain foreign subsidiaries aggregating approximately $12.8 million at December 31, 2007. If, in the future, these earnings are repatriated to the U.S., or if ILG determines such earnings will be repatriated to the U.S. in the foreseeable future, additional tax provisions would be required. Due to complexities in the tax laws and the assumptions that would have to be made, it is not practicable to estimate the amounts of income taxes that would have to be provided.

ILG adopted the provisions of FIN 48 effective January 1, 2007. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The cumulative effect of the adoption resulted in an increase of $0.2 million to retained earnings. A reconciliation of the beginning and ending amount of unrecognized tax benefits, excluding interest, is as follows (in thousands):

| | |
|---|---|
| Balance at January 1, 2007 | $ 2,872 |
| Additions based on tax positions related to the current year | 2,068 |
| Additions for tax positions of prior years | 756 |
| Reductions for tax positions of prior years | — |
| Settlements | — |
| Balance at December 31, 2007 | $ 5,696 |

As of January 1, 2007 and December 31, 2007, the unrecognized tax benefits, including interest, were $4.0 million and $7.3 million, respectively. Included in unrecognized tax benefits at December 31, 2007 is approximately $4.9 million for tax positions included in IAC's consolidated tax return filings.

**NOTE 7—INCOME TAXES (Continued)**

Included within "Receivables from IAC and subsidiaries" in the accompanying consolidated balance sheet at December 31, 2007 is approximately $6.3 million of unrecognized tax benefits and related interest that will remain a liability of IAC after the spin-off. Also included in unrecognized tax benefits at December 31, 2007 is approximately $2.0 million for tax positions which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility.

ILG recognizes interest and, if applicable, penalties related to unrecognized tax benefits in income tax expense. Included in income tax expense from continuing operations for the year ended December 31, 2007 is $0.4 million, net of related deferred taxes of $0.2 million, for interest on unrecognized tax benefits. At January 1, 2007 and December 31, 2007, ILG has accrued $1.0 million and $1.6 million, respectively, for the payment of interest. There are no material accruals for penalties.

By virtue of previously filed separate company and consolidated tax returns with IAC, ILG is routinely under audit by federal, state, local and foreign authorities in the area of income tax. These audits include questioning the timing and the amount of deductions and the allocation of income among various tax jurisdictions. Income taxes payable include amounts considered sufficient to pay assessments that may result from examination of prior year returns; however, the amount paid upon resolution of issues raised may differ from the amount provided. Differences between the reserves for tax contingencies and the amounts owed by ILG are recorded in the period they become known.

The Internal Revenue Service ("IRS") is currently examining the IAC consolidated tax returns for the years ended December 31, 2001 through 2003, which includes the operations of Interval from September 24, 2002, its date of acquisition by IAC. The statute of limitations for these years has been extended to December 31, 2008. Various IAC consolidated tax returns filed with state, local and foreign jurisdictions are currently under examination, the most significant of which are Florida, New York state and New York City, for various tax years after December 31, 2001. These examinations are expected to be completed by late 2008.

ILG believes that it is reasonably possible that its unrecognized tax benefits could decrease by approximately $2.9 million within twelve months of the current reporting date due primarily to the reversal of deductible temporary differences which will result in a corresponding increase in net deferred tax liabilities. An estimate of other changes in unrecognized tax benefits cannot be made, but are not expected to be significant.

**NOTE 8—SEGMENT INFORMATION**

The overall concept that ILG employs in determining its operating segments and related financial information is to present them in a manner consistent with how the chief operating decision maker and executive management view the businesses, how the businesses are organized as to segment management, and the focus of the businesses with regards to the types of products or services offered or the target market. ILG has two operating segments, Interval, its vacation ownership membership services business, and RQH, its vacation rental and property management business.

ILG's primary metric is Operating Income Before Amortization, which is defined as operating income excluding, if applicable: (1) non-cash compensation expense, (2) amortization of intangibles and goodwill impairment, (3) pro forma adjustments for significant acquisitions and (4) one-time items. ILG believes this measure is useful to investors because it represents the consolidated operating results from ILG's segments, taking into account depreciation, which it believes is an ongoing cost of doing business,

**NOTE 8—SEGMENT INFORMATION (Continued)**

but excluding the effects of any other non-cash expenses. Operating Income Before Amortization has certain limitations in that it does not take into account the impact to ILG's statement of operations of certain expenses, including non-cash compensation, and acquisition-related accounting.

The following table reconciles Operating Income Before Amortization to operating income and net income in 2007, 2006 and 2005:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | (In thousands) | | |
| Operating Income Before Amortization | $ 137,074 | $ 114,634 | $ 99,303 |
| Non-cash compensation expense | (3,629) | (3,286) | (1,259) |
| Amortization of intangibles | (26,879) | (25,220) | (25,220) |
| Operating income | 106,566 | 86,128 | 72,824 |
| Interest income | 10,345 | 8,914 | 6,518 |
| Interest expense | (205) | (357) | (623) |
| Other expense | (606) | (774) | (272) |
| Income tax provision | (45,032) | (35,868) | (29,204) |
| Minority interest in income of consolidated subsidiaries | (12) | — | — |
| Net income | $ 71,056 | $ 58,043 | $ 49,243 |

The following tables reconcile Operating Income Before Amortization to operating income for ILG's operating segments and to net income in total (in thousands):

| | Year Ended December 31, 2007 | | | |
|---|---|---|---|---|
| | Operating Income Before Amortization | Non-Cash Compensation Expense | Amortization of Intangibles | Operating Income |
| Interval | $ 129,936 | $ (3,513) | $ (23,994) | $ 102,429 |
| RQH | 7,138 | (116) | (2,885) | 4,137 |
| Total | $ 137,074 | $ (3,629) | $ (26,879) | $ 106,566 |
| Other income, net | | | | 9,534 |
| Earnings before income taxes and minority interest | | | | 116,100 |
| Income tax provision | | | | (45,032) |
| Minority interest in income of consolidated subsidiaries | | | | (12) |
| Net income | | | | $ 71,056 |

**NOTE 8—SEGMENT INFORMATION (Continued)**

Prior to the acquisition of RQH in 2007, there was only one reporting segment.

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | (In thousands) | | |
| **Revenue:** | | | |
| Interval | $ 318,370 | $ 288,646 | $ 260,843 |
| RQH | 42,037 | — | — |
| Total | $ 360,407 | $ 288,646 | $ 260,843 |

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | (In thousands) | | |
| **Operating Income:** | | | |
| Interval | $ 102,429 | $ 86,128 | $ 72,824 |
| RQH | 4,137 | — | — |
| Total | $ 106,566 | $ 86,128 | $ 72,824 |

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | (In thousands) | | |
| **Operating Income Before Amortization:** | | | |
| Interval | $ 129,936 | $ 114,634 | $ 99,303 |
| RQH | 7,138 | — | — |
| Total | $ 137,074 | $ 114,634 | $ 99,303 |

| | December 31, | |
|---|---|---|
| | 2007 | 2006 |
| | (In thousands) | |
| **Assets:** | | |
| Interval | $ 802,846 | $ 767,677 |
| RQH | 119,771 | — |
| Total | $ 922,617 | $ 767,677 |

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | (In thousands) | | |
| **Depreciation and amortization of intangibles:** | | | |
| Interval | $ 31,846 | $ 33,052 | $ 32,588 |
| RQH | 3,448 | — | — |
| Total | $ 35,294 | $ 33,052 | $ 32,588 |

**NOTE 8—SEGMENT INFORMATION (Continued)**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | (In thousands) | | |
| **Capital expenditures:** | | | |
| Interval | $ 9,892 | $ 6,682 | $ 8,966 |
| RQH | 427 | — | — |
| Total | $ 10,319 | $ 6,682 | $ 8,966 |

ILG maintains operations in the United States, the United Kingdom and other international territories. Geographic information about the United States and international territories is presented below:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | (In thousands) | | |
| **Revenue:** | | | |
| United States | $ 302,135 | $ 237,818 | $ 213,319 |
| All other countries | 58,272 | 50,828 | 47,524 |
| Total | $ 360,407 | $ 288,646 | $ 260,843 |

**NOTE 8—SEGMENT INFORMATION (Continued)**

| | December 31, | |
|---|---|---|
| | 2007 | 2006 |
| | (In thousands) | |
| **Long-lived assets (excluding goodwill and intangible assets):** | | |
| United States | $ 33,688 | $ 20,161 |
| All other countries | 1,275 | 1,169 |
| Total | $ 34,963 | $ 21,330 |

**NOTE 9—COMMITMENTS**

ILG leases office space, computers and equipment used in connection with its operations under various operating leases, many of which contain escalation clauses.

Future minimum payments under operating lease agreements are as follows (in thousands):

| Years Ending December 31, | |
|---|---|
| 2008 | $ 9,333 |
| 2009 | 8,152 |
| 2010 | 6,440 |
| 2011 | 6,257 |
| 2012 | 6,172 |
| Thereafter | 38,589 |
| Total | $ 74,943 |

Expenses charged to operations under these agreements were $9.9 million, $9.4 million and $8.7 million for the years ended December 31, 2007, 2006 and 2005, respectively.

ILG also has funding commitments that could potentially require its performance in the event of demands by third parties or contingent events, such as under letters of credit extended or under guarantees of debt, as follows (in thousands):

| | Amount of Commitment Expiration Per Period | | | | |
|---|---|---|---|---|---|
| | Total Amounts Committed | Less Than 1 Year | 1-3 Years | 3-5 Years | More Than 5 Years |
| Guarantees, surety bonds, and letters of credit | $ 32,612 | $ 25,040 | $ 3,722 | $ 1,806 | $ 2,044 |
| Purchase obligations | 10,587 | 4,177 | 3,150 | 2,173 | 1,087 |
| Total commercial commitments | $ 43,199 | $ 29,217 | $ 6,872 | $ 3,979 | $ 3,131 |

The total commercial commitments above primarily consist of guarantees, which support ILG's business in the United Kingdom. The purchase obligations primarily relate to future space purchases.

## NOTE 10—CONTINGENCIES

In the ordinary course of business, ILG is a party to various lawsuits. ILG establishes reserves for specific legal matters when it determines that the likelihood of an unfavorable outcome is probable and the loss is reasonably estimable. Management has also identified certain other legal matters where it believes an unfavorable outcome is not probable and, therefore, no reserve is established. Although management currently believes that an unfavorable resolution of claims against ILG, including claims where an unfavorable outcome is reasonably possible, will not have a material impact on the liquidity, results of operations, or financial condition of ILG, these matters are subject to inherent uncertainties and management's view of these matters may change in the future. ILG also evaluates other contingent matters, including tax contingencies, to assess the probability and estimated extent of potential loss. See Note 7 for discussion related to income tax contingencies.

## NOTE 11—FINANCIAL INSTRUMENTS

The additional disclosure below of the estimated fair value of financial instruments has been determined by ILG using available market information and appropriate valuation methodologies when available. ILG's financial instruments include guarantees, letters of credit and surety bonds. These commitments are in place to facilitate the commercial operations of certain Company subsidiaries.

| | December 31, 2007 | | December 31, 2006 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | (In thousands) | | | |
| Cash and cash equivalents | $ 67,113 | $ 67,113 | $ 37,557 | $ 37,557 |
| Restricted cash and cash equivalents | 5,817 | 5,817 | 293 | 293 |
| Accounts receivable, net | 15,750 | 15,750 | 9,301 | 9,301 |
| Guarantees, surety bonds and letters of credit | N/A | (32,612) | N/A | (19,612) |

The carrying amounts of cash and cash equivalents and restricted cash and cash equivalents reflected in the accompanying consolidated balance sheets approximate fair value as they are redeemable at par upon notice or maintained with various high-quality financial institutions and have maturities of less than 91 days. Accounts receivable, net, are short-term in nature and are generally settled shortly after the sale.

## NOTE 12—SUPPLEMENTAL CASH FLOW INFORMATION

**Supplemental Disclosure of Cash Flow Information:**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | (In thousands) | | |
| Cash paid during the period for: | | | |
| Interest | $ 55 | $ 51 | $ — |
| Income tax payments, including amounts paid to IAC for ILG's share of IAC's consolidated tax liability | 48,593 | 41,663 | 38,254 |
| Income tax refunds | (729) | (32) | (233) |

**NOTE 13—RELATED PARTY TRANSACTIONS**

ILG has an agreement with Arise Virtual Solutions relating to outsourced call center services provided by ILG to its members. During 2007 and 2006, total payments of approximately $3.2 million and $1.1 million, respectively, were made to Arise. Amounts payable related to these services were $0.1 million at both December 31, 2007 and 2006 and are included in "Accrued expenses and other current liabilities" in the accompanying consolidated balance sheets. Arise is considered a related party because one of IAC's board members is a partner of Accretive LLC, which owns Arise Virtual Solutions.

ILG's expenses include allocations from IAC of costs associated with IAC's accounting, treasury, legal, tax, corporate support, human resources and internal audit functions. These allocations were based on the ratio of ILG's revenue as a percentage of IAC's total revenue. Allocated costs were $1.0 million, $0.7 million and $0.7 million in 2007, 2006 and 2005, respectively, and are included in "General and administrative expense" in the accompanying consolidated statements of operations. It is not practicable to determine the actual expenses that would have been incurred for these services had ILG operated as a stand-alone entity. In the opinion of management, the allocation method is reasonable.

The portion of interest income reflected in the consolidated statements of operations that is intercompany in nature, was $7.7 million, $7.0 million and $4.7 million for the years ended December 31, 2007, 2006 and 2005, respectively. This intercompany interest relates to the receivables from IAC.

An analysis of ILG's receivables from IAC and subsidiaries is as follows (in thousands):

| | 2007 | 2006 |
|---|---|---|
| Receivables from IAC and subsidiaries, beginning of year | $ 355,057 | $ 259,122 |
| Cash transfers to IAC related to its centrally managed U.S. treasury function | 95,234 | 108,202 |
| Interest income | 7,718 | 7,003 |
| Employee equity instruments and associated tax withholdings | 1,074 | 1,049 |
| Taxes (excludes withholdings associated with employee equity instruments) | 506 | (4,178) |
| Allocation of non-cash compensation expense | (3,566) | (3,286) |
| Administrative expenses and other | (19,548) | (12,855) |
| Receivables from IAC and subsidiaries, end of year | $ 436,475 | $ 355,057 |

**Relationship Between IAC and ILG after the Spin-Off**

For purposes of governing certain of the ongoing relationships between ILG and IAC at and after the spin-off, and to provide for an orderly transition, ILG and IAC are expected to enter into a separation agreement, a tax sharing agreement, an employee matters agreement and a transition services agreement (the "Spin-Off Agreements"), among other agreements.

***Separation Agreement***

The separation agreement is expected to provide generally that (i) immediately prior to the spin-off, IAC will contribute or otherwise transfer to ILG all of the subsidiaries and assets comprising the ILG Businesses, (ii) ILG will assume all of the liabilities related to the ILG Businesses, (iii) each party will indemnify the other and its respective affiliates, current and former directors, officers and

**NOTE 13—RELATED PARTY TRANSACTIONS (Continued)**

employees for any losses arising out of any breach of any of the Spin-Off Agreements and (iv) ILG will indemnify IAC for its failure to assume and perform any assumed liabilities and any liabilities relating to ILG financial and business information included in the SEC documentation filed with respect to the spin-off as well as such other terms as to which IAC and ILG mutually agree.

***Tax Sharing Agreement***

The tax sharing agreement will govern the respective rights, responsibilities and obligations of IAC and ILG after the spin-off with respect to taxes for the periods ending on or before the spin-off. Generally, IAC will pay taxes with respect to ILG income included on its consolidated, unitary or combined federal or state tax returns including audit adjustments with respect thereto. Other pre-distribution taxes that are attributable to the ILG Businesses, including taxes reported on separately filed and all foreign returns and audit adjustments with respect thereto, will be borne solely by ILG. The tax sharing agreement is expected to contain certain customary restrictive covenants that generally prohibit ILG (absent a supplemental IRS ruling or an unqualified opinion of counsel to the contrary, in each case, in a form and substance satisfactory acceptable to IAC in its sole discretion) from taking actions that could jeopardize the tax free nature of the spin-off. ILG is expected to agree to indemnify IAC for any taxes and related losses resulting from its non-compliance with these restrictive covenants, as well as for the breach of certain representations in the Spin-Off Agreements and other documentation relating to the tax-free nature of the spin-off.

***Employee Matters Agreement***

The employee matters agreement will generally provide that ILG will be responsible for, among other obligations, all employment and benefit-related obligations and liabilities related to those persons employed by the ILG Businesses immediately prior to the spin-off (and their dependents and beneficiaries) and former employees who most recently worked for the ILG Businesses. This agreement is also expected to provide that assets and liabilities from the IAC Retirement Savings Plan of ILG employees will be transferred to a newly established ILG Retirement Savings Plan as soon as practicable following the spin-off.

***Transition Services Agreement***

Under the transition services agreement, beginning on the date of the completion of the spin-off, IAC will provide to ILG on an interim, transitional basis, various services, which are expected to relate primarily to public company and operational matters, and such other services as to which IAC and ILG mutually agree. The agreed upon charges for these services will generally allow IAC to recover fully the allocated costs of providing the services, plus all out-of-pocket costs and expenses. ILG may terminate the agreement with respect to one or more particular services upon prior written notice.

***Commercial Agreements***

IAC and ILG currently, and for the foreseeable future expect to provide certain services to each other pursuant to certain commercial relationships. In connection with the spin-off, IAC and ILG will enter into a number of commercial agreements between subsidiaries of IAC, on the one hand, and subsidiaries of ILG, on the other hand, many of which will memorialize (in most material respects) pre-existing arrangements in effect prior to the spin-off and all of which are intended to reflect arm's

**NOTE 13—RELATED PARTY TRANSACTIONS (Continued)**

length terms. In addition, IAC and ILG believe that such agreements, whether taken individually or in the aggregate, do not constitute a material contract to either IAC or ILG.

Aggregate revenue earned with respect to these commercial agreements, with IAC subsidiaries, by the ILG Businesses was not material in 2007, 2006 and 2005. The ILG Businesses incurred approximately $2.1 million, $1.7 million and $1.5 million in 2007, 2006 and 2005, respectively, in expenses related to these commercial agreements with IAC subsidiaries.

**NOTE 14—BENEFIT PLANS**

During the three years ended December 31, 2007, ILG participated in a retirement savings plan sponsored by IAC that qualified under Section 401(k) of the Internal Revenue Code. Subsequent to the spin-off, the net assets available for benefits of the employees of ILG are expected to be transferred from the IAC plan to a newly created ILG plan. Under the IAC plan, participating employees may contribute up to 16% of their pretax earnings, but not more than statutory limits. ILG's match under the IAC plan is fifty cents for each dollar a participant contributes in this plan, with a maximum contribution of 3% of a participant's eligible earnings. Matching contributions for the plan were approximately $1.1 million, $1.0 million and $1.0 million in 2007, 2006, and 2005, respectively. Matching contributions are invested in the same manner as each participant's voluntary contributions in the investment options provided under the plan. Investment options in the plan include IAC common stock, but neither participant nor matching contributions are required to be invested in IAC common stock.

During the three years ended December 31, 2007, ILG also had or participated in various benefit plans, principally defined contribution plans, for its non-U.S. employees. ILG's contributions for these plans were approximately $0.3 million, $0.3 million and $0.3 million in 2007, 2006 and 2005, respectively.

**NOTE 15—QUARTERLY RESULTS (UNAUDITED)**

| | Quarter Ended March 31, | Quarter Ended June 30,(a) | Quarter Ended September 30,(a) | Quarter Ended December 31,(a) |
|---|---|---|---|---|
| | (In thousands) | | | |
| **Year Ended December 31, 2007** | | | | |
| Revenue | $ 86,433 | $ 85,885 | $ 96,019 | $ 92,070 |
| Gross profit | 67,489 | 63,377 | 65,753 | 62,989 |
| Operating income | 31,829 | 26,434 | 25,054 | 23,249 |
| Net income | 21,149 | 17,419 | 16,546 | 15,942 |
| **Year Ended December 31, 2006** | | | | |
| Revenue | $ 78,676 | $ 71,377 | $ 70,359 | $ 68,234 |
| Gross profit | 61,219 | 54,281 | 54,010 | 52,843 |
| Operating income | 26,179 | 19,173 | 19,913 | 20,863 |
| Net income | 17,241 | 13,256 | 13,293 | 14,253 |

(a) The second, third and fourth quarters of 2007 include the results of RQH, which was acquired by ILG on May 31, 2007.

**INTERVAL LEISURE GROUP, INC. AND SUBSIDIARIES**
**VALUATION AND QUALIFYING ACCOUNTS**

| Description | Balance at Beginning of Period | Charges to Earnings | Charges to Other Accounts | Deductions | Balance at End of Period |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| **2007** | | | | | |
| Allowance for doubtful accounts | $ 255 | $ (95) | $ 200 | $ (8)[1] | $ 352 |
| Deferred tax valuation allowance | 714 | 45 | (80) | — | 679 |
| **2006** | | | | | |
| Allowance for doubtful accounts | $ 619 | $ (182) | $ (182) | $ — | $ 255 |
| Deferred tax valuation allowance | 861 | (147) | — | — | 714 |
| **2005** | | | | | |
| Allowance for doubtful accounts | $ 1,129 | $ (298) | $ — | $ (212)[1] | $ 619 |
| Deferred tax valuation allowance | 687 | 177 | (3) | — | 861 |

(1) Write-off of uncollectible accounts receivable.

**INTERVAL LEISURE GROUP, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF OPERATIONS**
**(Unaudited)**

| | Three Months Ended March 31, | |
|---|---|---|
| | **2008** | **2007** |
| | (In thousands) | |
| Revenue | $ 115,937 | $ 86,433 |
| Cost of sales (exclusive of depreciation shown separately below) | 36,033 | 18,944 |
| Gross profit | 79,904 | 67,489 |
| Selling and marketing expense | 12,263 | 11,662 |
| General and administrative expense | 19,965 | 15,805 |
| Amortization of intangibles | 6,477 | 6,305 |
| Depreciation | 2,235 | 1,888 |
| Operating income | 38,964 | 31,829 |
| Other income (expense): | | |
| Interest income | 2,016 | 2,641 |
| Interest expense | (60) | (46) |
| Other expense | (500) | (113) |
| Total other income, net | 1,456 | 2,482 |
| Earnings before income taxes and minority interest | 40,420 | 34,311 |
| Income tax provision | (15,604) | (13,162) |
| Minority interest in income of consolidated subsidiaries | (8) | — |
| **Net income** | $ 24,808 | $ 21,149 |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

**INTERVAL LEISURE GROUP, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

| | | March 31, 2008 | | December 31, 2007 |
|---|---|---|---|---|
| | | (unaudited) | | (audited) |
| | | (In thousands) | | |
| **ASSETS** | | | | |
| Cash and cash equivalents | $ | 69,242 | $ | 67,113 |
| Restricted cash and cash equivalents | | 8,342 | | 5,817 |
| Accounts receivable, net of allowance of $273 and $352, respectively | | 23,852 | | 15,750 |
| Deferred income taxes | | 28,000 | | 28,109 |
| Deferred membership costs | | 14,153 | | 13,688 |
| Prepaid expenses and other current assets | | 21,571 | | 17,086 |
| Total current assets | | 165,160 | | 147,563 |
| Property and equipment, net | | 35,192 | | 34,963 |
| Goodwill | | 514,320 | | 514,308 |
| Intangible assets, net | | 182,442 | | 188,895 |
| Deferred membership costs | | 22,025 | | 21,217 |
| Deferred income taxes | | 12,549 | | 12,549 |
| Other non-current assets | | 2,217 | | 3,122 |
| **TOTAL ASSETS** | $ | 933,905 | $ | 922,617 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| **LIABILITIES:** | | | | |
| Accounts payable, trade | $ | 12,993 | $ | 10,981 |
| Deferred revenue | | 106,372 | | 97,898 |
| Income taxes payable | | 3,590 | | 2,489 |
| Accrued compensation and benefits | | 10,523 | | 11,635 |
| Member deposits | | 11,795 | | 11,167 |
| Accrued expenses and other current liabilities | | 27,665 | | 26,105 |
| Total current liabilities | | 172,938 | | 160,275 |
| Other long-term liabilities | | 1,976 | | 2,286 |
| Deferred revenue | | 143,140 | | 139,044 |
| Deferred income taxes | | 107,782 | | 107,133 |
| Minority interest | | 520 | | 512 |
| Commitments and contingencies | | | | |
| **SHAREHOLDERS' EQUITY:** | | | | |
| Invested capital | | 726,760 | | 726,919 |
| Receivables from IAC and subsidiaries | | (467,664) | | (436,475) |
| Retained earnings | | 247,292 | | 222,484 |
| Accumulated other comprehensive income | | 1,161 | | 439 |
| Total shareholders' equity | | 507,549 | | 513,367 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | $ | 933,905 | $ | 922,617 |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

**INTERVAL LEISURE GROUP, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**
**(Unaudited)**

| | Total | Invested Capital | Receivables from IAC and Subsidiaries | Retained Earnings | Accumulated Other Comprehensive Income |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| **Balance as of December 31, 2007** | $ 513,367 | $ 726,919 | $ (436,475) | $ 222,484 | $ 439 |
| Comprehensive income: | | | | | |
| Net income for the three months ended March 31, 2008 | 24,808 | — | — | 24,808 | — |
| Foreign currency translation | 722 | — | — | — | 722 |
| Comprehensive income | 25,530 | | | | |
| Net transfers to IAC | (159) | (159) | — | — | — |
| Net change in receivables from IAC and subsidiaries | (31,189) | — | (31,189) | — | — |
| **Balance as of March 31, 2008** | $ 507,549 | $ 726,760 | $ (467,664) | $ 247,292 | $ 1,161 |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

**INTERVAL LEISURE GROUP, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Unaudited)**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2008 | 2007 |
| | (In thousands) | |
| **Cash flows from operating activities:** | | |
| Net income | $ 24,808 | $ 21,149 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Amortization of intangibles | 6,477 | 6,305 |
| Depreciation | 2,235 | 1,888 |
| Non-cash compensation expense | 1,395 | 365 |
| Deferred income taxes | 805 | (1,951) |
| Minority interest in income of consolidated subsidiaries | 8 | — |
| Changes in current assets and liabilities: | | |
| Accounts receivable | (8,082) | (2,135) |
| Prepaid expenses and other current assets | (4,485) | 261 |
| Accounts payable and other current liabilities | 773 | (588) |
| Income taxes payable | 930 | 456 |
| Deferred revenue | 10,761 | 13,015 |
| Other, net | 886 | 284 |
| **Net cash provided by operating activities** | 36,511 | 39,049 |
| **Cash flows from investing activities:** | | |
| Transfers to IAC | (32,566) | (33,036) |
| Capital expenditures | (2,440) | (1,613) |
| **Net cash used in investing activities** | (35,006) | (34,649) |
| **Cash flows from financing activities:** | | |
| Excess tax benefits from stock-based awards | — | 256 |
| Other, net | — | (898) |
| **Net cash used in financing activities** | — | (642) |
| Effect of exchange rate changes on cash and cash equivalents | 624 | 167 |
| **Net increase in cash and cash equivalents** | 2,129 | 3,925 |
| Cash and cash equivalents at beginning of period | 67,113 | 37,557 |
| **Cash and cash equivalents at end of period** | $ 69,242 | $ 41,482 |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

## NOTE 1—ORGANIZATION AND BASIS OF PRESENTATION

### Spin-Off

On November 5, 2007, IAC/InterActiveCorp ("IAC") announced that its Board of Directors approved a plan to separate IAC into five publicly traded companies, identifying Interval Leisure Group, Inc. ("ILG") as one of those five companies. In these consolidated financial statements, we refer to the separation transaction as the "spin-off." In connection with the spin-off, ILG was incorporated as a Delaware corporation in May 2008. ILG currently does not have any material assets or liabilities, nor does it engage in any business or other activities and, other than in connection with the spin-off, will not acquire or incur any material assets or liabilities, nor will it engage in any business or other activities. Upon completion of the spin-off, ILG will consist of Interval and ResortQuest Hawaii and ResortQuest Real Estate of Hawaii, collectively referred to herein as "RQH", which was acquired on May 31, 2007, the businesses that formerly comprised IAC's Interval segment. The businesses to be operated by ILG following the spin-off are referred to herein as the "ILG Businesses."

### Basis of Presentation

The historical consolidated financial statements of ILG and its subsidiaries reflect the contribution or other transfer to ILG of all of the subsidiaries and assets and the assumption by ILG of all of the liabilities relating to the ILG Businesses in connection with the spin-off and the allocation to ILG of certain IAC corporate expenses relating to the ILG Businesses. Accordingly, the historical consolidated financial statements of ILG reflect the historical financial position, results of operations and cash flows of the ILG Businesses since their respective dates of acquisition by IAC, based on the historical consolidated financial statements and accounting records of IAC and using the historical results of operations and historical bases of the assets and liabilities of the ILG Businesses with the exception of accounting for income taxes. For purposes of these financial statements, income taxes have been computed for ILG on an as if stand-alone, separate tax return basis. Intercompany transactions and accounts have been eliminated.

In the opinion of ILG's management, the assumptions underlying the historical consolidated financial statements of ILG are reasonable. However, this financial information does not necessarily reflect what the historical financial position, results of operations and cash flows of ILG would have been had ILG been a stand-alone company during the periods presented.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of ILG's management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Interim results are not necessarily indicative of the results that may be expected for a full year. The accompanying unaudited consolidated financial statements should be read in conjunction with ILG's audited consolidated financial statements and notes thereto for the year ended December 31, 2007.

### Company Overview

ILG is a leading provider of membership services, primarily to the vacation ownership industry, through Interval. With the acquisition of RQH in May 2007, ILG also entered the vacation rental and property management services industry.

**NOTE 2—SIGNIFICANT ACCOUNTING POLICIES**

**Accounting Estimates**

ILG's management is required to make certain estimates and assumptions during the preparation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles. These estimates and assumptions impact the reported amounts 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 include: the recovery of goodwill and intangible assets; the determination of deferred income taxes, including related valuation allowances; the determination of deferred revenue; and assumptions related to the determination of stock-based compensation.

**Recent Accounting Pronouncements**

In December 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51" ("SFAS No. 160"). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. The Statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. SFAS No. 160 will be applied prospectively, except as it relates to disclosures, for which the effects will be applied retrospectively for all periods presented. Early adoption is not permitted. ILG is currently assessing the impact of SFAS No. 160 on its consolidated financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS No. 141R"), which replaces FASB Statement No. 141. SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. The Statement also establishes disclosure requirements that will enable users to evaluate the nature and financial effects of the business combination. SFAS No. 141R applies prospectively to business combinations in fiscal years beginning after December 15, 2008. Early adoption is not permitted. ILG is currently assessing the impact of the adoption of SFAS No. 141R on its consolidated financial position, results of operations and cash flows.

**NOTE 3—GOODWILL AND INTANGIBLE ASSETS**

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

| | March 31, 2008 | December 31, 2007 |
|---|---|---|
| Goodwill | $ 514,320 | $ 514,308 |
| Intangible assets with indefinite lives | 33,300 | 33,300 |
| Intangible assets with definite lives, net | 149,142 | 155,595 |
| Total goodwill and intangible assets, net | $ 696,762 | $ 703,203 |

Intangible assets with indefinite lives relate principally to trade names and trademarks. At March 31, 2008, intangible assets with definite lives relate to the following (in thousands):

| | Cost | Accumulated Amortization | Net | Weighted Average Amortization Life (Years) |
|---|---|---|---|---|
| Customer relationships | $ 129,500 | $ (71,494) | $ 58,006 | 10.0 |
| Purchase agreements | 73,500 | (40,578) | 32,922 | 10.0 |
| Property management contracts | 45,700 | (2,720) | 42,980 | 14.0 |
| Technology | 24,630 | (24,601) | 29 | 5.0 |
| Other | 16,878 | (1,673) | 15,205 | 8.1 |
| Total | $ 290,208 | $ (141,066) | $ 149,142 | |

At December 31, 2007, intangible assets with definite lives relate to the following (in thousands):

| | Cost | Accumulated Amortization | Net | Weighted Average Amortization Life (Years) |
|---|---|---|---|---|
| Customer relationships | $ 129,500 | $ (68,257) | $ 61,243 | 10.0 |
| Purchase agreements | 73,500 | (38,741) | 34,759 | 10.0 |
| Property management contracts | 45,700 | (1,904) | 43,796 | 14.0 |
| Technology | 24,630 | (24,600) | 30 | 5.0 |
| Other | 16,854 | (1,087) | 15,767 | 8.2 |
| Total | $ 290,184 | $ (134,589) | $ 155,595 | |

**NOTE 3—GOODWILL AND INTANGIBLE ASSETS (Continued)**

Amortization of intangible assets with definite lives is computed on a straight-line basis and, based on December 31, 2007 balances, such amortization for the next five years and thereafter is estimated to be as follows (in thousands):

| Years Ending December 31, | |
|---|---|
| 2008 | $ 25,917 |
| 2009 | 25,887 |
| 2010 | 25,887 |
| 2011 | 25,826 |
| 2012 | 19,892 |
| 2013 and thereafter | 32,186 |
| | $ 155,595 |

The following table presents the balance of goodwill by segment, including changes in the carrying amount of goodwill, for the three months ended March 31, 2008 (in thousands):

| | Balance as of January 1, 2008 | Additions | (Deductions) | Balance as of March 31, 2008 |
|---|---|---|---|---|
| Interval | $ 473,879 | $ — | $ — | $ 473,879 |
| RQH | 40,429 | 12 | — | 40,441 |
| Total | $ 514,308 | $ 12 | $ — | $ 514,320 |

**NOTE 4—PROPERTY AND EQUIPMENT**

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

| | March 31, 2008 | December 31, 2007 |
|---|---|---|
| Computer equipment | $ 15,648 | $ 14,443 |
| Capitalized software | 33,063 | 31,312 |
| Buildings and leasehold improvements | 19,222 | 19,182 |
| Furniture and other equipment | 8,488 | 8,096 |
| Projects in progress | 4,978 | 5,848 |
| | 81,399 | 78,881 |
| Less: accumulated depreciation and amortization | (46,207) | (43,918) |
| Total property and equipment, net | $ 35,192 | $ 34,963 |

**NOTE 5—SEGMENT INFORMATION**

The overall concept that ILG employs in determining its operating segments and related financial information is to present them in a manner consistent with how the chief operating decision maker and executive management view the businesses, how the businesses are organized as to segment management, and the focus of the businesses with regards to the types of products or services offered or the target market. ILG has two operating segments, Interval, its vacation ownership membership services business, and RQH, its vacation rental and property management business.

**NOTE 5—SEGMENT INFORMATION (Continued)**

ILG's primary metric is Operating Income Before Amortization, which is defined as operating income excluding, if applicable: (1) non-cash compensation expense, (2) amortization of intangibles and goodwill impairment, (3) pro forma adjustments for significant acquisitions, and (4) one-time items. ILG believes this measure is useful to investors because it represents the consolidated operating results from ILG's segments, taking into account depreciation, which it believes is an ongoing cost of doing business, but excluding the effects of any other non-cash expenses. Operating Income Before Amortization has certain limitations in that it does not take into account the impact to ILG's statement of operations of certain expenses, including non-cash compensation, and acquisition related accounting.

The following tables reconcile Operating Income Before Amortization to operating income for ILG's operating segments and to net income in total (in thousands):

| | For the Three Months Ended March 31, 2008: | | | |
|---|---|---|---|---|
| | Operating Income Before Amortization | Non-Cash Compensation Expense | Amortization of Intangibles | Operating Income |
| Interval | $ 42,912 | $ (1,320) | $ (5,241) | $ 36,351 |
| RQH | 3,924 | (75) | (1,236) | 2,613 |
| Total | $ 46,836 | $ (1,395) | $ (6,477) | 38,964 |
| Other income, net | | | | 1,456 |
| Earnings before income taxes and minority interest | | | | 40,420 |
| Income tax provision | | | | (15,604) |
| Minority interest in income of consolidated subsidiaries | | | | (8) |
| Net income | | | | $ 24,808 |

Prior to the acquisition of RQH on May 31, 2007, there was only one reporting segment.

| | For the Three Months Ended March 31, 2007: | | | |
|---|---|---|---|---|
| | Operating Income Before Amortization | Non-Cash Compensation Expense | Amortization of Intangibles | Operating Income |
| Interval | $ 38,499 | $ (365) | $ (6,305) | $ 31,829 |
| Other income, net | | | | 2,482 |
| Earnings before income taxes | | | | 34,311 |
| Income tax provision | | | | (13,162) |
| Net income | | | | $ 21,149 |

**NOTE 5—SEGMENT INFORMATION (Continued)**

Non-cash compensation expense in the tables above is included in the following line items in the accompanying consolidated statements of operations for the three months ended March 31, 2008 and 2007 (in thousands):

| | Three Months Ended March 31, 2008 | Three Months Ended March 31, 2007 |
|---|---|---|
| Cost of sales | $ 108 | $ 29 |
| Selling and marketing expense | 118 | 32 |
| General and administrative expense | 1,169 | 304 |
| Non-cash compensation expense | $ 1,395 | $ 365 |

| | Three Months Ended March 31, 2008 | Three Months Ended March 31, 2007 |
|---|---|---|
| **Revenue:** | | |
| Interval | $ 96,834 | $ 86,433 |
| RQH | 19,103 | — |
| Total | $ 115,937 | $ 86,433 |

ILG maintains operations in the United States, the United Kingdom and other international territories. Geographic information about the United States and international territories is presented below (in thousands):

| | Three Months Ended March 31, 2008 | Three Months Ended March 31, 2007 |
|---|---|---|
| **Revenue:** | | |
| United States | $ 97,289 | $ 71,131 |
| All other countries | 18,648 | 15,302 |
| Total | $ 115,937 | $ 86,433 |

| | March 31, 2008 | December 31, 2007 |
|---|---|---|
| **Long-lived assets (excluding goodwill and intangible assets):** | | |
| United States | $ 33,829 | $ 33,688 |
| All other countries | 1,363 | 1,275 |
| Total | $ 35,192 | $ 34,963 |

## NOTE 6—COMPREHENSIVE INCOME

Comprehensive income is comprised of (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2008 | 2007 |
| Net income | $ 24,808 | $ 21,149 |
| Foreign currency translation | 722 | 68 |
| Comprehensive income | $ 25,530 | $ 21,217 |

Accumulated other comprehensive income at March 31, 2008 and December 31, 2007 is solely related to foreign currency translation and is recorded net of tax.

## NOTE 7—INCOME TAXES

ILG calculates its interim income tax provision in accordance with Accounting Principles Board Opinion No. 28 and FASB Interpretation No. 18. At the end of each interim period, ILG makes its best estimate of the annual expected effective tax rate and applies that rate to its ordinary year-to-date earnings or loss. The tax or benefit related to significant, unusual, or extraordinary items that will be separately reported or reported net of their related tax effect are individually computed and recognized in the interim period in which those items occur. In addition, the effect of changes in enacted tax laws or rates, tax status, or judgment on the realizability of a beginning-of-the-year deferred tax asset in future years is recognized in the interim period in which the change occurs.

The computation of the annual expected effective tax rate at each interim period requires certain estimates and assumptions including, but not limited to, the expected operating income for the year, projections of the proportion of income (or loss) earned and taxed in foreign jurisdictions, permanent and temporary differences, and the likelihood of recovering deferred tax assets generated in the current year. The accounting estimates used to compute the provision for income taxes may change as new events occur, more experience is acquired, additional information is obtained or ILG's tax environment changes. To the extent that the estimated annual effective tax rate changes during a quarter, the effect of the change on prior quarters is included in tax expense for the current quarter.

For the three months ended March 31, 2008 and 2007, ILG recorded tax provisions of $15.6 million and $13.2 million, respectively, which represent effective tax rates of 39% and 38%, respectively. The tax rates for the three months ended March 31, 2008 and March 31, 2007 are higher than the federal statutory rate of 35% due principally to state and local income taxes partially offset by foreign income taxed at lower rates.

As of December 31, 2007 and March 31, 2008, ILG had unrecognized tax benefits of approximately $5.7 million. Included in unrecognized tax benefits at March 31, 2008 is approximately $4.9 million for tax positions included in IAC's consolidated tax return filings that will remain a liability of IAC after the spin-off. ILG recognizes interest and, if applicable, penalties related to unrecognized tax benefits in income tax expense. There were no material accruals for interest for the quarter ended March 31, 2008. At March 31, 2008, ILG has accrued $1.7 million for the payment of interest. There are no material accruals for penalties.

By virtue of previously filed separate company and consolidated tax returns with IAC, ILG is routinely under audit by federal, state, local and foreign authorities in the area of income tax. These

**NOTE 7—INCOME TAXES (Continued)**

audits include questioning the timing and the amount of deductions and the allocation of income among various tax jurisdictions. Income taxes payable include amounts considered sufficient to pay assessments that may result from examination of prior year returns; however, the amount paid upon resolution of issues raised may differ from the amount provided. Differences between the reserves for tax contingencies and the amounts owed by ILG are recorded in the period they become known.

The Internal Revenue Service is currently examining the IAC consolidated tax returns for the years ended December 31, 2001 through 2003, which includes the operations of ILG from September 24, 2002, its date of acquisition by IAC. The statute of limitations for these years has been extended to December 31, 2008. Various IAC consolidated tax returns filed with state, local and foreign jurisdictions are currently under examination, the most significant of which are California, Florida, New York state and New York City, for various tax years after December 31, 2001. These examinations are expected to be completed by late 2008.

ILG believes that it is reasonably possible that its unrecognized tax benefits could decrease by approximately $2.9 million within twelve months of the current reporting date due primarily to the reversal of deductible temporary differences which will result in a corresponding increase in net deferred tax liabilities. An estimate of other changes in unrecognized tax benefits cannot be made, but are not expected to be significant.

**NOTE 8—CONTINGENCIES**

In the ordinary course of business, ILG is a party to various lawsuits. ILG establishes reserves for specific legal matters when it determines that the likelihood of an unfavorable outcome is probable and the loss is reasonably estimable. Management has also identified certain other legal matters where it believes an unfavorable outcome is not probable and, therefore, no reserve is established. Although management currently believes that an unfavorable resolution of claims against ILG, including claims where an unfavorable outcome is reasonably possible, will not have a material impact on the liquidity, results of operations, or financial condition of ILG, these matters are subject to inherent uncertainties and management's view of these matters may change in the future. ILG also evaluates other contingent matters, including tax contingencies, to assess the probability and estimated extent of potential loss. See Note 7 for discussion related to income tax contingencies.

**NOTE 9—RELATED PARTY TRANSACTIONS**

ILG's expenses include allocations from IAC of costs associated with IAC's accounting, treasury, legal, tax, corporate support, human resources and internal audit functions. These allocations were based on the ratio of ILG's revenue as a percentage of IAC's total revenue. Allocated costs were $0.3 million and $0.2 million for the three months ended March 31, 2008 and 2007, respectively, and are included in "General and administrative expense" in the accompanying consolidated statements of operations. It is not practicable to determine the actual expenses that would have been incurred for these services had ILG operated as a stand-alone entity. In the opinion of management, the allocation method is reasonable.

The portion of interest income reflected in the consolidated statements of operations that is intercompany in nature, was $1.3 million and $1.5 million for the three months ended March 31, 2008 and 2007, respectively. This intercompany interest relates to the receivables from IAC.

**NOTE 9—RELATED PARTY TRANSACTIONS (Continued)**

An analysis of ILG's receivables from IAC and subsidiaries is as follows (in thousands):

| | March 31, 2008 |
|---|---|
| Receivables from IAC and subsidiaries at December 31, 2007 | $ 436,475 |
| Cash transfers to IAC related to its centrally managed U.S. treasury function | 37,646 |
| Interest income | 1,276 |
| Employee equity instruments and associated tax withholdings | 738 |
| Allocation of non-cash compensation expense | (1,368) |
| Administrative expenses and other | (7,103) |
| Receivables from IAC and subsidiaries at March 31, 2008 | $ 467,664 |

**Relationship Between IAC and ILG after the Spin-Off**

For purposes of governing certain of the ongoing relationships between ILG and IAC at and after the spin-off, and to provide for an orderly transition, ILG and IAC are expected to enter into a separation agreement, a tax sharing agreement, an employee matters agreement and a transition services agreement (the "Spin-Off Agreements"), among other agreements. See ILG's consolidated financial statements for the year ended December 31, 2007 for descriptions of the Spin-Off Agreements.

# TICKETMASTER AND SUBSIDIARIES
# COMBINED FINANCIAL STATEMENTS

## TABLE OF CONTENTS

## Report of Independent Registered Public Accounting Firm

We have audited the accompanying combined balance sheets of Ticketmaster and subsidiaries as of December 31, 2007 and 2006, and the related combined statements of operations, invested equity, and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule on page C-29. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of Ticketmaster and subsidiaries at December 31, 2007 and 2006, and the combined results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic combined financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

New York, New York
May 5, 2008

## TICKETMASTER AND SUBSIDIARIES

## COMBINED STATEMENTS OF OPERATIONS

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | | (In thousands) | |
| Revenue | $ 1,240,477 | $ 1,062,672 | $ 928,704 |
| Cost of sales (exclusive of depreciation shown separately below) | 766,538 | 637,152 | 561,060 |
| Gross profit | 473,939 | 425,520 | 367,644 |
| Selling and marketing expense | 43,487 | 20,123 | 17,691 |
| General and administrative expense | 149,478 | 118,317 | 121,695 |
| Amortization of intangibles | 26,200 | 27,109 | 28,748 |
| Depreciation | 38,458 | 35,080 | 33,495 |
| Operating income | 216,316 | 224,891 | 166,015 |
| Other income (expense): | | | |
| Interest income | 33,065 | 33,982 | 17,417 |
| Interest expense | (1,003) | (302) | (65) |
| Equity in income of combined affiliates | 6,301 | 2,997 | 3,401 |
| Other income | 1,120 | 982 | 689 |
| Total other income, net | 39,483 | 37,659 | 21,442 |
| Earnings before income taxes and minority interest | 255,799 | 262,550 | 187,457 |
| Income tax provision | (89,007) | (85,967) | (68,288) |
| Minority interest in losses (income) of combined subsidiaries | 2,559 | 118 | (1,470) |
| **Net income** | $ 169,351 | $ 176,701 | $ 117,699 |

The accompanying Notes to Combined Financial Statements are an integral part of these statements.

## TICKETMASTER AND SUBSIDIARIES

## COMBINED BALANCE SHEETS

| | December 31, 2007 | December 31, 2006 |
|---|---|---|
| | (In thousands) | |
| **ASSETS** | | |
| Cash and cash equivalents | $ 568,417 | $ 317,577 |
| Restricted cash | 853 | — |
| Accounts receivable, client accounts | 99,453 | 75,367 |
| Accounts receivable, trade, net of allowance of $2,346 and $2,798, respectively | 33,979 | 22,256 |
| Deferred income taxes | 5,883 | 10,639 |
| Contract advances | 63,126 | 28,834 |
| Prepaid expenses and other current assets | 21,149 | 15,134 |
| Total current assets | 792,860 | 469,807 |
| Property and equipment, net | 95,122 | 82,599 |
| Goodwill | 1,090,418 | 1,051,732 |
| Intangible assets, net | 92,325 | 110,629 |
| Long-term investments | 149,295 | 52,845 |
| Other non-current assets | 86,514 | 48,099 |
| **TOTAL ASSETS** | $ 2,306,534 | $ 1,815,711 |
| **LIABILITIES AND INVESTED EQUITY** | | |
| **LIABILITIES:** | | |
| Accounts payable, client accounts | $ 413,075 | $ 304,829 |
| Accounts payable, trade | 14,698 | 14,401 |
| Accrued compensation and benefits | 31,171 | 32,280 |
| Deferred revenue | 19,829 | 16,751 |
| Income taxes payable | 1,721 | 3,693 |
| Other accrued expenses and current liabilities | 42,449 | 38,211 |
| Total current liabilities | 522,943 | 410,165 |
| Income taxes payable | 982 | — |
| Other long-term liabilities | 3,204 | 3,510 |
| Deferred income taxes | 32,416 | 43,530 |
| Minority interest | 7,812 | 669 |
| Commitments and contingencies | | |
| **INVESTED EQUITY:** | | |
| Invested capital | 2,172,497 | 1,874,710 |
| Receivables from IAC and subsidiaries | (474,110) | (539,861) |
| Accumulated other comprehensive income | 40,790 | 22,988 |
| Total invested equity | 1,739,177 | 1,357,837 |
| **TOTAL LIABILITIES AND INVESTED EQUITY** | $ 2,306,534 | $ 1,815,711 |

The accompanying Notes to Combined Financial Statements are an integral part of these statements.

## TICKETMASTER AND SUBSIDIARIES

## COMBINED STATEMENTS OF INVESTED EQUITY

| | Total | Invested Capital | Receivables from IAC and Subsidiaries | Accumulated Other Comprehensive Income |
|---|---|---|---|---|
| | | (In thousands) | | |
| **Balance as of December 31, 2004** | $ 1,270,899 | $ 1,509,641 | $ (246,815) | $ 8,073 |
| Comprehensive income: | | | | |
| Net income for the year ended December 31, 2005 | 117,699 | 117,699 | — | — |
| Foreign currency translation | (7,078) | — | — | (7,078) |
| Comprehensive income | 110,621 | | | |
| Net transfers from IAC (principally funding for acquisitions and the transfer of an investment to Ticketmaster)(a) | 54,311 | 54,311 | — | — |
| Net change in receivables from IAC and subsidiaries | (82,786) | — | (82,786) | — |
| **Balance as of December 31, 2005** | 1,353,045 | 1,681,651 | (329,601) | 995 |
| Comprehensive income: | | | | |
| Net income for the year ended December 31, 2006 | 176,701 | 176,701 | — | — |
| Foreign currency translation | 21,993 | — | — | 21,993 |
| Comprehensive income | 198,694 | | | |
| Net transfers from IAC (principally funding for acquisitions reduced by the transfer of an investment to IAC)(a) | 16,358 | 16,358 | — | — |
| Net change in receivables from IAC and subsidiaries | (210,260) | — | (210,260) | — |
| **Balance as of December 31, 2006** | 1,357,837 | 1,874,710 | (539,861) | 22,988 |
| Comprehensive income: | | | | |
| Net income for the year ended December 31, 2007 | 169,351 | 169,351 | — | — |
| Foreign currency translation | 17,802 | — | — | 17,802 |
| Comprehensive income | 187,153 | | | |
| Cumulative effect of adoption of FIN 48 | 1,344 | 1,344 | — | — |
| Net transfers from IAC (principally the transfer of an investment to Ticketmaster and funding for acquisitions) (a) | 127,092 | 127,092 | — | — |
| Net change in receivables from IAC and subsidiaries | 65,751 | — | 65,751 | — |
| **Balance as of December 31, 2007** | $ 1,739,177 | $ 2,172,497 | $ (474,110) | $ 40,790 |

(a) See Note 12 for a further discussion of the investment transfers.

The accompanying Notes to Combined Financial Statements are an integral part of these statements.

**TICKETMASTER AND SUBSIDIARIES**

**COMBINED STATEMENTS OF CASH FLOWS**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | (In thousands) | | |
| **Cash flows from operating activities:** | | | |
| **Net income** | $ 169,351 | $ 176,701 | $ 117,699 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Amortization of intangibles | 26,200 | 27,109 | 28,748 |
| Depreciation | 38,458 | 35,080 | 33,495 |
| Non-cash compensation expense | 12,572 | 7,839 | 20,305 |
| Deferred income taxes | (11,210) | (10,205) | (8,190) |
| Excess tax benefits from stock-based awards | — | — | 2,485 |
| Equity in income of unconsolidated affiliates, net of dividends | 1,035 | (1,997) | 97 |
| Minority interest in (losses) income of consolidated subsidiaries | (2,559) | (118) | 1,470 |
| Changes in current assets and liabilities: | | | |
| Accounts receivable | (10,878) | (3,415) | (4,498) |
| Prepaid expenses and other current assets | (77,559) | (667) | (13,631) |
| Accounts payable and other current liabilities | (9,645) | (7,506) | 12,930 |
| Income taxes payable | 1,081 | 2,220 | 2,702 |
| Deferred revenue | 2,038 | 1,974 | 2,979 |
| Funds collected on behalf of clients, net | 72,093 | 2,593 | 70,889 |
| Other, net | 990 | 1,068 | 49 |
| **Net cash provided by operating activities** | 211,967 | 230,676 | 267,529 |
| **Cash flows from investing activities:** | | | |
| Transfers from (to) IAC | 64,548 | (214,186) | (110,391) |
| Acquisitions, net of cash acquired | (29,423) | (17,844) | (28,542) |
| Capital expenditures | (47,521) | (39,288) | (36,953) |
| Purchases of marketable securities | — | (37,841) | (79,623) |
| Proceeds from sales and maturities of marketable securities | — | 146,708 | 68,451 |
| Increase in long-term investments | (630) | (20,638) | — |
| Other, net | — | (5,977) | 155 |
| **Net cash used in investing activities** | (13,026) | (189,066) | (186,903) |
| **Cash flows from financing activities:** | | | |
| Capital contributions from IAC | 29,423 | 17,844 | 28,542 |
| Principal payments on long-term obligations | (2,175) | (21) | (17) |
| Excess tax benefits from stock-based awards | 3,029 | 2,738 | — |
| Other, net | — | — | (3,588) |
| **Net cash provided by financing activities** | 30,277 | 20,561 | 24,937 |
| Effect of exchange rate changes on cash and cash equivalents | 21,622 | 17,576 | (6,809) |
| **Net increase in cash and cash equivalents** | 250,840 | 79,747 | 98,754 |
| Cash and cash equivalents at beginning of period | 317,577 | 237,830 | 139,076 |
| **Cash and cash equivalents at end of period** | $ 568,417 | $ 317,577 | $ 237,830 |

The accompanying Notes to Combined Financial Statements are an integral part of these statements.

## NOTE 1—ORGANIZATION AND BASIS OF PRESENTATION

### Spin-Off

On November 5, 2007, IAC/InterActiveCorp ("IAC") announced that its Board of Directors approved a plan to separate IAC into five publicly traded companies, identifying Ticketmaster as one of those five companies. In these combined financial statements, we refer to the separation transaction herein as the "spin-off." Upon completion of the spin-off, Ticketmaster will consist of the businesses that formerly comprised IAC's Ticketmaster segment, which consists of its domestic and international ticketing and ticketing related businesses, subsidiaries and investments, excluding its ReserveAmerica subsidiary and its investment in Active.com. Ticketmaster will include IAC's investment in Front Line Management Group Inc. ("Front Line"). The businesses to be operated by Ticketmaster following the spin-off are referred to herein as the "Ticketmaster Businesses."

### Basis of Presentation

The historical combined financial statements of Ticketmaster and its subsidiaries reflect the historical financial position, results of operations and cash flows of the Ticketmaster Businesses since their respective dates of acquisition by IAC, and the allocation to Ticketmaster of certain IAC corporate expenses relating to the Ticketmaster Businesses based on the historical consolidated financial statements and accounting records of IAC and using the historical results of operations and historical bases of the assets and liabilities of the Ticketmaster Businesses. However, for the purposes of these financial statements, income taxes have been computed for Ticketmaster on an as if stand-alone, separate tax return basis. These financial statements are prepared on a combined, rather than a consolidated, basis because they exclude ReserveAmerica and the investment in Active.com that were owned, and include the investment in Front Line that was not owned, either directly or indirectly, by legal entities that comprise the Ticketmaster Businesses. The ownership of ReserveAmerica and the investment in Active.com will be retained by IAC after the spin-off. These combined financial statements present IAC's and its subsidiaries net investment in the Ticketmaster Businesses as invested equity in lieu of shareholders' equity. Intercompany transactions and accounts have been eliminated.

In the opinion of Ticketmaster's management, the assumptions underlying the historical combined financial statements of Ticketmaster are reasonable. However, this financial information does not necessarily reflect what the historical financial position, results of operations and cash flows of Ticketmaster would have been had Ticketmaster been a stand-alone company during the periods presented.

### Company Overview

Ticketmaster is the world's leading live entertainment ticketing and marketing company, providing ticket sales, ticket resale services, marketing and distribution through www.ticketmaster.com, one of the largest e-commerce sites on the internet, approximately 6,700 independent sales outlets and 19 call centers worldwide. Ticketmaster serves leading arenas, stadiums, amphitheaters, music clubs, concert promoters, professional sports franchises and leagues, college sports teams, performing arts venues, museums and theaters in the United States and abroad, including Australia, Canada, China, Denmark, Finland, Germany, Ireland, the Netherlands, New Zealand, Norway, Spain, Sweden, Turkey and the United Kingdom. Ticketmaster is also a party to joint ventures with third parties to provide ticket distribution services in Mexico and to supply ticketing services for the 2008 Beijing Olympic Games. Ticketmaster licenses its technology in Mexico, Argentina, Brazil, Chile, China and Belgium.

**NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Revenue Recognition**

Revenue, which primarily consists of convenience and order processing fees from ticketing operations, is recognized as tickets are sold, and is recorded on a net basis (net of the face value of the ticket) as Ticketmaster acts as an agent in these transactions. Interest income is earned on funds that are collected from ticket purchasers and invested until remittance to the applicable clients. As the process of collecting, holding and remitting these funds is a critical component of providing service to these clients, the interest earned on these funds is included in revenue. For the years ended December 31, 2007, 2006 and 2005, $18.7 million, $15.3 million and $8.9 million, respectively, of interest income is included in revenue. Sales taxes collected are not included in revenue.

**Order Processing and Delivery Costs**

Costs associated with processing and delivering orders to customers are recorded as cost of sales.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash, money market instruments and time deposits with original maturities of less than 91 days. Cash and cash equivalents include $313.6 million and $229.5 million at December 31, 2007 and 2006, respectively, of collected proceeds relating to the face value of the tickets, which are payable to clients and reflected as accounts payable, client accounts. Cash and cash equivalents held in international territories totaled $358.2 million and $218.4 million at December 31, 2007 and 2006, respectively.

**Marketable Securities**

At times, Ticketmaster invests in marketable securities and accounts for them in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Ticketmaster did not hold any marketable securities at December 31, 2007 or 2006. Ticketmaster only invests in marketable securities with active secondary or resale markets to ensure portfolio liquidity and the ability to readily convert investments into cash to fund current operations, or satisfy other cash requirements as needed. Marketable securities are, when held, classified as available-for-sale and reported at fair value based on quoted market prices.

**Accounts Receivable**

Accounts receivable, client accounts are due principally from ticketing outlets and credit card processors and represent the face value of tickets sold plus convenience and order processing fees, generally net of outlet commissions.

Accounts receivable, trade includes amounts relating to advertising and software licensing sales and are stated at amounts due, net of an allowance for doubtful accounts. Accounts receivable outstanding longer than the contractual payment terms are considered past due. Ticketmaster determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, Ticketmaster's previous loss history, the specific customer's current ability to pay its obligation to Ticketmaster and the condition of the general economy and the customer's industry. Ticketmaster writes off accounts receivable when they become uncollectible.

**NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Property and Equipment**

Property and equipment, including significant improvements, are recorded at cost. Repairs and maintenance and any gains or losses on dispositions are included in operations.

Depreciation is recorded on a straight-line basis to allocate the cost of depreciable assets to operations over their estimated service lives.

| Asset Category | Depreciation Period |
|---|---|
| Computer equipment and capitalized software | 1 to 3 Years |
| Leasehold improvements | 3 to 17 Years |
| Furniture and other equipment | 5 to 7 Years |

In accordance with American Institute of Certified Public Accountants' Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," Ticketmaster capitalizes certain qualified costs incurred in connection with the development of internal use software. Capitalization of internal use software costs begins when the preliminary project stage is completed, management with the relevant authority authorizes and commits to the funding of the software project, and it is probable that the project will be completed and the software will be used to perform the function intended. Capitalized internal use software is depreciated on a straight-line basis over the estimated useful life of the software, not to exceed three years. Capitalized internal software costs, net of accumulated depreciation, totaled $26.7 million and $21.3 million at December 31, 2007 and 2006, respectively, and are included in "Property and equipment, net" in the accompanying combined balance sheets.

**Goodwill and Indefinite-Lived Intangible Assets**

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), Ticketmaster tests goodwill and indefinite-lived intangible assets for impairment annually, or more frequently if events or changes in circumstances indicate that the assets might be impaired. If the carrying amount of Ticketmaster's goodwill exceeds its implied fair value, an impairment loss equal to the excess is recorded. If the carrying amount of an indefinite-lived intangible asset exceeds its estimated fair value, an impairment loss equal to the excess is recorded.

**Long-Lived Assets and Intangible Assets with Definite Lives**

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"), long-lived assets, including property and equipment and intangible assets with definite lives, are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the carrying amount is deemed to not be recoverable, an impairment loss is recorded as the amount by which the carrying amount of the long-lived asset exceeds its fair value. Amortization of definite lived intangible assets is recorded on a straight-line basis over their estimated lives.

**NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Long-Term Investments**

Investments in which Ticketmaster has the ability to exercise significant influence over the operating and financial matters of the investee are accounted for using the equity method. Investments in which Ticketmaster does not have the ability to exercise significant influence over the operating and financial matters of the investee are accounted for using the cost method. Ticketmaster evaluates each equity and cost method investment for impairment on a quarterly basis and recognizes an impairment loss if a decline in value is determined to be other-than-temporary. Such impairment evaluations include, but are not limited to, the current business environment including competition and uncertainty of financial condition; going concern considerations such as the rate at which the investee company utilizes cash, and the investee company's ability to obtain additional private financing to fulfill its stated business plan; the need for changes to the investee company's existing business model due to changing business environments and its ability to successfully implement necessary changes; and comparable valuations. If Ticketmaster has not identified events or changes in circumstances that may have a significant adverse effect on the fair value of a cost investment, then the fair value of such cost method investment is not estimated, as it is impracticable to do so.

Investments accounted for under the cost method are included in "Long-term investments" in the accompanying combined balance sheets and have a carrying value of approximately $4.1 million and $3.5 million as of December 31, 2007 and 2006, respectively. See Note 9 for discussion related to investments accounted for under the equity method.

**Contract Advances**

Contract advances, which can be either recoupable or non-recoupable, represent amounts paid in advance to Ticketmaster's clients pursuant to agreements that provide for the client's participation in the convenience charges and/or order processing fees. Recoupable contract advances are generally recoupable against future royalties earned by the clients based on the contract terms over the life of the contract (generally 3 to 7 years). Non-recoupable contract advances are fixed additional incentives which are normally amortized over the life of the contract on a straight-line basis (generally 3 to 7 years). Recoupment of contract advances and amortization of non-recoupable contract advances are included in "Cost of sales" in the accompanying combined statements of operations.

**Accounts Payable, Client Accounts**

Accounts payable, client accounts consists of contractual amounts due to clients for tickets sold on behalf of the organizations that sponsor events and ticketing royalties, which arise from the clients' share of convenience and order processing charges.

**Deferred Revenue**

Deferred revenue primarily consists of unredeemed gift cards issued by Ticketmaster. Deferred revenue is recognized as revenue upon redemption of the gift card or when the likelihood of redemption of the gift card becomes remote (gift card breakage). The likelihood of redemption becoming remote occurs when the gift card expires or, if no expiration date exists, it generally occurs ratably over a period of three to seven years after the purchase of the gift card. Income from gift card breakage, net of any amounts subject to escheat laws, is included in "Revenue" in the accompanying combined statements of operations.

**NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Advertising**

Advertising costs are expensed in the period incurred and represent both offline costs, including sports sponsorships and radio advertising, and online advertising costs, including fees paid to search engines and distribution partners. Advertising expense was $21.6 million, $6.3 million and $6.0 million for the years ended December 31, 2007, 2006 and 2005, respectively.

**Research and Development**

Research and development costs, which relate primarily to software development, are charged to operations as incurred. Based on Ticketmaster's development process, technological feasibility is established upon completion of a working model. Costs incurred prior to the completion of a working model are expensed as incurred. Costs incurred subsequent to the completion of a working model and the point at which the software is ready for general release are capitalized. Research and development costs were $21.4 million, $20.1 million and $16.4 million for the years ended December 31, 2007, 2006 and 2005, respectively.

**Income Taxes**

Ticketmaster accounts for income taxes under the liability method, and deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided on deferred tax assets if it is determined that it is more likely than not that the deferred tax asset will not be realized. Ticketmaster records interest on potential tax contingencies as a component of income tax expense and records interest net of any applicable related income tax benefit.

Effective January 1, 2007, Ticketmaster adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" ("FIN 48"). As a result of the adoption of FIN 48, Ticketmaster recognizes liabilities for uncertain tax positions based on the two-step process prescribed by the interpretation. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement.

**Foreign Currency Translation and Transaction Gains and Losses**

The financial position and operating results of substantially all foreign operations are consolidated using the local currency as the functional currency. Local currency assets and liabilities are translated at the rates of exchange as of the balance sheet date, and local currency revenue and expenses are translated at average rates of exchange during the period. Resulting translation gains or losses are included as a component of accumulated other comprehensive income, a separate component of invested equity. Accumulated other comprehensive income is solely related to foreign currency translation. Transaction gains and losses arising from transactions denominated in a currency other than the functional currency of the entity involved are included in the combined statements of operations.

**NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Foreign currency transaction net gains for the years ended December 31, 2007, 2006 and 2005 were $1.1 million, $1.2 million and $0.6 million, respectively, and are included in "Other income" in the accompanying combined statements of operations.

**Stock-Based Compensation**

Effective January 1, 2006, Ticketmaster adopted the provisions of SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), using the modified prospective transition method and therefore has not restated results for prior periods. See Note 3 for a further description of the impact of the adoption of SFAS 123R and Staff Accounting Bulletin No. 107 ("SAB 107").

**Minority Interest**

Minority interest in 2007 represented minority ownership in newly acquired subsidiaries and certain international operations. In 2006, minority interest represented minority ownership in certain international operations.

In connection with the acquisition of certain subsidiaries, former management of these businesses has retained an ownership interest. Ticketmaster is party to fair value put and call arrangements with respect to these interests. These put and call arrangements allow management to require Ticketmaster to purchase their interests or allow Ticketmaster to acquire such interests at fair value, respectively. These put and call arrangements become exercisable by Ticketmaster and the counter-party, respectively, at various dates over the next five years. Upon such exercise, the consideration payable can be denominated in either shares of IAC or cash at IAC's option. This put and call arrangement will be modified prior to the spin-off so that the consideration payable in IAC shares will be replaced with Ticketmaster shares. During 2008, none of these arrangements become exercisable. These put arrangements are exercisable by the counter-party outside the control of Ticketmaster and are accounted for in accordance with EITF Issue No. D-98 "Classification and Measurement of Redeemable Securities." Accordingly, to the extent that the fair value of these interests exceeds the value determined by normal minority interest accounting, the value of such interests is adjusted to fair value with a corresponding adjustment to invested equity.

**Accounting Estimates**

Ticketmaster's management is required to make certain estimates and assumptions during the preparation of the combined financial statements in accordance with U.S. generally accepted accounting principles. 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 combined 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 combined financial statements include: the recoverability of contract advances; the recoverability of long-lived assets; the recovery of goodwill and intangible assets; the determination of income taxes payable and deferred income taxes, including related valuation allowances; and assumptions related to the determination of stock-based compensation.

**NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Certain Risks and Concentrations**

Ticketmaster'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.

Ticketmaster's largest client, Live Nation, Inc. ("Live Nation") (including its subsidiary House of Blues), represented approximately 17%, 20% and 20% of its total revenue for the years ended December 31, 2007, 2006 and 2005, respectively. This client relationship consists of four agreements, two with Live Nation (a worldwide agreement (other than England, Scotland and Wales) that expires on December 31, 2008 and an agreement covering England, Scotland and Wales that expires on December 31, 2009) and two with House of Blues (a U.S. agreement that expires on December 31, 2009 and a Canadian agreement that expires on March 1, 2010). Ticketmaster anticipates that these contracts will not be renewed. Ticketmaster is undertaking and expects to continue to undertake efforts to replace the revenue it expects to lose upon the expiration of its contracts with Live Nation.

Financial instruments, which potentially subject Ticketmaster to concentration of credit risk, consist primarily of cash and cash equivalents. Cash and cash equivalents are maintained with quality financial institutions of high credit and cash held in the U.S. is in excess of Federal Deposit Insurance Corporation insurance limits.

**Recent Accounting Pronouncements**

In December 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51" ("SFAS No. 160"). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. The Statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. SFAS No. 160 will be applied prospectively, except as it relates to disclosures, for which the effects will be applied retrospectively for all periods presented. Early adoption is not permitted. Ticketmaster is currently assessing the impact of SFAS No. 160 on its combined financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS No. 141R"), which replaces FASB Statement No. 141. SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. The Statement also establishes disclosure requirements that will enable users to evaluate the nature and financial effects of the business combination. SFAS No. 141R applies prospectively to business combinations in fiscal years beginning after December 15, 2008. Early adoption is not permitted. Ticketmaster is currently assessing the impact of the adoption of SFAS No. 141R on its combined financial position, results of operations and cash flows.

**NOTE 3—SFAS 123R AND STOCK-BASED COMPENSATION**

The equity awards described below principally relate to awards to Ticketmaster employees that were granted under various IAC stock and annual incentive plans.

Effective January 1, 2006, Ticketmaster adopted SFAS 123R using the modified prospective transition method and has applied the classification provisions of SAB 107 regarding the SEC's interpretation of SFAS 123R and the valuation of share-based payments for public companies in its adoption of SFAS 123R.

The adoption of SFAS 123R did not impact the amount of stock-based compensation expense recorded in the accompanying combined statements of operations as Ticketmaster had previously adopted the expense recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"). Ticketmaster has been recognizing expense for all stock-based compensation instruments since it became wholly owned by IAC on January 17, 2003.

Prior to the adoption of SFAS 123R, the entire tax benefit from stock-based compensation was reported as a component of operating cash flows. Upon the adoption of SFAS 123R, tax benefits resulting from tax deductions in excess of the stock-based compensation expense recognized in the combined statement of operations are reported as a component of financing cash flows. For the years ended December 31, 2007 and 2006, excess tax benefits from stock-based compensation of $3.0 million and $2.7 million, respectively, are included as a component of financing cash flows. For the year ended December 31, 2005, excess tax benefits from stock-based compensation of $2.5 million is included as a component of operating cash flows.

Non-cash stock-based compensation expense related to equity awards is included in the following line items in the accompanying combined statements of operations for the years ended December 31, 2007, 2006 and 2005 (in thousands):

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Cost of sales | $ 800 | $ 654 | $ 1,664 |
| Selling and marketing expense | 876 | 646 | 621 |
| General and administrative expense | 10,896 | 6,539 | 18,020 |
| Non-cash stock-based compensation expense before income taxes | 12,572 | 7,839 | 20,305 |
| Income tax benefit | (5,305) | (3,424) | (6,961) |
| Non-cash stock-based compensation expense after income taxes | $ 7,267 | $ 4,415 | $ 13,344 |

The form of awards granted to Ticketmaster employees are principally restricted stock units ("RSUs"), performance stock units ("PSUs") and stock options.

The fair value of each stock option award is estimated on the grant date using the Black-Scholes option pricing model. There were no stock options granted by IAC with respect to Ticketmaster employees during the years ended December 31, 2007, 2006 and 2005.

RSUs and PSUs are awards in the form of phantom shares or units, denominated in a hypothetical equivalent number of shares of IAC common stock and with the value of each award equal to the fair value of IAC common stock at the date of grant. All outstanding award agreements provide for settlement, upon vesting, in stock for U.S. employees and in cash for non-U.S. employees. Each RSU, PSU and restricted stock grant is subject to service-based vesting, where a specific period of continued

**NOTE 3—SFAS 123R AND STOCK-BASED COMPENSATION (Continued)**

employment must pass before an award vests, and certain grants also include performance-based vesting, where certain performance targets set at the time of grant must be achieved before an award vests. Ticketmaster recognizes expense for all RSUs, PSUs and restricted stock for which vesting is considered probable. For RSU and restricted stock grants to U.S. employees, the accounting charge is measured at the grant date as the fair value of IAC common stock and expensed ratably as non-cash compensation over the vesting term. For PSU grants to U.S. employees, the expense is measured at the grant date as the fair value of IAC common stock and expensed as non-cash compensation when the performance targets are considered probable of being achieved. The expense associated with RSU and PSU awards to non-U.S. employees is initially measured at fair value at the grant date and expensed ratably over the vesting term, subject to mark-to-market adjustments for changes in the price of IAC common stock, as compensation expense within general and administrative expense. The expense related to awards to international employees totaled $1.8 million, $1.1 million and $0.9 million for the years ended December 31, 2007, 2006 and 2005, respectively. Cash payments related to awards to international employees, totaled $2.4 million, $1.4 million and $0.9 million for the years ended December 31, 2007, 2006 and 2005, respectively.

The amount of stock-based compensation expense recognized in the combined statements of operations is reduced by estimated forfeitures, as the amount recorded is based on awards ultimately expected to vest. The forfeiture rate is estimated at the grant date based on historical experience and revised, if necessary, in subsequent periods if the actual forfeiture rate differs from the estimated rate.

In connection with the Expedia spin-off, all of Ticketmaster's outstanding share-based compensation instruments were modified. Accordingly, on August 9, 2005, Ticketmaster recorded a pre-tax modification charge of $8.2 million related to the treatment of vested stock options. In conjunction with the Expedia spin-off and the adoption of SFAS 123R, Ticketmaster conducted an assessment of certain assumptions used in determining the expense related to stock-based compensation which was completed in the third quarter of 2005. The cumulative effect of a change in Ticketmaster's estimate related to the number of stock-based awards that were expected to vest resulted in a reduction in stock-based compensation expense of $1.7 million. The after-tax effect of this change in estimate on net income was $1.0 million.

As of December 31, 2007, there was approximately $29.2 million of unrecognized compensation cost, net of estimated forfeitures, related to all equity-based awards. This cost is expected to be recognized over a weighted-average period of approximately 2.5 years. At December 31, 2007, there were approximately 0.2 million awards outstanding to non-U.S. employees.

**NOTE 4—GOODWILL AND INTANGIBLE ASSETS**

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

| | December 31, | |
|---|---|---|
| | 2007 | 2006 |
| Goodwill | $ 1,090,418 | $ 1,051,732 |
| Intangible assets with indefinite lives | 62,560 | 62,560 |
| Intangible assets with definite lives, net | 29,765 | 48,069 |
| Total goodwill and intangible assets, net | $ 1,182,743 | $ 1,162,361 |

**NOTE 4—GOODWILL AND INTANGIBLE ASSETS (Continued)**

Intangible assets with indefinite lives relate principally to trade names and trademarks acquired in various acquisitions. At December 31, 2007, intangible assets with definite lives relate to the following (in thousands):

| | Cost | Accumulated Amortization | Net | Weighted-Average Amortization Life (Years) |
|---|---|---|---|---|
| Purchase agreements | $ 163,681 | $ (145,637) | $ 18,044 | 6.1 |
| Distribution agreements | 28,109 | (20,567) | 7,542 | 4.2 |
| Other | 23,339 | (19,160) | 4,179 | 4.7 |
| Total | $ 215,129 | $ (185,364) | $ 29,765 | |

At December 31, 2006, intangible assets with definite lives relate to the following (in thousands):

| | Cost | Accumulated Amortization | Net | Weighted-Average Amortization Life (Years) |
|---|---|---|---|---|
| Purchase agreements | $ 152,630 | $ (123,001) | $ 29,629 | 5.9 |
| Distribution agreements | 27,876 | (15,909) | 11,967 | 4.2 |
| Other | 22,349 | (15,876) | 6,473 | 4.8 |
| Total | $ 202,855 | $ (154,786) | $ 48,069 | |

Amortization of intangible assets with definite lives is computed on a straight-line basis and, based on December 31, 2007 balances, such amortization for the next five years and thereafter is estimated to be as follows (in thousands):

| Years Ending December 31, | |
|---|---|
| 2008 | $ 16,542 |
| 2009 | 5,806 |
| 2010 | 1,453 |
| 2011 | 835 |
| 2012 | 854 |
| 2013 and thereafter | 4,275 |
| | $ 29,765 |

The following tables present the balance of goodwill, including the changes in carrying amount of goodwill, for the years ended December 31, 2007 and 2006 (in thousands):

| Balance as of January 1, 2007 | Additions | (Deductions) | Foreign Exchange Translation | Balance as of December 31, 2007 |
|---|---|---|---|---|
| $ 1,051,732 | $ 35,732 | $ (5,899) | $ 8,853 | $ 1,090,418 |

**NOTE 4—GOODWILL AND INTANGIBLE ASSETS (Continued)**

Additions principally relate to acquisitions. Deductions principally relate to the establishment of a deferred tax asset related to acquired tax attributes.

| Balance as of January 1, 2006 | Additions | (Deductions) | Foreign Exchange Translation | Balance as of December 31, 2006 |
|---|---|---|---|---|
| $ 1,027,886 | $ 20,779 | $ (4,219) | $ 7,286 | $ 1,051,732 |

Additions principally relate to international acquisitions. Deductions principally relate to the establishment of a deferred tax asset related to acquired tax attributes and the income tax benefit realized pursuant to the exercise of stock options assumed in business acquisitions that were vested at the transaction date and are treated as a reduction in goodwill when the income tax deductions are realized.

**NOTE 5—PROPERTY AND EQUIPMENT**

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

| | December 31, | |
|---|---|---|
| | 2007 | 2006 |
| Computer equipment and capitalized software | $ 260,983 | $ 221,123 |
| Leasehold improvements | 14,180 | 14,336 |
| Furniture and other equipment | 18,375 | 15,811 |
| Projects in progress | 10,249 | 6,624 |
| Land | 2,500 | 2,153 |
| | 306,287 | 260,047 |
| Less: accumulated depreciation and amortization | (211,165) | (177,448) |
| Total property and equipment, net | $ 95,122 | $ 82,599 |

**NOTE 6—INCOME TAXES**

Ticketmaster is a member of IAC's consolidated federal and state tax returns. In all periods presented, current and deferred tax expense has been computed for Ticketmaster on a separate return basis. Ticketmaster's payments to IAC for its share of IAC's consolidated federal and state tax return liabilities have been reflected within cash flows from operating activities in the accompanying combined statements of cash flows.

U.S. and foreign earnings from continuing operations before income taxes and minority interest are as follows (in thousands):

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| U.S. | $ 170,573 | $ 199,282 | $ 141,157 |
| Foreign | 85,226 | 63,268 | 46,300 |
| **Total** | $ 255,799 | $ 262,550 | $ 187,457 |

**NOTE 6—INCOME TAXES (Continued)**

The components of the provision for income taxes attributable to continuing operations are as follows (in thousands):

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Current income tax provision: | | | |
| Federal | $ 62,246 | $ 60,960 | $ 50,892 |
| State | 12,076 | 11,416 | 8,363 |
| Foreign | 25,895 | 23,796 | 17,223 |
| Current income tax provision | 100,217 | 96,172 | 76,478 |
| Deferred income tax (benefit) provision: | | | |
| Federal | (9,880) | (1,383) | (6,277) |
| State | (1,477) | (5,533) | 356 |
| Foreign | 147 | (3,289) | (2,269) |
| Deferred income tax (benefit) | (11,210) | (10,205) | (8,190) |
| Income tax provision | $ 89,007 | $ 85,967 | $ 68,288 |

Current income taxes payable has been reduced by $3.0 million, $2.7 million and $2.5 million for the years ended December 31, 2007, 2006 and 2005, respectively, for tax deductions attributable to stock- based compensation. The related income tax benefits of this stock-based compensation were recorded as amounts charged or credited to invested capital or a reduction in goodwill.

The tax effects of cumulative temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2007 and 2006 are presented below (in thousands). The valuation allowance is related to items for which it is more likely than not that the tax benefit will not be realized.

| | December 31, | |
|---|---|---|
| | 2007 | 2006 |
| **Deferred tax assets:** | | |
| Provision for accrued expenses | $ 6,976 | $ 3,881 |
| Net operating loss carryforwards | 4,118 | 1,701 |
| Stock-based compensation | 7,977 | 7,257 |
| Other | 1,701 | 2,102 |
| Total deferred tax assets | 20,772 | 14,941 |
| Less valuation allowance | (6,770) | (4,164) |
| Net deferred tax assets | 14,002 | 10,777 |
| **Deferred tax liabilities:** | | |
| Property and equipment | (4,973) | — |
| Intangible and other assets | (33,992) | (39,693) |
| Other | (1,536) | (1,685) |
| Total deferred tax liabilities | (40,501) | (41,378) |
| Net deferred tax liability | $ (26,499) | $ (30,601) |

**NOTE 6—INCOME TAXES (Continued)**

Included in "Other non-current assets" in the accompanying combined balance sheets at December 31, 2007 and 2006 is a non-current deferred tax asset of $0.9 million and $2.6 million, respectively. In addition, included in "Other accrued expenses and current liabilities" in the accompanying combined balance sheets at December 31, 2007 and 2006 is a current deferred tax liability of $0.9 million and $0.3 million, respectively.

At December 31, 2007, Ticketmaster had state net operating losses ("NOLs") of approximately $14.0 million. If not utilized, the state NOLs will expire at various times between 2008 and 2024. At December 31, 2007, Ticketmaster had foreign NOLs of approximately $11.6 million available to offset future income. Of these foreign losses, approximately $5.1 million can be carried forward indefinitely, and approximately $5.2 million and $1.3 million will expire within five years and ten years, respectively. Utilization of approximately $4.2 million of foreign NOLs will be subject to annual limitations based on taxable income. During 2007, Ticketmaster did not recognize any significant tax benefits related to NOLs.

During 2007, Ticketmaster's valuation allowance increased by approximately $2.6 million. This increase was primarily related to foreign net operating losses. At December 31, 2007, Ticketmaster had a valuation allowance of approximately $6.8 million related to the portion of tax operating loss carryforwards and other items for which it is more likely than not that the tax benefit will not be realized.

A reconciliation of the income tax provision to the amounts computed by applying the statutory federal income tax rate to earnings from continuing operations before income taxes and minority interest is shown as follows (in thousands):

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Income tax provision at the federal statutory rate of 35% | $ 89,530 | $ 91,892 | $ 65,610 |
| State income taxes, net of effect of federal tax benefit | 6,890 | 8,434 | 4,551 |
| Foreign income taxed at a different statutory tax rate | (4,126) | (4,263) | (1,251) |
| Dividends from foreign subsidiaries | — | 27,513 | — |
| Foreign income tax credits utilized | (1,237) | (27,969) | — |
| (Reduction) increase in tax on unremitted earnings of certain non-U.S. subsidiaries | — | (8,111) | 1,430 |
| Other, net | (2,050) | (1,529) | (2,052) |
| Income tax provision | $ 89,007 | $ 85,967 | $ 68,288 |

In accordance with APB No. 23, no federal and state income taxes have been provided on permanently reinvested earnings of certain foreign subsidiaries aggregating approximately $139.5 million at December 31, 2007. If, in the future, these earnings are repatriated to the U.S., or if Ticketmaster determines such earnings will be repatriated to the U.S. in the foreseeable future, additional tax provisions would be required. Due to complexities in the tax laws and the assumptions that would have to be made, it is not practicable to estimate the amounts of income taxes that would have to be provided. In 2006, Ticketmaster asserted that the earnings of certain foreign subsidiaries are permanently reinvested resulting in a benefit of $8.1 million from the release of net deferred tax liabilities established in prior years.

**NOTE 6—INCOME TAXES (Continued)**

Ticketmaster adopted the provisions of FIN 48 effective January 1, 2007. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The cumulative effect of the adoption resulted in an increase of $1.3 million to invested capital. A reconciliation of the beginning and ending amount of unrecognized tax benefits, excluding interest, is as follows (in thousands):

| | | |
|---|---|---|
| Balance at January 1, 2007 | $ | 583 |
| Additions based on tax positions related to the current year | | 3,884 |
| Additions for tax positions of prior years | | 1,022 |
| Reductions for tax positions of prior years | | — |
| Settlements | | — |
| Balance at December 31, 2007 | $ | 5,489 |

As of January 1, 2007 and December 31, 2007, the unrecognized tax benefits, including interest, were $0.6 million and $6.3 million, respectively. Included in unrecognized tax benefits at December 31, 2007 is approximately $4.6 million for tax positions included in IAC's consolidated tax return filings. Included within "Receivables from IAC and subsidiaries" in the accompanying combined balance sheet at December 31, 2007 is approximately $5.3 million of unrecognized tax benefits and related interest that will remain a liability of IAC after the spin-off. Also included in unrecognized tax benefits at December 31, 2007 is approximately $3.6 million for tax positions which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility.

Ticketmaster recognizes interest and, if applicable, penalties related to unrecognized tax benefits in income tax expense. Included in income tax expense from continuing operations for the year ended December 31, 2007 is $0.4 million, net of related deferred taxes of $0.2 million, for interest on unrecognized tax benefits. At January 1, 2007 and December 31, 2007 Ticketmaster has accrued $0.1 million and $0.8 million, respectively for the payment of interest. There are no material accruals for penalties.

By virtue of previously filed separate company and consolidated tax returns with IAC, Ticketmaster is routinely under audit by federal, state, local and foreign authorities in the area of income tax. These audits include questioning the timing and the amount of deductions and the allocation of income among various tax jurisdictions. Income taxes payable include amounts considered sufficient to pay assessments that may result from examination of prior year returns; however, the amount paid upon resolution of issues raised may differ from the amount provided. Differences between the reserves for tax contingencies and the amounts owed by Ticketmaster are recorded in the period they become known.

The Internal Revenue Service ("IRS") is currently examining the IAC consolidated tax returns for the years ended December 31, 2001 through 2003, which includes the operations of Ticketmaster from January 17, 2003, the date which Ticketmaster joined the IAC consolidated tax return. The statute of limitations for these years has been extended to December 31, 2008. Various IAC consolidated tax returns filed with state, local and foreign jurisdictions are currently under examination, the most significant of which are Florida, New York state and New York City, for various tax years after December 31, 2001. These examinations are expected to be completed by late 2008.

Ticketmaster believes that it is reasonably possible that its unrecognized tax benefits could decrease by approximately $3.6 million within twelve months of the current reporting date due to the reversal of deductible temporary differences which will result in a corresponding increase in net deferred tax liabilities. An estimate of other changes in unrecognized tax benefits cannot be made, but are not expected to be significant.

## NOTE 7—SEGMENT INFORMATION

Ticketmaster has one operating segment based upon how the chief operating decision maker and executive management view the business, its organizational structure and the type of service provided, which primarily is online and offline ticketing services.

Ticketmaster's primary metric is Operating Income Before Amortization, which is defined as operating income excluding, if applicable: (1) non-cash compensation expense, (2) amortization of intangibles and goodwill impairment, (3) pro forma adjustments for significant acquisitions, and (4) one-time items. Ticketmaster believes this measure is useful to investors because it represents its combined operating results taking into account depreciation, which it believes is an ongoing cost of doing business, but excluding the effects of any other non-cash expenses. Operating Income Before Amortization has certain limitations in that it does not take into account the impact to Ticketmaster's statement of operations of certain expenses, including non-cash compensation and acquisition-related accounting.

The following table reconciles Operating Income Before Amortization to operating income and net income in 2007, 2006 and 2005:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | (In thousands) | | |
| Operating Income Before Amortization | $ 255,088 | $ 259,839 | $ 215,068 |
| Non-cash compensation expense | (12,572) | (7,839) | (20,305) |
| Amortization of intangibles | (26,200) | (27,109) | (28,748) |
| Operating income | 216,316 | 224,891 | 166,015 |
| Interest income | 33,065 | 33,982 | 17,417 |
| Interest expense | (1,003) | (302) | (65) |
| Equity in income of unconsolidated affiliates | 6,301 | 2,997 | 3,401 |
| Other income | 1,120 | 982 | 689 |
| Income tax provision | (89,007) | (85,967) | (68,288) |
| Minority interest in losses (income) of consolidated subsidiaries | 2,559 | 118 | (1,470) |
| Net income | $ 169,351 | $ 176,701 | $ 117,699 |

**NOTE 7—SEGMENT INFORMATION (Continued)**

Ticketmaster maintains operations in the United States, the United Kingdom, Canada and other international territories. Geographic information about the United States and international territories is presented below:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| **Revenue** | | | |
| United States | $ 814,851 | $ 759,339 | $ 675,781 |
| All other countries | 425,626 | 303,333 | 252,923 |
| | $ 1,240,477 | $ 1,062,672 | $ 928,704 |

| | December 31, | |
|---|---|---|
| | 2007 | 2006 |
| | (In thousands) | |
| **Long-lived assets (excluding goodwill and intangible assets)** | | |
| United States | $ 63,021 | $ 57,389 |
| All other countries | 32,101 | 25,210 |
| | $ 95,122 | $ 82,599 |

**NOTE 8—EQUITY INVESTMENTS IN UNCONSOLIDATED AFFILIATES**

At December 31, 2007 and 2006 Ticketmaster's equity investments in unconsolidated affiliates totaled $145.2 million and $49.4 million, respectively, and are included in "Long-term investments" in the accompanying combined balance sheets. In accordance with the terms of the spin-off, IAC transferred its equity investment in Front Line, valued at $125.8 million at December 31, 2007 to Ticketmaster. Such transfers totaled approximately $96.6 million and $25.0 million in the years ended December 31, 2007 and 2005, respectively, and are included in "Net transfers from IAC" in the accompanying combined statements of invested equity. Income related to the investment in Front Line, which totaled $2.9 million, $0.7 million and $0.6 million in the years ended December 31, 2007, 2006 and 2005, respectively, is included in 'Total other income, net' in the accompanying combined statements of operations.

The following is a list of investments accounted for under the equity method, the principal market that the investee operates, and the relevant ownership percentage:

| | December 31, 2007 |
|---|---|
| Front Line (United States) | 45.99% |
| Beijing Gehua Ticketmaster Ticketing Co., Ltd. (China) | 40% |
| TM Mexico (JV) | 33.3% |
| Evolution Artists, Inc. ("iLike") (United States) | 25% |

**NOTE 8—EQUITY INVESTMENTS IN UNCONSOLIDATED AFFILIATES (Continued)**

Summarized aggregated financial information of Ticketmaster's equity investments is as follows (in thousands):

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Current assets | $ 93,693 | $ 27,037 | $ 44,364 |
| Non-current assets | 176,174 | 8,113 | 3,495 |
| Current liabilities | 45,620 | 7,774 | 33,199 |
| Non-current liabilities | 13,877 | — | 503 |
| Net sales | 156,789 | 25,176 | 22,893 |
| Gross profit | 94,166 | 17,522 | 15,308 |
| Net income | 16,257 | 8,992 | 7,424 |

Ticketmaster received dividends from TM Mexico of $7.3 million, $1.0 million and $3.5 million during the years ended December 31, 2007, 2006 and 2005, respectively.

**NOTE 9—COMMITMENTS**

Ticketmaster leases office space, equipment and services used in connection with its operations under various operating leases, many of which contain escalation clauses. In addition, future minimum lease payments include Ticketmaster's allocable share of an IAC data center lease. These payments commenced January 2008 and are expected to continue subsequent to the spin-off.

Future minimum payments under operating lease agreements are as follows (in thousands):

| Years Ending December 31, | |
|---|---|
| 2008 | $ 14,830 |
| 2009 | 13,736 |
| 2010 | 11,496 |
| 2011 | 9,959 |
| 2012 | 8,588 |
| Thereafter | 23,736 |
| Total | $ 82,345 |

Expenses charged to operations under lease agreements were $20.1 million, $16.0 million and $16.1 million in the years ended December 31, 2007, 2006 and 2005, respectively, and include month-to-month and one-time charges relating to leases that do not require future minimum payments. In addition, rent expense charged to Ticketmaster by IAC, for which no minimum payments are required, totaled $2.4 million, $1.7 million and $1.4 million in the years ended December 31, 2007, 2006 and 2005, respectively. See Note 13 for a further discussion of transactions between Ticketmaster and IAC.

**NOTE 9—COMMITMENTS (Continued)**

Ticketmaster also has funding commitments that could potentially require its performance in the event of demands by third parties or contingent events, such as under letters of credit extended or under guarantees of debt, as follows (in thousands):

| | Amount of Commitment Expiration Per Period | | | | |
|---|---|---|---|---|---|
| | Total Amounts Committed | Less Than 1 Year | 1-3 Years | 3-5 Years | More Than 5 Years |
| Guarantees, surety bonds and letters of credit | $ 3,911 | $ 596 | $ 65 | $ 3,250 | $ — |
| Purchase obligations | 95,056 | 30,726 | 35,268 | 25,687 | 3,375 |
| Total commercial commitments | $ 98,967 | $ 31,322 | $ 35,333 | $ 28,937 | $ 3,375 |

IAC guaranteed a $3.25 million line of credit granted to one of Ticketmaster's clients in connection with the production of broadway shows in China. According to the terms of the spin-off, the guarantee is expected to be transferred from IAC to Ticketmaster and, accordingly, the guarantee is included in the table above. The surety bonds primarily relate to marketing events and licensing bonds for ticketing services. The purchase obligations primarily arise from sports sponsorship agreements intended to promote Ticketmaster's ticket resale services.

**NOTE 10—CONTINGENCIES**

In the ordinary course of business, Ticketmaster is a party to various lawsuits. Ticketmaster establishes reserves for specific legal matters when it determines that the likelihood of an unfavorable outcome is probable and the loss is reasonably estimable. Management has also identified certain other legal matters where it believes an unfavorable outcome is not probable and, therefore, no reserve is established. Although management currently believes that an unfavorable resolution of claims against Ticketmaster, including claims where an unfavorable outcome is reasonably possible, will not have a material impact on the liquidity, results of operations, or financial condition of Ticketmaster, these matters are subject to inherent uncertainties and management's view of these matters may change in the future. It is possible that an unfavorable outcome of one or more of these lawsuits could have a material impact on the liquidity, results of operations, or financial condition of Ticketmaster. Ticketmaster also evaluates other contingent matters, including tax contingencies, to assess the probability and estimated extent of potential loss. See Note 6 for discussion related to income tax contingencies.

**NOTE 11—FINANCIAL INSTRUMENTS**

| | December 31, 2007 | | December 31, 2006 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | (In thousands) | | | |
| Cash and cash equivalents | $ 568,417 | $ 568,417 | $ 317,577 | $ 317,577 |
| Restricted cash | 853 | 853 | — | — |
| Accounts receivable, net | 133,432 | 133,432 | 97,623 | 97,623 |
| Guarantees, surety bonds and letters of credit | N/A | (3,911) | N/A | (3,537) |

**NOTE 11—FINANCIAL INSTRUMENTS (Continued)**

The carrying amount of cash and cash equivalents reflected in the accompanying combined balance sheets approximates fair value as they are maintained with various high quality financial institutions. The carrying amount of accounts receivable reflected in the accompanying combined balance sheets approximate fair value as they are short-term in nature and are generally settled shortly after the sale.

**NOTE 12—SUPPLEMENTAL CASH FLOW INFORMATION**

**Supplemental Disclosure of Non-Cash Transactions**

In accordance with the terms of the spin-off, IAC transferred its equity investment in Front Line, valued at $125.8 million at December 31, 2007, to Ticketmaster. Additionally, Ticketmaster transferred its investment in Active.com, valued at $4.0 million at December 31, 2007, to IAC. The net amount of these transfers, which are included in "Net transfers from IAC" in the accompanying combined statements of invested equity, were $96.6 million, $(2.3) million and $25.0 million in the years ended December 31, 2007, 2006 and 2005, respectively.

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | (In thousands) | | |
| Cash paid during the period for: | | | |
| Interest | $ 822 | $ 302 | $ 65 |
| Income tax payments, including amounts paid to IAC for Ticketmaster's share of IAC's consolidated tax liability | 96,247 | 92,291 | 71,519 |
| Income tax refunds | (140) | (1,077) | (228) |

**NOTE 13—RELATED PARTY TRANSACTIONS**

Ticketmaster provided call center support services to Expedia for which they charged amounts totaling $3.0 million, $3.8 million and $0.7 million in the years ended December 31, 2007, 2006 and 2005, respectively. Amounts receivable by Ticketmaster from Expedia related to these services were approximately $0.1 million and $0.3 million at December 31, 2007 and 2006, respectively, and are included in "Accounts Receivable, trade" in the accompanying combined balance sheets. Ticketmaster and Expedia are related parties because they are under common control.

Ticketmaster's expenses include allocations from IAC of costs associated with IAC's accounting, treasury, legal, tax, corporate support, human resources and internal audit functions. These expenses were allocated based on the ratio of Ticketmaster's revenue as a percentage of IAC's total revenue. Allocated costs were $3.5 million, $2.6 million and $2.5 million in the years ended December 31, 2007, 2006 and 2005, respectively, and are included in "General and administrative expense" in the accompanying combined statements of operations. It is not practicable to determine the amounts of these expenses that would have been incurred had Ticketmaster operated as an unaffiliated entity. In the opinion of management, the allocation method is reasonable.

Ticketmaster occupies office space in buildings in Los Angeles and New York City that are currently owned by IAC. Related rental expense charged to Ticketmaster by IAC totaled $2.4 million, $1.7 million and $1.4 million for the years ended December 31, 2007, 2006 and 2005, respectively.

**NOTE 13—RELATED PARTY TRANSACTIONS (Continued)**

In accordance with the terms of the spin-off, IAC transferred its equity investment in Front Line to Ticketmaster and Ticketmaster transferred its investment in Active.com to IAC. See Notes 8 and 12 for a further description of these transfers.

The portion of interest income reflected in the combined statements of operations that is intercompany in nature was $27.8 million, $30.5 million and $15.6 million for the years ended December 31, 2007, 2006 and 2005, respectively. This intercompany interest relates to the receivables from IAC.

An analysis of Ticketmaster's receivables from IAC and subsidiaries is as follows (in thousands):

| | 2007 | 2006 |
|---|---|---|
| Receivables from IAC and subsidiaries, beginning of year | $ 539,861 | $ 329,601 |
| Cash transfers (from) to IAC related to its centrally managed U.S. treasury function | (83,052) | 185,413 |
| Interest income | 27,793 | 30,539 |
| Employee equity instruments and associated tax withholdings | 8,141 | 6,102 |
| Taxes (excludes tax withholdings associated with employee equity instruments) | 8,925 | 5,500 |
| Allocation of non-cash compensation expense | (10,128) | (7,839) |
| Administrative expenses and other | (17,430) | (9,455) |
| Receivables from IAC and subsidiaries, end of year | $ 474,110 | $ 539,861 |

**Relationship Between IAC and Ticketmaster after the Spin-Off**

For purposes of governing certain of the ongoing relationships between Ticketmaster and IAC at and after the spin-off, and to provide for an orderly transition, Ticketmaster and IAC are expected to enter into a separation agreement, a tax sharing agreement, an employee matters agreement and a transition services agreement (the "Spin-Off Agreements"), among other agreements.

***Separation Agreement***

The separation agreement is expected to provide generally that (i) immediately prior to the spin-off, IAC will contribute or otherwise transfer to Ticketmaster all of the subsidiaries and assets comprising the Ticketmaster Businesses, (ii) Ticketmaster will assume all of the liabilities related to the Ticketmaster Businesses, (iii) each party will indemnify the other and its respective affiliates, current and former directors, officers and employees for any losses arising out of any breach of any of the Spin-Off Agreements and (iv) Ticketmaster will indemnify IAC for its failure to assume and perform any assumed liabilities and any liabilities relating to Ticketmaster financial and business information included in the SEC documentation filed with respect to the spin-off as well as such other terms as to which IAC and Ticketmaster mutually agree.

***Tax Sharing Agreement***

The tax sharing agreement will govern the respective rights, responsibilities and obligations of IAC and Ticketmaster after the spin-off with respect to taxes for the periods ending on or before the spin-off. Generally, IAC will pay taxes with respect to Ticketmaster income included on its consolidated, unitary or combined federal or state tax returns, including audit adjustments with respect thereto. Other pre-distribution taxes that are attributable to the Ticketmaster Businesses including taxes reported on separately-filed and all foreign returns and audit adjustments with respect thereto, will be borne solely by Ticketmaster. The tax sharing agreement is expected to contain certain customary restrictive covenants that generally prohibit Ticketmaster (absent a supplemental IRS ruling or an unqualified opinion of counsel to the contrary, in each case, in a form and substance satisfactory acceptable to IAC in its sole discretion) from taking actions that could jeopardize the tax free nature of the spin-off. Ticketmaster is expected to agree to indemnify IAC for any taxes and related losses resulting from its non-compliance with these restrictive covenants, as well as for the breach of certain representations in the Spin-Off Agreements and other documentation relating to the tax-free nature of the spin-off.

***Employee Matters Agreement***

The employee matters agreement will generally provide that Ticketmaster will be responsible for, among other obligations, all employment and benefit-related obligations and liabilities related to its employees immediately prior to the spin-off (and their dependents and beneficiaries) and former employees who most recently worked for the Ticketmaster Businesses. This agreement is also expected to provide that assets and liabilities from the IAC Retirement Savings Plan of Ticketmaster employees will be transferred to a newly established Ticketmaster Retirement Savings Plan as soon as practicable following the spin-off.

***Transition Services Agreement***

Under the transition services agreement, beginning on the date of the completion of the spin-off, IAC will provide to Ticketmaster on an interim, transitional basis, various services, which are expected to relate primarily to public company and operational matters, and such other services as to which IAC and Ticketmaster mutually agree. The agreed upon charges for these services will generally allow IAC to recover fully the allocated costs of providing the services, plus all out-of-pocket costs and expenses. Ticketmaster may terminate the agreement with respect to one or more particular services upon prior written notice.

***Commercial Agreements***

IAC and Ticketmaster currently, and for the foreseeable future expect to provide certain services to each other pursuant to certain commercial relationships. In connection with the spin-off, IAC and Ticketmaster will enter into a number of commercial agreements between subsidiaries of IAC, on the one hand, and subsidiaries of Ticketmaster, on the other hand, many of which will memorialize (in most material respects) pre-existing arrangements in effect prior to the spin-off and all of which are intended to reflect arm's length terms. In addition, IAC and Ticketmaster believe that such agreements, whether taken individually or in the aggregate, do not constitute a material contract to either IAC or Ticketmaster.

Aggregate revenue earned with respect to these commercial agreements by the Ticketmaster Businesses with IAC subsidiaries was $12.2 million, $11.6 million and $11.6 million, respectively, in the years ended December 31, 2007, 2006 and 2005. The Ticketmaster Businesses incurred approximately $1.8 million in the years ended December 31, 2007 and less than $0.1 million in the years ended

**NOTE 13—RELATED PARTY TRANSACTIONS (Continued)**

December 31, 2006 and 2005 in expenses related to these commercial agreements with IAC subsidiaries.

**NOTE 14—BENEFIT PLANS**

During the three years ended December 31, 2007, Ticketmaster either participated in a retirement savings plan sponsored by IAC or had a retirement savings plan in the United States that was qualified under Section 401(k) of the Internal Revenue Code. Subsequent to the spin-off, the net assets available for benefits of the employees of Ticketmaster are expected to be transferred from the IAC plan to a newly created Ticketmaster plan. Under the IAC plan, participating employees may contribute up to 16% of their pretax earnings, but not more than statutory limits. Ticketmaster match under the IAC plan is fifty cents for each dollar a participant contributes in this plan, with a maximum contribution of 3% of a participant's eligible earnings. Matching contributions for the IAC plan were approximately $2.5 million, $2.1 million and $1.9 million in 2007, 2006, and 2005, respectively. The increase in matching contributions for 2007 and 2006 is primarily related to increased participation in the plan. Matching contributions are invested in the same manner as each participant's voluntary contributions in the investment options provided under the plan. Investment options in the plan included IAC common stock, but neither participant nor matching contributions are required to be invested in IAC common stock.

During the three years ended December 31, 2007, Ticketmaster also had or participated in various benefit plans, principally defined contribution plans, for its non-U.S. employees. Ticketmaster's contributions for these plans were approximately $4.1 million, $3.4 million and $2.7 million in 2007, 2006 and 2005, respectively.

**NOTE 15—QUARTERLY RESULTS (UNAUDITED)**

| | Quarter Ended March 31, | Quarter Ended June 30, | Quarter Ended September 30, | Quarter Ended December 31, |
|---|---|---|---|---|
| | | (In thousands) | | |
| **Year Ended December 31, 2007** | | | | |
| Revenue | $ 303,577 | $ 293,416 | $ 292,466 | $ 351,018 |
| Gross profit | 118,793 | 109,556 | 111,280 | 134,310 |
| Operating income | 61,488 | 45,368 | 48,036 | 61,424 |
| Net income | 42,925 | 34,804 | 40,541 | 51,081 |
| **Year Ended December 31, 2006** | | | | |
| Revenue | $ 240,722 | $ 287,595 | $ 258,497 | $ 275,858 |
| Gross profit | 99,790 | 115,597 | 100,113 | 110,020 |
| Operating income | 58,143 | 65,215 | 45,533 | 56,000 |
| Net income | 39,636 | 45,761 | 34,706 | 56,598 |

## TICKETMASTER AND SUBSIDIARIES
## VALUATION AND QUALIFYING ACCOUNTS

| Description | Balance at Beginning of Period | Charges to Earnings | Charges to Other Accounts | Deductions | Balance at End of Period |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| **2007** | | | | | |
| Allowance for doubtful accounts | $ 2,798 | $ 496 | $ 126 | $ (1,074)(1) | $ 2,346 |
| Deferred tax valuation allowance | 4,164 | 2,606 | — | — | 6,770 |
| Other reserves | 39 | | | | — |
| **2006** | | | | | |
| Allowance for doubtful accounts | $ 2,033 | $ 761 | $ 74 | $ (70)(1) | $ 2,798 |
| Deferred tax valuation allowance | 5,404 | (915) | (325) | — | 4,164 |
| Other reserves | 39 | | | | 39 |
| **2005** | | | | | |
| Allowance for doubtful accounts | $ 1,978 | $ 125 | $ 484 | $ (554)(1) | $ 2,033 |
| Deferred tax valuation allowance | 6,513 | (1,109) | — | — | 5,404 |
| Other reserves | 1,062 | | | | 39 |

(1) Write-off of uncollectible accounts receivable.

**TICKETMASTER AND SUBSIDIARIES**

**COMBINED STATEMENTS OF OPERATIONS**

**(Unaudited)**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2008 | 2007 |
| | (In thousands) | |
| Revenue | $ 348,981 | $ 303,577 |
| Cost of sales (exclusive of depreciation shown separately below) | 221,022 | 184,784 |
| Gross profit | 127,959 | 118,793 |
| Selling and marketing expense | 19,393 | 7,073 |
| General and administrative expense | 41,853 | 34,258 |
| Amortization of intangibles | 8,868 | 6,853 |
| Depreciation | 11,055 | 9,121 |
| Operating income | 46,790 | 61,488 |
| Other income (expense): | | |
| Interest income | 3,290 | 5,378 |
| Interest expense | (735) | (266) |
| Equity in income of uncombined affiliates | 666 | 865 |
| Other income | 944 | 83 |
| Total other income, net | 4,165 | 6,060 |
| Earnings before income taxes and minority interest | 50,955 | 67,548 |
| Income tax provision | (18,821) | (24,637) |
| Minority interest in losses of combined subsidiaries | 573 | 14 |
| **Net income** | $ 32,707 | $ 42,925 |

The accompanying Notes to Combined Financial Statements are an integral part of these statements.

**TICKETMASTER AND SUBSIDIARIES**

**COMBINED BALANCE SHEETS**

| | March 31, 2008 | December 31, 2007 |
|---|---|---|
| | (unaudited) | (audited) |
| | (In thousands) | |
| **ASSETS** | | |
| Cash and cash equivalents | $ 501,752 | $ 568,417 |
| Restricted cash | 506 | 853 |
| Accounts receivable, client accounts | 161,632 | 99,453 |
| Accounts receivable, trade, net of allowance of $4,047 and $2,346, respectively | 36,102 | 33,979 |
| Deferred income taxes | 5,769 | 5,883 |
| Contract advances | 64,105 | 63,126 |
| Prepaid expenses and other current assets | 38,570 | 21,149 |
| Total current assets | 808,436 | 792,860 |
| Property and equipment, net | 110,528 | 95,122 |
| Goodwill | 1,411,139 | 1,090,418 |
| Intangible assets, net | 230,570 | 92,325 |
| Long-term investments | 150,121 | 149,295 |
| Other non-current assets | 99,155 | 86,514 |
| **TOTAL ASSETS** | $ 2,809,949 | $ 2,306,534 |
| **LIABILITIES AND INVESTED EQUITY** | | |
| **LIABILITIES:** | | |
| Accounts payable, client accounts | $ 500,547 | $ 413,075 |
| Accounts payable, trade | 35,407 | 14,698 |
| Accrued compensation and benefits | 37,436 | 31,171 |
| Deferred revenue | 31,791 | 19,829 |
| Income taxes payable | 1,616 | 1,721 |
| Other accrued expenses and current liabilities | 49,874 | 42,449 |
| Total current liabilities | 656,671 | 522,943 |
| Income taxes payable | 1,002 | 982 |
| Other long-term liabilities | 8,004 | 3,204 |
| Deferred income taxes | 87,888 | 32,416 |
| Minority interest | 7,766 | 7,812 |
| Commitments and contingencies | | |
| **INVESTED EQUITY:** | | |
| Invested capital | 2,599,884 | 2,172,497 |
| Receivables from IAC and subsidiaries | (604,340) | (474,110) |
| Accumulated other comprehensive income | 53,074 | 40,790 |
| Total invested equity | 2,048,618 | 1,739,177 |
| **TOTAL LIABILITIES AND INVESTED EQUITY** | $ 2,809,949 | $ 2,306,534 |

The accompanying Notes to Combined Financial Statements are an integral part of these statements.

**TICKETMASTER AND SUBSIDIARIES**

**COMBINED STATEMENTS OF INVESTED EQUITY**

**(Unaudited)**

| | Total | Invested Capital | Receivables from IAC and Subsidiaries | Accumulated Other Comprehensive Income |
|---|---|---|---|---|
| | | (In thousands) | | |
| **Balance as of December 31, 2007** | $ 1,739,177 | $ 2,172,497 | $ (474,110) | $ 40,790 |
| Comprehensive income: | | | | |
| Net income for the three months ended March 31, 2008 | 32,707 | 32,707 | — | — |
| Foreign currency translation | 12,284 | — | — | 12,284 |
| Comprehensive income | 44,991 | | | |
| Net transfers from IAC (principally funding for acquisitions) | 394,680 | 394,680 | — | — |
| Net change in receivables from IAC and subsidiaries | (130,230) | — | (130,230) | — |
| **Balance as of March 31, 2008** | $ 2,048,618 | $ 2,599,884 | $ (604,340) | $ 53,074 |

The accompanying Notes to Combined Financial Statements are an integral part of these statements.

**TICKETMASTER AND SUBSIDIARIES**

**COMBINED STATEMENTS OF CASH FLOWS**

**(Unaudited)**

| | Three Months Ended March 31, | |
|---|---|---|
| | **2008** | **2007** |
| | (In thousands) | |
| **Cash flows from operating activities:** | | |
| **Net income** | $ 32,707 | $ 42,925 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Amortization of intangibles | 8,868 | 6,853 |
| Depreciation | 11,055 | 9,121 |
| Non-cash compensation expense | 4,765 | 1,879 |
| Deferred income taxes | 1,111 | (3,103) |
| Equity in income of uncombined affiliates, net of dividends | (666) | (865) |
| Minority interest in losses of combined subsidiaries | (573) | (14) |
| Changes in current assets and liabilities: | | |
| Accounts receivable | 6,542 | (6,941) |
| Prepaid expenses and other current assets | (18,692) | (2,070) |
| Accounts payable and other current liabilities | 4,964 | (9,731) |
| Income taxes payable | (3,255) | (363) |
| Deferred revenue | (581) | (338) |
| Funds collected on behalf of clients, net | 18,958 | 43,302 |
| Other, net | 632 | 66 |
| **Net cash provided by operating activities** | 65,835 | 80,721 |
| **Cash flows from investing activities:** | | |
| Transfers to IAC | (135,481) | (1,466) |
| Acquisitions, net of cash acquired | (394,999) | (10,219) |
| Capital expenditures | (9,487) | (9,304) |
| Increase in long-term investments | (158) | — |
| **Net cash used in investing activities** | (540,125) | (20,989) |
| **Cash flows from financing activities:** | | |
| Capital contributions from IAC | 394,999 | 10,219 |
| Principal payments on long-term obligations | (345) | (684) |
| Excess tax benefits from stock-based awards | 28 | 1,659 |
| **Net cash provided by financing activities** | 394,682 | 11,194 |
| Effect of exchange rate changes on cash and cash equivalents | 12,943 | 2,184 |
| **Net (decrease) increase in cash and cash equivalents** | (66,665) | 73,110 |
| Cash and cash equivalents at beginning of period | 568,417 | 317,577 |
| **Cash and cash equivalents at end of period** | $ 501,752 | $ 390,687 |

The accompanying Notes to Combined Financial Statements are an integral part of these statements.

## NOTE 1—ORGANIZATION AND BASIS OF PRESENTATION

### Spin-Off

On November 5, 2007, IAC/InterActiveCorp ("IAC") announced that its Board of Directors approved a plan to separate IAC into five publicly traded companies, identifying Ticketmaster as one of those five companies. In these combined financial statements, we refer to the separation transaction as the "spin-off." Upon completion of the spin-off, Ticketmaster will consist of the businesses that formerly comprised IAC's Ticketmaster segment, which consists of its domestic and international ticketing and ticketing related businesses, subsidiaries and investments, excluding its ReserveAmerica subsidiary and its investment in Active.com. Ticketmaster will include IAC's investment in Front Line Management Group Inc. ("Front Line"). The businesses to be operated by Ticketmaster following the spin-off are referred to herein as the "Ticketmaster Businesses."

### Basis of Presentation

The historical combined financial statements of Ticketmaster and its subsidiaries reflect the historical financial position, results of operations and cash flows of the Ticketmaster Businesses since their respective dates of acquisition by IAC, and the allocation to Ticketmaster of certain IAC corporate expenses relating to the Ticketmaster Businesses based on the historical consolidated financial statements and accounting records of IAC and using the historical results of operations and historical bases of the assets and liabilities of the Ticketmaster Businesses. However, for the purposes of these financial statements, income taxes have been computed for Ticketmaster on an as if stand-alone, separate tax return basis. These financial statements are prepared on a combined, rather than a consolidated, basis because they exclude ReserveAmerica and the investment in Active.com that were owned, and include the investment in Front Line that was not owned, either directly or indirectly, by legal entities that comprise the Ticketmaster Businesses. The ownership of ReserveAmerica and the investment in Active.com will be retained by IAC after the spin-off. These combined financial statements present IAC's and its subsidiaries net investment in the Ticketmaster Businesses as invested equity in lieu of shareholders' equity. Intercompany transactions and accounts have been eliminated.

In the opinion of Ticketmaster's management, the assumptions underlying the historical combined financial statements of Ticketmaster are reasonable. However, this financial information does not necessarily reflect what the historical financial position, results of operations and cash flows of Ticketmaster would have been had Ticketmaster been a stand-alone company during the periods presented.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of Ticketmaster's management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Interim results are not necessarily indicative of the results that may be expected for a full year. The accompanying unaudited combined financial statements should be read in conjunction with Ticketmaster's audited combined financial statements and notes thereto for the year ended December 31, 2007.

**NOTE 1—ORGANIZATION AND BASIS OF PRESENTATION (Continued)**

**Company Overview**

Ticketmaster is the world's leading live entertainment ticketing and marketing company, providing ticket sales, ticket resale services, marketing and distribution through *www.ticketmaster.com*, one of the largest e-commerce sites on the internet, approximately 6,700 independent sales outlets and 19 call centers worldwide. Ticketmaster serves leading arenas, stadiums, amphitheaters, music clubs, concert promoters, professional sports franchises and leagues, college sports teams, performing arts venues, museums and theaters in the United States and abroad, including Australia, Canada, China, Denmark, Finland, Germany, Ireland, the Netherlands, New Zealand, Norway, Spain, Sweden, Turkey and the United Kingdom. Ticketmaster is also a party to joint ventures with third parties to provide ticket distribution services in Mexico and to supply ticketing services for the 2008 Beijing Olympic Games. Ticketmaster licenses its technology in Mexico, Argentina, Brazil, Chile, China and Belgium.

**NOTE 2—SIGNIFICANT ACCOUNTING POLICIES**

**Accounting Estimates**

Ticketmaster's management is required to make certain estimates and assumptions during the preparation of the combined financial statements in accordance with U.S. generally accepted accounting principles. These estimates and assumptions impact the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the combined 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 combined financial statements include: the recoverability of contract advances; the recoverability of long-lived assets; the recovery of goodwill and intangible assets; the determination of income taxes payable and deferred income taxes, including related valuation allowances; and assumptions related to the determination of stock-based compensation.

**Other**

Interest income earned on funds that are collected from ticket purchasers and invested until remittance to the applicable clients is included in revenue. For the three months ended March 31, 2008 and 2007, $4.2 million and $3.0 million, respectively, of interest income is included in revenue.

**Recent Accounting Pronouncements**

In December 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51" ("SFAS No. 160"). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of combined net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. The Statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. SFAS No. 160 will be applied prospectively, except as it relates to disclosures, for

**NOTE 2—SIGNIFICANT ACCOUNTING POLICIES (Continued)**

which the effects will be applied retrospectively for all periods presented. Early adoption is not permitted. Ticketmaster is currently assessing the impact of SFAS No. 160 on its combined financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS No. 141R"), which replaces FASB Statement No. 141. SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. The Statement also establishes disclosure requirements that will enable users to evaluate the nature and financial effects of the business combination. SFAS No. 141R applies prospectively to business combinations in fiscal years beginning after December 15, 2008. Early adoption is not permitted. Ticketmaster is currently assessing the impact of the adoption of SFAS No. 141R on its combined financial position, results of operations and cash flows.

**NOTE 3—GOODWILL AND INTANGIBLE ASSETS**

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

| | March 31, 2008 | December 31, 2007 |
|---|---|---|
| Goodwill | $ 1,411,139 | $ 1,090,418 |
| Intangible assets with indefinite lives | 62,560 | 62,560 |
| Intangible assets with definite lives, net | 168,010 | 29,765 |
| Total goodwill and intangible assets, net | $ 1,641,709 | $ 1,182,743 |

Intangible assets with indefinite lives relate principally to trade names and trademarks acquired in various acquisitions. At March 31, 2008, intangible assets with definite lives relate to the following (in thousands):

| | Cost | Accumulated Amortization | Net | Weighted Average Amortization Life (Years) |
|---|---|---|---|---|
| Purchase agreements | $ 165,661 | $ (151,539) | $ 14,122 | 6.1 |
| Broker relationships | 63,800 | (444) | 63,356 | 12.0 |
| Customer lists | 34,600 | (1,057) | 33,543 | 7.0 |
| Technology | 32,087 | (9,309) | 22,778 | 3.5 |
| Distribution agreements | 28,929 | (22,212) | 6,717 | 4.3 |
| Other | 40,022 | (12,528) | 27,494 | 7.5 |
| Total | $ 365,099 | $ (197,089) | $ 168,010 | |

**NOTE 3—GOODWILL AND INTANGIBLE ASSETS (Continued)**

At December 31, 2007, intangible assets with definite lives relate to the following (in thousands):

| | Cost | Accumulated Amortization | Net | Weighted Average Amortization Life (Years) |
|---|---|---|---|---|
| Purchase agreements | $ 163,681 | $ (145,637) | $ 18,044 | 6.1 |
| Distribution agreements | 28,109 | (20,567) | 7,542 | 4.2 |
| Technology | 8,587 | (8,397) | 190 | 4.0 |
| Other | 14,752 | (10,763) | 3,989 | 5.2 |
| Total | $ 215,129 | $ (185,364) | $ 29,765 | |

Amortization of intangible assets with definite lives is computed on a straight-line basis and, based on March 31, 2008 balances, such amortization for the remainder of 2008 and each of the next five years and thereafter is estimated to be as follows (in thousands):

| | |
|---|---|
| Remaining nine months of 2008 | $ 27,081 |
| 2009 | 27,529 |
| 2010 | 23,054 |
| 2011 | 14,608 |
| 2012 | 12,026 |
| 2013 | 11,796 |
| 2014 and thereafter | 51,916 |
| | $ 168,010 |

The following table presents the balance of goodwill, including changes in the carrying amount of goodwill, for the three months ended March 31, 2008 (in thousands):

| Balance As Of January 1, 2008 | Additions | (Deductions) | Foreign Exchange Translation | Balance As Of March 31, 2008 |
|---|---|---|---|---|
| $ 1,090,418 | $ 315,803 | $ (14) | $ 4,932 | $ 1,411,139 |

Additions principally relate to the acquisitions of TicketsNow, Paciolan, and GET ME IN! LTD. The aggregate purchase price for these acquisitions totaled approximately $425 million. Ticketmaster identified approximately $146.2 million of intangible assets other than goodwill. The goodwill recognized amounted to approximately $311.6 million. The purchase price allocation for each of these acquisitions is preliminary and subject to adjustment during the allocation period, which is not expected to last beyond a year from the respective date of purchase, and as such the goodwill may change.

**NOTE 4—PROPERTY AND EQUIPMENT**

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

| | March 31, 2008 | December 31, 2007 |
|---|---|---|
| Computer equipment and capitalized software | $ 283,944 | $ 260,983 |
| Leasehold improvements | 16,813 | 14,180 |
| Furniture and other equipment | 20,305 | 18,375 |
| Projects in progress | 10,199 | 10,249 |
| Land | 2,458 | 2,500 |
| | 333,719 | 306,287 |
| Less: accumulated depreciation and amortization | (223,191) | (211,165) |
| Total property and equipment, net | $ 110,528 | $ 95,122 |

**NOTE 5—SEGMENT INFORMATION**

Ticketmaster has one operating segment based upon how the chief operating decision maker and executive management view the business, its organizational structure and the type of service provided, which primarily is online and offline ticketing services.

Ticketmaster's primary metric is Operating Income Before Amortization, which is defined as operating income excluding, if applicable: (1) non-cash compensation expense, (2) amortization of intangibles and goodwill impairment, (3) pro forma adjustments for significant acquisitions, and (4) one-time items. Ticketmaster believes this measure is useful to investors because it represents its combined operating results taking into account depreciation, which it believes is an ongoing cost of doing business, but excluding the effects of any other non-cash expenses. Operating Income Before Amortization has certain limitations in that it does not take into account the impact to Ticketmaster's statement of operations of certain expenses, including non-cash compensation and acquisition-related accounting.

**NOTE 5—SEGMENT INFORMATION (Continued)**

The following table reconciles Operating Income Before Amortization to operating income and net income (in thousands):

| | Three Months Ended March 31, 2008 | Three Months Ended March 31, 2007 |
|---|---|---|
| Operating Income Before Amortization | $ 60,423 | $ 70,220 |
| Non-cash compensation expense | (4,765) | (1,879) |
| Amortization of intangibles | (8,868) | (6,853) |
| Operating income | 46,790 | 61,488 |
| Interest income | 3,290 | 5,378 |
| Interest expense | (735) | (266) |
| Equity in income of uncombined affiliates | 666 | 865 |
| Other income | 944 | 83 |
| Income tax provision | (18,821) | (24,637) |
| Minority interest in losses of combined subsidiaries | 573 | 14 |
| Net income | $ 32,707 | $ 42,925 |

Non-cash compensation expense in the table above is included in the following line items in the accompanying consolidated statements of operations for the three months ended March 31, 2008 and 2007 (in thousands):

| | Three Months Ended March 31, 2008 | Three Months Ended March 31, 2007 |
|---|---|---|
| Cost of sales | $ 235 | $ 148 |
| Selling and marketing expense | 258 | 163 |
| General and administrative expense | 4,272 | 1,568 |
| Non-cash compensation expense | $ 4,765 | $ 1,879 |

**NOTE 5—SEGMENT INFORMATION (Continued)**

Ticketmaster maintains operations in the United States, the United Kingdom, Canada and other international territories. Geographic information about the United States and international territories is presented below (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2008 | 2007 |
| **Revenue:** | | |
| United States | $ 239,707 | $ 209,077 |
| All other countries | 109,274 | 94,500 |
| Total | $ 348,981 | $ 303,577 |

| | March 31, 2008 | December 31, 2007 |
|---|---|---|
| **Long-lived assets (excluding goodwill and intangible assets):** | | |
| United States | $ 78,811 | $ 63,021 |
| All other countries | 31,717 | 32,101 |
| Total | $ 110,528 | $ 95,122 |

**NOTE 6—EQUITY INVESTMENTS IN UNCOMBINED AFFILIATES**

At March 31, 2008 and December 31, 2007, Ticketmaster's equity investments in uncombined affiliates totaled $145.9 million and $145.2 million, respectively, and are included in "Long-term investments" in the accompanying combined balance sheets.

Summarized aggregated financial information for Ticketmaster's equity investments is as follows (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2008 | 2007 |
| Net sales | $ 72,149 | $ 9,042 |
| Gross profit | 34,353 | 6,712 |
| Net income | 4,746 | 2,616 |

**NOTE 7—COMPREHENSIVE INCOME**

Comprehensive income is comprised of (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2008 | 2007 |
| Net income | $ 32,707 | $ 42,925 |
| Foreign currency translation | 12,284 | 2,612 |
| Comprehensive income | $ 44,991 | $ 45,537 |

**NOTE 7—COMPREHENSIVE INCOME (Continued)**

Accumulated other comprehensive income at March 31, 2008 and December 31, 2007 is solely related to foreign currency translation.

**NOTE 8—INCOME TAXES**

Ticketmaster calculates its interim income tax provision in accordance with Accounting Principles Board Opinion No. 28 and FASB Interpretation No. 18. At the end of each interim period, Ticketmaster makes its best estimate of the annual expected effective tax rate and applies that rate to its ordinary year-to-date earnings or loss. The tax or benefit related to significant, unusual, or extraordinary items that will be separately reported or reported net of their related tax effect are individually computed and recognized in the interim period in which those items occur. In addition, the effect of changes in enacted tax laws or rates, tax status, or judgment on the realizability of a beginning-of-the-year deferred tax asset in future years is recognized in the interim period in which the change occurs.

The computation of the annual expected effective tax rate at each interim period requires certain estimates and assumptions including, but not limited to, the expected operating income for the year, projections of the proportion of income (or loss) earned and taxed in foreign jurisdictions, permanent and temporary differences, and the likelihood of recovering deferred tax assets generated in the current year. The accounting estimates used to compute the provision for income taxes may change as new events occur, more experience is acquired, additional information is obtained or Ticketmaster's tax environment changes. To the extent that the estimated annual effective tax rate changes during a quarter, the effect of the change on prior quarters is included in tax expense for the current quarter.

For the three months ended March 31, 2008 and 2007, Ticketmaster recorded tax provisions of $18.8 million and $24.6 million, respectively, which represent effective tax rates of 37% and 36%, respectively. The tax rates for the three months ended March 31, 2008 and March 31, 2007 are higher than the federal statutory rate of 35% due principally to state taxes.

As of December 31, 2007 and March 31, 2008, Ticketmaster had unrecognized tax benefits of approximately $5.5 million. Included in unrecognized tax benefits at March 31, 2008 is approximately $4.6 million for tax positions included in IAC's consolidated tax return filings that will remain a liability of IAC after the spin-off. Ticketmaster recognizes interest and, if applicable, penalties related to unrecognized tax benefits in income tax expense. Included in income tax expense for the three months ended March 31, 2008 is $0.1 million, net of related deferred taxes, for interest on unrecognized tax benefits. At March 31, 2008, Ticketmaster has accrued $1.0 million for the payment of interest. There are no material accruals for penalties.

By virtue of previously filed separate company and consolidated tax returns with IAC, Ticketmaster is routinely under audit by federal, state, local and foreign authorities in the area of income tax. These audits include questioning the timing and the amount of deductions and the allocation of income among various tax jurisdictions. Income taxes payable include amounts considered sufficient to pay assessments that may result from examination of prior year returns; however, the amount paid upon resolution of issues raised may differ from the amount provided. Differences between the reserves for tax contingencies and the amounts owed by Ticketmaster are recorded in the period they become known.

**NOTE 8—INCOME TAXES (Continued)**

The Internal Revenue Service is currently examining the IAC consolidated tax returns for the years ended December 31, 2001 through 2003, which includes the operations of Ticketmaster from January 17, 2003, the date which Ticketmaster joined the IAC consolidated tax return. The statute of limitations for these years has been extended to December 31, 2008. Various IAC consolidated tax returns filed with state, local and foreign jurisdictions are currently under examination, the most significant of which are California, Florida, New York state and New York City, for various tax years after December 31, 2001. These examinations are expected to be completed by late 2008.

Ticketmaster believes that it is reasonably possible that its unrecognized tax benefits could decrease by approximately $3.6 million within twelve months of the current reporting date due to the reversal of deductible temporary differences which will result in a corresponding increase in net deferred tax liabilities. An estimate of other changes in unrecognized tax benefits cannot be made, but are not expected to be significant.

**NOTE 9—CONTINGENCIES**

In the ordinary course of business, Ticketmaster is a party to various lawsuits. Ticketmaster establishes reserves for specific legal matters when it determines that the likelihood of an unfavorable outcome is probable and the loss is reasonably estimable. Management has also identified certain other legal matters where it believes an unfavorable outcome is not probable and, therefore, no reserve is established. Although management currently believes that an unfavorable resolution of claims against Ticketmaster, including claims where an unfavorable outcome is reasonably possible, will not have a material impact on the liquidity, results of operations, or financial condition of Ticketmaster, these matters are subject to inherent uncertainties and management's view of these matters may change in the future. It is possible that an unfavorable outcome of one or more of these lawsuits could have a material impact on the liquidity, results of operations, or financial condition of Ticketmaster. Ticketmaster also evaluates other contingent matters, including tax contingencies, to assess the probability and estimated extent of potential loss. See Note 8 for discussion related to income tax contingencies.

**NOTE 10—RELATED PARTY TRANSACTIONS**

Ticketmaster's expenses include allocations from IAC of costs associated with IAC's accounting, treasury, legal, tax, corporate support, human resources and internal audit functions. These expenses were allocated based on the ratio of Ticketmaster's revenue as a percentage of IAC's total revenue. Allocated costs were $0.9 million, and $0.8 million for the three months ended March 31, 2008 and 2007, respectively, and are included in "General and administrative expense" in the accompanying combined statements of operations. It is not practicable to determine the amounts of these expenses that would have been incurred had Ticketmaster operated as an unaffiliated entity. In the opinion of management, the allocation method is reasonable.

The portion of interest income reflected in the combined statements of operations that is intercompany in nature was $1.7 million and $4.6 million for the three months ended March 31, 2008 and 2007, respectively. This intercompany interest relates to the receivables from IAC.

**NOTE 10—RELATED PARTY TRANSACTIONS (Continued)**

An analysis of Ticketmaster's receivables from IAC and subsidiaries is as follows (in thousands):

| | March 31, 2008 |
|---|---|
| Receivables from IAC and subsidiaries at December 31, 2007 | $ 474,110 |
| Cash transfers to IAC related to its centrally managed U.S. treasury function | 134,506 |
| Interest income | 1,699 |
| Employee equity instruments and associated tax withholdings | 3,888 |
| Taxes (excludes tax withholdings associated with employee equity instruments) | (2,277) |
| Allocation of non-cash compensation expense | (2,975) |
| Administrative expenses and other | (4,611) |
| Receivables from IAC and subsidiaries at March 31, 2008 | $ 604,340 |

**Relationship Between IAC and Ticketmaster after the Spin-Off**

For purposes of governing certain of the ongoing relationships between Ticketmaster and IAC at and after the spin-off, and to provide for an orderly transition, Ticketmaster and IAC are expected to enter into a separation agreement, a tax sharing agreement, an employee matters agreement and a transition services agreement (the "Spin-Off Agreements"), among other agreements. See Ticketmaster's consolidated financial statements for the year ended December 31, 2007 for descriptions of the Spin-Off Agreements.

# TREE.COM, INC. AND SUBSIDIARIES
# CONSOLIDATED FINANCIAL STATEMENTS

## TABLE OF CONTENTS

## Report of Independent Registered Public Accounting Firm

We have audited the accompanying consolidated balance sheets of Tree.com, Inc. and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule on page D-36. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tree.com, Inc. and subsidiaries at December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Los Angeles, California
May 5, 2008

## TREE.COM, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | | (In thousands) | |
| Revenue | $ 346,378 | $ 476,478 | $ 421,355 |
| Cost of revenue (exclusive of depreciation shown separately below) | 73,114 | 73,217 | 66,342 |
| Gross margin | 273,264 | 403,261 | 355,013 |
| Selling and marketing expense | 187,612 | 218,910 | 176,749 |
| General and administrative expense | 99,244 | 119,284 | 101,975 |
| Product development | 14,991 | 15,168 | 15,001 |
| Proceeds from a litigation settlement | (15,000) | — | — |
| Amortization of intangibles | 34,469 | 24,018 | 35,314 |
| Restructuring expense | 22,867 | — | — |
| Depreciation | 10,058 | 11,710 | 6,720 |
| Goodwill impairment | 459,463 | — | — |
| Operating (loss) income | (540,440) | 14,171 | 19,254 |
| Other income (expense): | | | |
| Interest income | 1,171 | 1,307 | 195 |
| Interest expense | (986) | (1,556) | (2,195) |
| Other income (expense) | 14 | (207) | (35) |
| Total other income (expense), net | 199 | (456) | (2,035) |
| (Loss) earnings before income taxes and minority interest | (540,241) | 13,715 | 17,219 |
| Income tax provision | (10,161) | (5,022) | (11,420) |
| Minority interest in losses of consolidated subsidiaries | — | — | 52 |
| **Net (loss) income** | $ (550,402) | $ 8,693 | $ 5,851 |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

## TREE.COM, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

| | December 31, 2007 | December 31, 2006 |
|---|---|---|
| | (In thousands) | |
| **ASSETS** | | |
| Cash and cash equivalents | $ 45,940 | $ 99,498 |
| Restricted cash and cash equivalents | 14,953 | 15,467 |
| Accounts receivable, net of allowance of $322 and $1,129, respectively | 12,433 | 21,581 |
| Loans held for sale | 86,754 | 345,896 |
| Deferred income taxes | 6,420 | 12,406 |
| Prepaid and other current assets | 6,011 | 10,090 |
| Total current assets | 172,511 | 504,938 |
| Property and equipment, net | 21,466 | 30,677 |
| Goodwill | 140,892 | 582,295 |
| Intangible assets, net | 108,440 | 142,781 |
| Other non-current assets | 278 | 354 |
| **TOTAL ASSETS** | $ 443,587 | $ 1,261,045 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **LIABILITIES:** | | |
| Current maturities of long-term obligations and short-term borrowings | $ 99,622 | $ 350,072 |
| Accounts payable, trade | 3,335 | 8,989 |
| Deferred revenue | 1,435 | 2,908 |
| Income taxes payable | 993 | 616 |
| Accrued expenses and other current liabilities | 83,613 | 62,890 |
| Total current liabilities | 188,998 | 425,475 |
| Long-term obligations, net of current maturities | — | 19,347 |
| Income taxes payable | 730 | — |
| Other long-term liabilities | 2,529 | 3,794 |
| Deferred income taxes | 36,706 | 38,976 |
| Commitments and contingencies | | |
| **SHAREHOLDERS' EQUITY:** | | |
| Invested capital | 751,923 | 750,331 |
| Payables to IAC and subsidiaries | 20,067 | 29,126 |
| Accumulated deficit | (557,366) | (6,004) |
| Total shareholders' equity | 214,624 | 773,453 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | $ 443,587 | $ 1,261,045 |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

## TREE.COM, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| | Total | Invested Capital | Payables to IAC and Subsidiaries | Accumulated Deficit |
|---|---|---|---|---|
| | | (In thousands) | | |
| **Balance as of December 31, 2004** | $ 753,674 | $ 751,646 | $ 22,576 | $ (20,548) |
| Comprehensive income: | | | | |
| Net income for the year ended December 31, 2005 | 5,851 | — | — | 5,851 |
| Comprehensive income | 5,851 | | | |
| Net transfers from IAC (principally related to equity awards) | 3,127 | 3,127 | — | |
| Net change in payables to IAC and subsidiaries | 3,834 | — | 3,834 | — |
| **Balance as of December 31, 2005** | 766,486 | 754,773 | 26,410 | (14,697) |
| Comprehensive income: | | | | |
| Net income for the year ended December 31, 2006 | 8,693 | — | — | 8,693 |
| Comprehensive income | 8,693 | | | |
| Net transfers to IAC (principally tax adjustments related to equity awards) | (4,442) | (4,442) | — | — |
| Net change in payables to IAC and subsidiaries | 2,716 | — | 2,716 | — |
| **Balance as of December 31, 2006** | 773,453 | 750,331 | 29,126 | (6,004) |
| Comprehensive loss: | | | | |
| Net loss for the year ended December 31, 2007 | (550,402) | — | — | (550,402) |
| Comprehensive loss | (550,402) | | | |
| Cumulative effect of adoption of EITF 06-2 | (960) | — | — | (960) |
| Net transfers from IAC (principally tax adjustments related to equity awards) | 1,592 | 1,592 | — | — |
| Net change in payables to IAC and subsidiaries | (9,059) | — | (9,059) | — |
| **Balance as of December 31, 2007** | $ 214,624 | $ 751,923 | $ 20,067 | $ (557,366) |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

**TREE.COM, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | | (In thousands) | |
| **Cash flows from operating activities:** | | | |
| Net (loss) income | $ (550,402) | $ 8,693 | $ 5,851 |
| Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities: | | | |
| Amortization of intangibles | 34,469 | 24,018 | 35,314 |
| Depreciation | 10,058 | 11,710 | 6,720 |
| Goodwill impairment | 459,463 | — | — |
| Non-cash compensation expense | 2,925 | 2,177 | 7,385 |
| Non-cash restructuring expense | 8,403 | — | — |
| Deferred income taxes | 2,764 | 206 | 543 |
| Excess tax benefits from stock-based awards | — | — | 3,075 |
| Gain on sales of loans held for sale | (147,546) | (221,400) | (179,026) |
| Provision for loans losses | 19,321 | 6,637 | 4,649 |
| Bad debt expense | 1,925 | 1,768 | 560 |
| Non-cash interest expense | 903 | 1,345 | 1,824 |
| Minority interest in losses of consolidated subsidiaries | — | — | (52) |
| Changes in current assets and liabilities: | | | |
| Accounts receivable | 9,364 | (1,254) | (372) |
| Origination of loans held for sale | (5,822,599) | (7,841,607) | (7,381,439) |
| Proceeds from sales of loans held for sale | 6,223,363 | 8,089,128 | 7,394,209 |
| Prepaid and other current assets | 4,110 | (4,761) | (3,337) |
| Accounts payable and other current liabilities | (20,612) | (3,594) | 21,207 |
| Income taxes payable | (702) | 582 | 947 |
| Deferred revenue | (1,785) | 1,603 | (142) |
| Other, net | (437) | (337) | 268 |
| **Net cash provided by (used in) operating activities** | 232,985 | 74,914 | (81,816) |
| **Cash flows from investing activities:** | | | |
| Acquisitions, net of cash acquired | (1,559) | (3,059) | (3,760) |
| Capital expenditures | (9,421) | (13,251) | (17,827) |
| Proceeds from sales of marketable securities | — | — | 2,416 |
| Other, net | 33 | (100) | 806 |
| **Net cash used in investing activities** | (10,947) | (16,410) | (18,365) |
| **Cash flows from financing activities:** | | | |
| Borrowing under lines of credit | 5,651,803 | 7,700,842 | 7,217,327 |
| Repayments of lines of credit | (5,910,849) | (7,724,663) | (7,054,488) |
| Principal payments on long-term obligations | (11,654) | (11,530) | (1,717) |
| Transfers (to) from IAC | (7,083) | (3,870) | 3,090 |
| Excess tax benefits from stock-based awards | 1,673 | 1,214 | — |
| Decrease (increase) in restricted cash | 514 | (7,908) | (1,181) |
| **Net cash (used in) provided by financing activities** | (275,596) | (45,915) | 163,031 |
| **Net (decrease) increase in cash and cash equivalents** | (53,558) | 12,589 | 62,850 |
| Cash and cash equivalents at beginning of period | 99,498 | 86,909 | 24,059 |
| **Cash and cash equivalents at end of period** | $ 45,940 | $ 99,498 | $ 86,909 |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

## NOTE 1—ORGANIZATION AND BASIS OF PRESENTATION

### Spin-Off

On November 5, 2007, IAC/InterActiveCorp ("IAC") announced that its Board of Directors approved a plan to separate IAC into five publicly traded companies, identifying Tree.com, Inc. ("Tree.com") as one of those five companies. In these consolidated financial statements, we refer to the separation transaction herein as the "spin-off". In connection with the spin-off, Tree.com was incorporated as a Delaware corporation in April 2008. Tree.com currently does not have any material assets or liabilities, nor does it engage in any business or other activities and, other than in connection with the spin-off, will not acquire or incur any material assets or liabilities, nor will it engage in any business or other activities. Upon completion of the spin-off, Tree.com will consist of the businesses that formerly comprised IAC's Lending and Real Estate segments. We refer herein to these businesses as the "Tree.com Businesses," which include LendingTree.com, RealEstate.com, GetSmart.com, LendingTree Loans, iNest and Domania.

### Basis of Presentation

The historical consolidated financial statements of Tree.com and its subsidiaries reflect the contribution or other transfer to Tree.com of all of the subsidiaries and assets and the assumption by Tree.com of all of the liabilities relating to the Tree.com Businesses in connection with the spin-off and the allocation to Tree.com of certain IAC corporate expenses relating to the Tree.com Businesses. Accordingly, the historical consolidated financial statements of Tree.com reflect the historical financial position, results of operations and cash flows of the Tree.com Businesses since their respective dates of acquisition by IAC, based on the historical consolidated financial statements and accounting records of IAC and using the historical results of operations and historical bases of the assets and liabilities of the Tree.com Businesses with the exception of accounting for income taxes. For purposes of these financial statements, income taxes have been computed for Tree.com on an as if stand-alone, separate tax return basis. Intercompany transactions and accounts have been eliminated.

In the opinion of Tree.com's management, the assumptions underlying the historical consolidated financial statements of Tree.com are reasonable. However, this financial information does not necessarily reflect what the historical financial position, results of operations and cash flows of Tree.com would have been had Tree.com been a stand-alone company during the periods presented.

### Company Overview

#### *Lending*

Lending consists of online networks (principally LendingTree.com and GetSmart.com) and call centers that connect consumers and financial providers in the lending industry. Tree.com also originates, processes, approves and funds various residential real estate loans through Home Loan Center ("HLC"), which does business as LendingTree Loans in certain jurisdictions. The HLC and LendingTree Loans brand names are collectively referred to in these consolidated financial statements as "LendingTree Loans." Additionally, Tree.com provides mortgage settlement services, including title search, appraisals, flood certification and closing transactions, under the name "LendingTree Settlement Services."

**NOTE 1—ORGANIZATION AND BASIS OF PRESENTATION (Continued)**

***Real Estate***

Real Estate consists of a proprietary full service real estate brokerage that operates in fourteen U.S. markets, *www.RealEstate.com*, an online network that connects consumers with real estate brokerages around the country, iNest, an online network that matches buyers and builders of new homes, and Domania, an online lead provider for banks, mortgage lenders and real estate professionals.

**NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Revenue Recognition**

***Lending***

Lending's network revenue principally represents transmit fees and closed-loan fees paid by lenders that received a transmitted loan request or closed a loan for a consumer that originated through one of Lending's websites or affiliates. Transmit fees are recognized at the time qualification forms are transmitted, while closed-loan fees are recognized at the time the lender reports the closed loan to Lending, which may be several months after the qualification form is transmitted.

LendingTree Loans' revenue is primarily derived from the origination and sale of mortgage loans. Mortgage loans are funded through lines of credit, primarily warehouse lines, and sold to investors typically within thirty days. The gain or loss on the sale of loans to investors is recognized at the date the loans are sold and is based on the difference between the sale proceeds received and the carrying value of the loans, which includes deferred loan origination fees less certain direct origination costs and other processing costs. LendingTree Loans sells its loans on a servicing released basis in which LendingTree Loans gives up the right to service the loan on an ongoing basis, thereby earning an additional premium upon sale. The recognition of gain or loss on the sale of loans is accounted for in accordance with Statement of Financial Accounting Standards ("SFAS") No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS No. 140").

***Real Estate***

Real Estate earns revenue from subscription and cooperative brokerage fees paid by real estate professionals participating in its real estate networks and from commissions paid by consumers for closing a real estate transaction on their behalf. Subscription fees are recognized over the subscription period. Cooperative brokerage fees are recognized when the transmission of a consumer's information results in the purchase or sale of a home and the transaction is reported closed by the participating real estate professional. Commissions are recognized at the time the real estate transaction is closed.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash and money market instruments.

**Restricted Cash**

Restricted cash at December 31, 2007 and 2006 primarily includes minimum required balances that LendingTree Loans maintains in connection with its various lines of credit, primarily warehouse lines.

**NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Accounts Receivable**

Accounts receivable are stated at amounts due from customers, primarily lending and real estate service providers participating on our networks, net of an allowance for doubtful accounts.

Accounts receivable outstanding longer than the contractual payment terms are considered past due. Tree.com determines its allowance for doubtful accounts by considering a number of factors, including the length of time accounts receivable are past due, Tree.com's previous loss history, the specific customer's current ability to pay its obligation to Tree.com and the condition of the general economy and the customer's industry. Tree.com writes off accounts receivable when management deems them uncollectible.

**Loans Held for Sale**

LendingTree Loans originates residential loans with the intent to sell them in the secondary market. Loans held for sale consist primarily of residential first and second mortgage loans that are secured by residential real estate throughout the United States. Loans held for sale are carried at the lower of cost or market value in accordance with SFAS No. 65, "Accounting for Certain Mortgage Banking Activities." The lower of cost or market value is determined on an aggregate basis, except for loans that management has deemed to be impaired, in which case the determination is made on an individual basis. The cost basis of loans held for sale includes the capitalized cost associated with the interest rate lock commitments, deferred origination fees and deferred origination costs. The market value of loans held for sale is determined using current secondary market prices for loans with similar coupons, maturities and credit quality. The amount by which the cost of loans held for sale exceeds the market value of loans held for sale is accounted for as a valuation allowance. Loans held for sale are pledged as collateral under LendingTree Loans' various lines of credit, which are primarily warehouse lines. LendingTree Loans relies substantially on the secondary mortgage market as all of the loans that are funded are intended to be sold into this market.

Loan origination fees (income) and costs related to funded loans held for sale (including direct costs of origination as well as payroll and administration costs associated with the origination process) are deferred until the loan is sold. Upon sale of the loan, the origination fees and costs are recognized as a component of the gain on sale of the loan. Origination costs related to unsuccessful loan origination efforts are recorded as operating expenses in the period incurred.

Interest on mortgage loans held for sale is recorded in income as earned. Interest is only accrued if deemed collectible. Interest is generally deemed uncollectible when a loan is delinquent for three months or more or when a loan has a defect affecting its salability evidencing a lack of collectability of amounts when contractually due. Delinquency is calculated based on the contractual due date of the loan. The amount of loans on nonaccrual status at December 31, 2007 and 2006 was $7.2 million and $1.6 million, respectively.

LendingTree Loans sells loans it originates to investors on a servicing released basis and without recourse, so that the economic risk of loss or default by the borrower is transferred to the investor. However, LendingTree Loans is required by these investors to make certain representations relating to credit information, loan documentation and collateral. To the extent that LendingTree Loans does not comply with such representations, which may be evidenced by early payment defaults, LendingTree Loans may be required to repurchase loans or indemnify these investors for any loss from borrower defaults. As such, LendingTree Loans records a liability for the estimated obligation related to this exposure based, in part, on historical and projected loss frequency and loss severity, the original principal amount of the loans previously sold, the year the loans were sold, and loan type. There are four loan types used in this analysis which are determined based on the extent of the documentation received (full or limited) and the lien position of the mortgage in the underling property (first or second position). In connection with a majority of its loan sales agreements, LendingTree Loans is also responsible for a minimum number of payments to be made on each loan. In the case of early payment payoffs, which occurs when a borrower prepays a loan prior to the end of the prepayment penalty period, LendingTree Loans may be required to repay all or a portion of the premium initially paid by the investor. The estimated obligation associated with early loan payoffs is calculated based on historical loss experience by type of loan. As of December 31, 2007 and 2006, the loan loss liability was $13.9 million and $3.8 million, respectively. For the years ended December 31, 2007, 2006 and 2005, LendingTree Loans increased its liability for losses on previously sold loans by approximately $15.5 million, $6.0 million and $4.7 million, respectively, as a reduction in revenue. In 2007, 2006 and 2005, $5.4 million, $5.3 million and $2.7 million was paid or written off against the liability, respectively, thereby reducing the liability. Actual losses are charged to the loss liability when incurred and management evaluates the adequacy of the liability calculations quarterly. Because LendingTree Loans does not service the loans it sells, it does not maintain nor have access to the current balances and loan performance data with respect to the individual loans previously sold to investors. As such, LendingTree Loans is unable to determine its maximum loss exposure.

For the years ended 2007, 2006 and 2005 LendingTree Loans sold approximately 36,000 55,000 and 48,000 loans, respectively, with initial loan values of $6.1 billion, $7.9 billion and $7.2 billon, respectively. From loans sold in those periods, LendingTree Loans has experienced repurchase and indemnification losses resulting from lack of compliance with certain representations relating to loans sold to investors which may be evidenced by early payment defaults on 57, 84 and 46 loans, respectively. The initial value of loans on which losses have been incurred was $6.4 million, $9.9 million and $6.6 million, respectively. The loss amounts incurred on those loans were $1.2 million, $3.3 million and $1.1 million, respectively, or less than 0.019%, 0.042% and 0.016%, respectively, of the initial loan value of the total loans sold for 2007, 2006 and 2005.

**Property and Equipment**

Property and equipment, including significant improvements, are recorded at cost. Repairs and maintenance and any gains or losses on dispositions are included in operations.

Depreciation is recorded on a straight-line basis to allocate the cost of depreciable assets to operations over their estimated service lives. Amortization of assets recorded under capital leases is included in depreciation expense.

| Asset Category | Depreciation Period |
|---|---|
| Computer equipment and capitalized software | 3 to 5 Years |
| Leasehold improvements | 1 to 10 Years |
| Furniture and other equipment | 7 Years |

**NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Goodwill and Indefinite-Lived Intangible Assets**

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), goodwill acquired in business combinations is assigned to the reporting units that are expected to benefit from the combination as of the acquisition date.

Goodwill impairment is determined using a two-step process. The first step of the process is to compare the fair value of a reporting unit with its carrying amount, including goodwill. In performing the first step, Tree.com determines the fair value of its reporting units by using a discounted cash flow ("DCF") analysis. Determining fair value using a DCF analysis requires the exercise of significant judgments, including judgments about appropriate discount rates, perpetual growth rates and the amount and timing of expected future cash flows. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step of the impairment test is not required. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is required to be performed to measure the amount of impairment, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

The impairment test for indefinite-lived intangible assets involves a comparison of the estimated fair value of the intangible asset with its carrying value. If the carrying value of the indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. The estimates of fair value of indefinite-lived intangible assets are determined using a DCF valuation analysis that employs a "relief from royalty" methodology in estimating the fair value of its trade names and trademarks. Significant judgments inherent in this analysis include the determination of royalty rates, discount rates and the terminal growth rates.

Goodwill and indefinite-lived intangible assets, primarily trade names and trademarks, are tested annually for impairment as of October 1 or earlier upon the occurrence of certain events or substantive changes in circumstances. Tree.com's 2007 annual impairment assessment identified significant impairments as described in Note 4. Tree.com's reporting units are currently operating in dynamic and challenged industry segments. To illustrate the magnitude of potential impairment charges relative to future changes in estimated fair value, had the estimated fair value of Tree.com's reporting units and their respective indefinite-lived intangible assets been hypothetically lower by 10% as of October 1, 2007 the aggregate book value of goodwill and indefinite-lived intangible assets would have exceeded fair value by approximately $7.0 million at Lending and $8.0 million at Real Estate. Had the estimated fair values of Tree.com's reporting units and their respective indefinite-lived intangible assets been hypothetically lower by 20% as of October 1, 2007, the book value of goodwill and indefinite-lived intangible assets would have exceeded fair value by approximately $21.0 million at Lending and $18.0 million at Real Estate.

**Long-Lived Assets and Intangible Assets with Definite Lives**

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"), long-lived assets, including property and equipment and intangible assets with definite lives, are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the carrying amount is deemed to not be recoverable, an impairment loss is recorded as the amount by which the carrying amount of the long-lived asset exceeds its fair value. Amortization of definite lived intangible assets is recorded on a straight-line basis over their estimated lives.

**Derivative Instruments**

Tree.com is exposed to certain risks in connection with its mortgage banking operations. LendingTree Loans is exposed to interest rate risk for loans it originates until those loans are sold in the secondary market ("loans held for sale"). The fair value of loans held for sale is subject to change primarily due to changes in market interest rates. LendingTree Loans hedges the changes in fair value of certain loans held for sale primarily by entering into mortgage forward delivery contracts. Although LendingTree Loans continues to enter into derivatives for risk management purposes, effective April 1, 2007 it no longer designates these derivative instruments as hedges and thus the relationships no longer qualify for the hedge accounting provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). See Note 10 for a description of Tree.com's derivative financial instruments.

**Advertising**

Advertising costs are expensed in the period incurred (when the advertisement first runs for production costs that are initially capitalized) and principally represent offline costs, including television and radio advertising, and online advertising costs, including fees paid to search engines and distribution partners. Advertising expense was $172.6 million, $204.4 million and $161.6 million for the years ended December 31, 2007, 2006 and 2005, respectively. Prepaid advertising totaled $0.6 million and $1.1 million at December 31, 2007 and 2006, respectively, and is included in "Prepaid and other current assets" in the accompanying consolidated balance sheets.

**Income Taxes**

Tree.com accounts for income taxes under the liability method, and deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided on deferred tax assets if it is determined that it is more likely than not that the deferred tax asset will not be realized. Tree.com records interest on potential tax contingencies as a component of income tax expense and records interest net of any applicable related income tax benefit.

Effective January 1, 2007, Tree.com adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" ("FIN 48"). As a result of the adoption of FIN 48, Tree.com recognizes liabilities for uncertain tax positions based on the two-step process prescribed by the interpretation. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including

**NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement.

**Stock-Based Compensation**

Effective January 1, 2006, Tree.com adopted the provisions of SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), using the modified prospective transition method and therefore has not restated results for prior periods. See Note 3 for a further description of the impact of the adoption of SFAS 123R and Staff Accounting Bulletin No. 107 ("SAB 107").

**Minority Interest**

Minority interest in 2005 represents minority ownership in LendingTree Settlement Services. Tree.com obtained 100% ownership in September 2005.

**Accounting Estimates**

Tree.com's management is required to make certain estimates and assumptions during the preparation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles. 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 include: reserves for losses associated with loans held for sale and loans that have been previously sold; recoverability of long-lived assets; recovery of goodwill and intangible assets; income taxes payable and deferred income taxes, including related valuation allowances; various other allowances, reserves and accruals; and assumptions related to the determination of stock-based compensation.

**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 Tree.com to concentration of credit risk, consist primarily of cash and cash equivalents. Cash and cash equivalents are maintained with quality financial institutions of high credit and are in excess of Federal Deposit Insurance Corporation ("FDIC") insurance limits.

Due to the nature of the mortgage lending industry, interest rate increases may significantly impact revenue from services related to originating and processing mortgages and subsequent sales of loans to investors, which are the primary source of income for LendingTree Loans. LendingTree Loans originates mortgage loans on property located throughout the United States, with no one location representing more than 10% of Tree.com's consolidated revenue for any periods presented. Revenue from loans originated for property located in California and Florida in the aggregate totaled approximately 10%, 14% and 14% of Tree.com's revenue in 2007, 2006 and 2005, respectively.

**NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

LendingTree Loan's two largest investors (purchasers of the loans originated) represented approximately 28% and 13% of Tree.com's revenue for 2007, 30% and 15% of Tree.com's revenue for 2006, and 35% and 8% of Tree.com's revenue for 2005. LendingTree Loans monitors its relationships with investors and, from time to time, makes adjustments in the amount it sells to any one investor based upon a number of factors, including but not limited to, price, loan review time and funding turnaround, underwriting guidelines and the overall efficiency of its relationship with the investor.

LendingTree Loans funds loans through various lines of credit, primarily warehouse lines. As of December 31, 2007, 73% of the total balance due on the lines of credit was payable to one lender. The decision regarding how to allocate this balance amongst lenders is based on several factors, including the interest rate and commitment fee.

Due to the nature of the mortgage lending industry, interest rate increases may negatively impact future revenue from our lending networks as well as revenue from originating and selling loans.

Further, lenders participating on our lending networks 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 of our online competitors, or both. If a significant number of potential consumers are able to obtain loans from our participating lenders without utilizing our service, our ability to generate revenue may be limited. Because we do not have exclusive relationships with the lenders whose loan products are offered on our online marketplace, consumers may obtain offers and loans from these lenders without using our service.

**Recent Accounting Pronouncements**

On June 15, 2006, the Emerging Issues Task Force ratified Issue 06-2, "Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43" ("EITF 06-2"), which requires entities to recognize the expense of employee sabbatical leave in the periods the sabbatical leave vests or accumulates. EITF 06-2 is effective for fiscal years beginning after December 15, 2006. The cumulative effect of applying EITF 06-2 was recorded as an adjustment to the opening balance of accumulated deficit as of January 1, 2007.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value with the objective of reducing both the complexity in the accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Tree.com adopted SFAS No. 159 effective January 1, 2008 and elected the fair value option on loans funded after December 31, 2007. Therefore there was no cumulative effect related to the adoption of SFAS No. 159.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS No. 157"), which provides enhanced guidance for using fair value to measure assets and liabilities. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements and the effect of the measurements on earnings or changes in net assets. Among other things, SFAS No. 157 clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The most significant financial impact of adopting the provisions of SFAS No. 157 is related to the valuing of interest rate lock commitments (related to loans intended to be held for sale). Under SFAS No. 157, the fair value of a closed loan includes the embedded cash flows that are ultimately realized as servicing value or through the sale of a loan on a servicing released basis. The valuation of loan commitments includes assumptions related to the likelihood that a commitment will ultimately result in a closed loan ("expected close rates"). These expected close rates are based on Tree.com's historical data, which is a significant unobservable assumption. Prior accounting requirements precluded the recognition of any day one gains and losses if fair value was not based on observable market data. Rather, these gains and losses were recognized when the interest rate lock commitment expired or when the underlying loan was ultimately sold. The change in valuation methodology under SFAS No. 157 accelerates the recognition of these day one gains and losses. The cumulative effect of adopting the provisions of SFAS No. 157 is required to be reported as an adjustment to beginning retained earnings in the year of adoption. Accordingly, upon adoption of SFAS No. 157 on January 1, 2008, Tree.com recorded a $3.1 million reduction to accumulated deficit.

In November 2007, the SEC issued Staff Accounting Bulletin No. 109, "Written Loan Commitments Recorded at Fair Value Through Earnings" ("SAB 109"). SAB 109 supersedes Staff Accounting Bulletin No. 105, "Application of Accounting Principles to Loan Commitments" ("SAB 105"). It clarifies that the expected net future cash flows related to the associated servicing of a loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. However, it retains the guidance in SAB 105 that internally-developed intangible assets should not be recorded as part of the fair value of a derivative loan commitment. The guidance is effective on a prospective basis to derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007.

The adoption of SFAS No. 157, SFAS No. 159, and SAB 109 generally results in higher fair values of loans held for sale being recorded at loan origination. Prior to adoption certain aspects of the loan value associated with the cash flows related to the servicing of a loan, origination fees and day one gains on derivative transactions would be deferred until the sale of the loan. However, as loans are typically sold within thirty days of origination, Tree.com has determined that adoption of SFAS No. 157, SFAS No. 159 and SAB 109 will not have a material impact on the its consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS No. 141R"), which replaces FASB Statement No. 141. SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. The Statement also establishes disclosure requirements that will enable users to evaluate the nature and financial effects of the business combination. SFAS No. 141R applies prospectively to business combinations in fiscal years beginning after December 15, 2008. Early adoption is not permitted. Tree.com is currently assessing the impact of the adoption of SFAS No. 141R on its consolidated financial position, results of operations and cash flows.

**NOTE 3—SFAS 123R AND STOCK-BASED COMPENSATION**

The equity awards described below principally relate to awards to Tree.com employees that were granted under various IAC stock and annual incentive plans.

Effective January 1, 2006, Tree.com adopted SFAS 123R using the modified prospective transition method and has applied the classification provisions of SAB 107 regarding the SEC's interpretation of SFAS 123R and the valuation of share-based payments for public companies in its adoption of SFAS 123R.

The adoption of SFAS 123R did not impact the amount of stock-based compensation expense recorded in the accompanying consolidated statements of operations as Tree.com had previously adopted the expense recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123").

Prior to the adoption of SFAS 123R, the entire tax benefit from stock-based compensation was reported as a component of operating cash flows. Upon the adoption of SFAS 123R, tax benefits resulting from tax deductions in excess of the stock-based compensation expense recognized in the consolidated statement of operations are reported as a component of financing cash flows. For the years ended December 31, 2007 and 2006, excess tax benefits from stock-based compensation of $1.7 million and $1.2 million, respectively, are included as a component of financing cash flows. For the year ended December 31, 2005, excess tax benefits from stock-based compensation of $3.1 million is included as a component of operating cash flows.

Non-cash stock-based compensation expense related to equity awards is included in the following line items in the accompanying consolidated statements of operations for the years ended December 31, 2007, 2006 and 2005 (in thousands):

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Cost of revenue | $ 248 | $ 263 | $ 317 |
| Selling and marketing expense | 272 | 289 | 333 |
| General and administrative expense | 2,403 | 1,603 | 6,620 |
| Product development | 2 | 22 | 115 |
| Non-cash stock-based compensation expense before income taxes | 2,925 | 2,177 | 7,385 |
| Income tax benefit | (1,228) | (1,169) | (1,219) |
| Non-cash stock-based compensation expense after income taxes | $ 1,697 | $ 1,008 | $ 6,166 |

The form of awards granted to Tree.com employees principally have been restricted stock units ("RSUs") and performance stock units ("PSUs"). RSUs and PSUs are awards in the form of phantom shares or units, denominated in a hypothetical equivalent number of shares of IAC common stock and with the value of each award equal to the fair value of IAC common stock at the date of grant. Each RSU, PSU and restricted stock grant is subject to service-based vesting, where a specific period of continued employment must pass before an award vests, and certain grants also include performance-based vesting, where certain performance targets set at the time of grant must be achieved before an award vests. Tree.com recognizes expense for all RSUs, PSUs and restricted stock for which vesting is considered probable. For RSU and restricted stock grants the accounting charge is measured at the grant date as the fair value of IAC common stock and expensed ratably as non-cash compensation over

**NOTE 3—SFAS 123R AND STOCK-BASED COMPENSATION (Continued)**

the vesting term. For PSU grants the expense is measured at the grant date as the fair value of IAC common stock and expensed as non-cash compensation when the performance targets are considered probable of being achieved.

The amount of stock-based compensation expense recognized in the consolidated statement of operations is reduced by estimated forfeitures, as the amount recorded is based on awards ultimately expected to vest. The forfeiture rate is estimated at the grant date based on historical experience and revised, if necessary, in subsequent periods if the actual forfeiture rate differs from the estimated rate.

As of December 31, 2007, there was approximately $10.2 million of unrecognized compensation cost, net of estimated forfeitures, related to all equity-based awards. This cost is expected to be recognized over a weighted-average period of approximately 2.8 years.

In connection with the acquisition of LendingTree by IAC in 2003 certain members of LendingTree's management were granted restricted common equity in LendingTree. These awards were granted on August 8, 2003 and were initially measured at fair value, which is being amortized to expense over the vesting period. These awards vest ratably over four and a half years, or earlier based upon the occurrence of certain prescribed events. The awards vest in non-voting restricted common shares of LendingTree.

These shares are subject to a put right by the holders, which is not exercisable until the first quarter of 2009 and annually thereafter, and a call right by IAC, which is not exercisable until the first quarter of 2012 and annually thereafter. The value of these shares upon exercise of the put or call is equal to their fair market value, determined by negotiation or arbitration, reduced by the accreted value of the preferred interest that was taken by IAC upon the purchase of LendingTree. The initial value of the preferred interest was equal to the acquisition price of LendingTree. The preferred interest accretes value at a 10% annual rate. Upon exercise of the put or call the consideration is payable in IAC shares or cash or a combination thereof at IAC's option. As of December 31, 2007, these awards are significantly out of the money and are not expected to result in any value. Prior to the separation, this put and call arrangement will be modified so that the consideration payable in IAC's shares will be replaced with Tree.com shares.

The unrecognized compensation cost related to these equity awards is $0.2 million at December 31, 2007.

**NOTE 4—GOODWILL AND INTANGIBLE ASSETS**

In connection with its annual impairment assessment in 2007, which was prepared in connection with the preparation of its annual financial statements, Tree.com identified and recorded impairment charges related to the goodwill and intangible assets of the Lending segment of $459.5 million and $16.2 million, respectively. The intangible asset impairment charges are included in amortization of intangibles in the accompanying consolidated statement of operations. The write-downs were determined by comparing the fair values of Lending reporting unit's goodwill and intangible assets with the carrying amounts. The fair values were determined using a discontinued cash flow approach.

The impairments associated with the Lending segment resulted from Tree.com's reassessment of the likely future profitability of Lending in light of the persistent adverse mortgage market conditions and the operational strategies Tree.com has undertaken in response to these market realities. These adverse conditions include, among others, constrained liquidity, lender focus on low margin conforming

**NOTE 4—GOODWILL AND INTANGIBLE ASSETS (Continued)**

loans, uncertainty as to the eventuality and timing of the return of higher margin mortgage products, the decline in real estate values and a higher rate of delinquency for existing mortgages. Tree.com has significantly reduced its mortgage origination operations in response to these conditions which will reduce or slow its ability to react to possible improvements in the market. The impairments at the Lending segment occurred during the fourth quarter of 2007 as Tree.com completed an updated assessment of mortgage market conditions and the development and implementation of Lending's responsive operational strategies, and quantified these considerations in Lending's future forecasted results.

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

| | December 31, | |
|---|---|---|
| | 2007 | 2006 |
| Goodwill | $ 140,892 | $ 582,295 |
| Intangible assets with indefinite lives | 88,607 | 104,826 |
| Intangible assets with definite lives, net | 19,833 | 37,955 |
| Total goodwill and intangible assets, net | $ 249,332 | $ 725,076 |

Intangible assets with indefinite lives relate principally to trade names and trademarks acquired in various acquisitions. At December 31, 2007, intangible assets with definite lives relate to the following (in thousands):

| | Cost | Accumulated Amortization | Net | Weighted-Average Amortization Life (Years) |
|---|---|---|---|---|
| Purchase agreements | $ 76,117 | $ (59,212) | $ 16,905 | 5.7 |
| Technology | 29,100 | (28,663) | 437 | 3.0 |
| Customer lists | 6,607 | (6,607) | — | 2.8 |
| Other | 8,928 | (6,437) | 2,491 | 4.9 |
| Total | $ 120,752 | $ (100,919) | $ 19,833 | |

At December 31, 2006, intangible assets with definite lives relate to the following (in thousands):

| | Cost | Accumulated Amortization | Net | Weighted-Average Amortization Life (Years) |
|---|---|---|---|---|
| Purchase agreements | $ 79,417 | $ (46,771) | $ 32,646 | 5.7 |
| Technology | 29,100 | (28,138) | 962 | 3.0 |
| Customer lists | 6,607 | (6,607) | — | 2.8 |
| Other | 8,827 | (4,480) | 4,347 | 4.9 |
| Total | $ 123,951 | $ (85,996) | $ 37,955 | |

**NOTE 4—GOODWILL AND INTANGIBLE ASSETS (Continued)**

Amortization of intangible assets with definite lives is computed on a straight-line basis and, based on December 31, 2007 balances, such amortization for the next five years is estimated to be as follows (in thousands):

| Years Ending December 31, | | |
|---|---|---|
| 2008 | $ | 10,883 |
| 2009 | | 4,138 |
| 2010 | | 2,768 |
| 2011 | | 1,218 |
| 2012 | | 826 |
| | $ | 19,833 |

The following table presents the balance of goodwill by segment, including the changes in carrying amount of goodwill, for the year ended December 31, 2007 (in thousands):

| | Balance as of January 1, 2007 | Additions | (Deductions) | Impairment | Balance as of December 31, 2007 |
|---|---|---|---|---|---|
| Lending | $ 513,405 | $ 18,914 | $ (2,090) | $ (459,463) | $ 70,766 |
| Real Estate | 68,890 | 1,367 | (131) | — | 70,126 |
| Total | $ 582,295 | $ 20,281 | $ (2,221) | $ (459,463) | $ 140,892 |

Additions principally relate to estimated contingent consideration payable to former shareholders of HLC under the terms of the purchase agreement. Deductions principally relate to the income tax benefit realized pursuant to the exercise of stock options assumed in business acquisitions that were vested at the transaction date and are treated as a reduction in goodwill when the income tax deductions are realized, and adjustments to the carrying value of goodwill based upon the finalization of the valuation of goodwill and intangible assets and their related deferred tax impacts.

The following table presents the balance of goodwill by segment, including the changes in carrying amount of goodwill, for the year ended December 31, 2006 (in thousands):

| | Balance as of January 1, 2006 | Additions | (Deductions) | Balance as of December 31, 2006 |
|---|---|---|---|---|
| Lending | $ 515,346 | $ 1,329 | $ (3,270) | $ 513,405 |
| Real Estate | 65,870 | 3,412 | (392) | 68,890 |
| Total | $ 581,216 | $ 4,741 | $ (3,662) | $ 582,295 |

Additions principally relate to acquisitions. Deductions principally relate to adjustments to the carrying value of goodwill based upon the finalization of the valuation of intangible assets and their related deferred tax impacts and the income tax benefit realized pursuant to the exercise of stock options assumed in business acquisitions that were vested at the transaction date and are treated as a reduction in goodwill when the income tax deductions are realized.

**NOTE 5—PROPERTY AND EQUIPMENT**

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

| | December 31, 2007 | December 31, 2006 |
|---|---|---|
| Computer equipment and capitalized software | $ 35,183 | $ 36,175 |
| Leasehold improvements | 3,076 | 6,095 |
| Furniture and other equipment | 3,737 | 5,297 |
| Projects in progress | 5,002 | 7,024 |
| | 46,998 | 54,591 |
| Less: accumulated depreciation and amortization | (25,532) | (23,914) |
| Total property and equipment, net | $ 21,466 | $ 30,677 |

**NOTE 6—ACCRUED EXPENSES AND OTHER CURRRENT LIABILITIES**

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

| | December 31, 2007 | December 31, 2006 |
|---|---|---|
| Contingent consideration payable related to HLC acquisition | $ 18,914 | $ — |
| Accrued loan loss liability related to loans previously sold | 13,886 | 3,820 |
| Litigation accruals | 15,285 | 12,456 |
| Accrued advertising expense | 11,492 | 11,125 |
| Accrued compensation and benefits | 8,407 | 18,683 |
| Accrued restructuring costs | 5,560 | — |
| Derivatives related to loans held for sale and interest rate lock commitments | 1,185 | 2,470 |
| Other accrued expenses | 8,884 | 14,336 |
| Total accrued expenses and other current liabilities | $ 83,613 | $ 62,890 |

**NOTE 7—INCOME TAXES**

Tree.com is a member of IAC's consolidated federal and state tax returns. In all periods presented, current and deferred tax expense has been computed for Tree.com on a separate return basis. Tree.com's payments to IAC for its share of IAC's consolidated federal and state tax return liabilities have been reflected within cash flows from operating activities in the accompanying consolidated statements of cash flows.

**NOTE 7—INCOME TAXES (Continued)**

The components of the provision for income taxes attributable to continuing operations are as follows (in thousands):

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| **Current income tax provision:** | | | |
| Federal | $ 5,533 | $ 2,113 | $ 7,497 |
| State | 1,864 | 2,703 | 3,380 |
| Current income tax provision | 7,397 | 4,816 | 10,877 |
| **Deferred income tax provision (benefit):** | | | |
| Federal | 6,327 | 1,644 | (4,139) |
| State | (3,563) | (1,438) | 4,682 |
| Deferred income tax provision | 2,764 | 206 | 543 |
| Income tax provision | $ 10,161 | $ 5,022 | $ 11,420 |

Current income taxes payable has been reduced by $1.7 million, $1.2 million and $3.1 million for the years ended December 31, 2007, 2006 and 2005, respectively, for tax deductions attributable to stock-based compensation. The related income tax benefits of this stock-based compensation were recorded as amounts charged or credited to invested capital or a reduction in goodwill.

The tax effects of cumulative temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2007 and 2006 are presented below (in thousands). The valuation allowance is related to items for which it is more likely than not that the tax benefit will not be realized.

| | December 31, | |
|---|---|---|
| | 2007 | 2006 |
| **Deferred tax assets:** | | |
| Provision for accrued expenses | $ 19,647 | $ 12,365 |
| Net operating loss carryforwards | 32,041 | 13,770 |
| Goodwill | 15,290 | — |
| Other | 7,303 | 4,974 |
| Total deferred tax assets | 74,281 | 31,109 |
| Less valuation allowance | (68,830) | (5,835) |
| Net deferred tax assets | 5,451 | 25,274 |
| **Deferred tax liabilities:** | | |
| Intangible and other assets | (34,581) | (48,689) |
| Other | (1,156) | (3,155) |
| Total deferred tax liabilities | (35,737) | (51,844) |
| Net deferred tax liability | $ (30,286) | $ (26,570) |

**NOTE 7—INCOME TAXES (Continued)**

At December 31, 2007, Tree.com had consolidated federal and state net operating losses ("NOLs") of approximately $58.9 million and $16.6 million, respectively. These NOL carryforwards have been fully utilized in the IAC consolidated federal and state return filings and will not be available to Tree.com following the spin-off. In addition, Tree.com had separate company state NOLs of approximately $159.0 million that will expire at various times between 2008 and 2027.

At December 31, 2007, Tree.com had tax credit carryforwards of approximately $1.9 million. This entire amount is related to federal credits for increasing research activities. These credits have been fully utilized in the IAC consolidated federal tax return and will not be available to Tree.com following the spin-off.

During 2007, Tree.com's valuation allowance increased by approximately $63.0 million. This increase related to NOLs and other deferred tax assets including accrued expenses and goodwill. At December 31, 2007, Tree.com had a valuation allowance of approximately $68.8 million related to the portion of tax operating loss carryforwards and other deferred tax assets for which it is more likely than not that the tax benefit will not be realized.

A reconciliation of total income tax provision to the amounts computed by applying the statutory federal income tax rate to earnings from continuing operations before income taxes and minority interest is shown as follows (in thousands):

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Income tax (benefit) provision at the federal statutory rate of 35% | $ (189,084) | $ 4,800 | $ 6,027 |
| State income taxes, net of effect of federal tax benefit | (1,099) | 839 | (241) |
| Change in state effective tax rate | (4) | (17) | 2,940 |
| Non-deductible non-cash compensation expense | (125) | (332) | 1,444 |
| Impairment of non-deductible goodwill and intangible assets | 145,665 | — | — |
| Change in valuation allowance | 54,960 | — | 2,542 |
| Other, net | (152) | (268) | (1,292) |
| Income tax provision | $ 10,161 | $ 5,022 | $ 11,420 |

Tree.com adopted the provisions of FIN 48 effective January 1, 2007. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The adoption had no impact on Tree.com's accumulated deficit. A reconciliation of the

**NOTE 7—INCOME TAXES (Continued)**

beginning and ending amount of unrecognized tax benefits, excluding interest, is as follows (in thousands):

| | |
|---|---|
| Balance at January 1, 2007 | $ 541 |
| Additions based on tax positions related to the current year | 1,645 |
| Additions for tax positions of prior years | 2,203 |
| Reductions for tax positions of prior years | — |
| Settlements | — |
| Balance at December 31, 2007 | $ 4,389 |

As of January 1, 2007 and December 31, 2007, the unrecognized tax benefits, including interest, were $0.5 million and $5.8 million, respectively. Included in unrecognized tax benefits is approximately $3.7 million for tax positions included in IAC's consolidated tax return filings. Included within "Payables to IAC and subsidiaries" in the accompanying consolidated balance sheet at December 31, 2007 is approximately $5.0 million of unrecognized tax benefits and related interest that will remain a liability of IAC after the spin-off. Also included in unrecognized tax benefits at December 31, 2007 is approximately $2.6 million for tax positions which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility.

Tree.com recognizes interest and, if applicable, penalties related to unrecognized tax benefits in income tax expense. Included in income tax expense from continuing operations for the year ended December 31, 2007 is $0.9 million, net of related deferred taxes of $0.5 million, for interest on unrecognized tax benefits. At December 31, 2007, Tree.com has accrued $1.4 million for the payment of interest. There were no material accruals for interest as of January 1, 2007. There are no material accruals for penalties.

By virtue of previously filed separate company and consolidated tax returns with IAC, Tree.com is routinely under audit by federal, state and local authorities in the area of income tax. These audits include questioning the timing and the amount of deductions and the allocation of income among various tax jurisdictions. Income taxes payable include amounts considered sufficient to pay assessments that may result from examination of prior year returns; however, the amount paid upon resolution of issues raised may differ from the amount provided. Differences between the reserves for tax contingencies and the amounts owed by Tree.com are recorded in the period they become known.

The Internal Revenue Service ("IRS") is currently examining the IAC consolidated tax returns for the years ended December 31, 2001 through 2003, which includes the operations of LendingTree from August 8, 2003, its date of acquisition by IAC. The statute of limitations for these years has been extended to December 31, 2008. Various IAC consolidated tax returns filed with state and local jurisdictions are currently under examination, the most significant of which are Florida, New York state and New York City, for various tax years after December 31, 2001. These examinations are expected to be completed by late 2008.

Tree.com believes that it is reasonably possible that its unrecognized tax benefits could decrease by approximately $2.6 million within twelve months of the current reporting date due to the reversal of deductible temporary differences which will result in a corresponding increase in net deferred tax liabilities. An estimate of other changes in unrecognized tax benefits cannot be made, but are not expected to be significant.

## NOTE 8—SEGMENT INFORMATION

The overall concept that Tree.com employs in determining its operating segments and related financial information is to present them in a manner consistent with how the chief operating decision maker and executive management view the businesses, how the businesses are organized as to segment management, and the focus of the businesses with regards to the types of products or services offered or the target market.

Tree.com's primary metric is Operating Income Before Amortization, which is defined as operating income excluding, if applicable: (1) non-cash compensation expense, (2) amortization of intangibles and goodwill impairment, (3) pro forma adjustments for significant acquisitions, and (4) one-time items. Tree.com believes this measure is useful to investors because it represents the consolidated operating results from Tree.com's segments, taking into account depreciation, which it believes is an ongoing cost of doing business, but excluding the effects of any other non-cash expenses. Operating Income Before Amortization has certain limitations in that it does not take into account the impact to Tree.com's statement of operations of certain expenses, including non-cash compensation and acquisition-related accounting.

The following tables reconcile Operating Income Before Amortization to operating income (loss) for Tree.com's operating segments and to net (loss) income in total (in thousands):

| | Year Ended December 31, 2007 | | | | |
|---|---|---|---|---|---|
| | Operating Income Before Amortization | Non-Cash Compensation Expense | Amortization of Intangibles | Goodwill Impairment | Operating Loss |
| Lending | $ (23,524) | $ (1,914) | $ (27,683) | $ (459,463) | $ (512,584) |
| Real Estate | (20,059) | (1,011) | (6,786) | — | (27,856) |
| Total | $ (43,583) | $ (2,925) | $ (34,469) | $ (459,463) | (540,440) |
| Other income, net | | | | | 199 |
| Loss before income taxes | | | | | (540,241) |
| Income tax provision | | | | | (10,161) |
| Net loss | | | | | $ (550,402) |

| | Year Ended December 31, 2006 | | | |
|---|---|---|---|---|
| | Operating Income Before Amortization | Non-Cash Compensation Expense | Amortization of Intangibles | Operating Income (Loss) |
| Lending | $ 61,873 | $ (1,370) | $ (16,412) | $ 44,091 |
| Real Estate | (21,507) | (807) | (7,606) | (29,920) |
| Total | $ 40,366 | $ (2,177) | $ (24,018) | 14,171 |
| Other expense, net | | | | (456) |
| Earnings before income taxes | | | | 13,715 |
| Income tax provision | | | | (5,022) |
| Net income | | | | $ 8,693 |

**NOTE 8—SEGMENT INFORMATION (Continued)**

| | Year Ended December 31, 2005 | | | |
|---|---|---|---|---|
| | Operating Income Before Amortization | Non-Cash Compensation Expense | Amortization of Intangibles | Operating Income (Loss) |
| Lending | $ 78,883 | $ (4,829) | $ (23,449) | $ 50,605 |
| Real Estate | (16,930) | (2,556) | (11,865) | (31,351) |
| Total | $ 61,953 | $ (7,385) | $ (35,314) | 19,254 |
| Other expense, net | | | | (2,035) |
| Earnings before income taxes and minority interest | | | | 17,219 |
| Income tax provision | | | | (11,420) |
| Minority interest in losses of consolidated subsidiaries | | | | 52 |
| Net income | | | | $ 5,851 |

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | (In thousands) | | |
| **Revenue:** | | | |
| Gain on sales of loans held for sale | $ 147,546 | $ 221,400 | $ 179,026 |
| Transmit fees | 80,792 | 83,930 | 68,981 |
| Closed loan fees | 65,227 | 85,022 | 90,665 |
| Other | 1,061 | 29,305 | 25,128 |
| Lending | 294,626 | 419,657 | 363,800 |
| Real Estate | 51,752 | 56,821 | 57,555 |
| **Total** | $ 346,378 | $ 476,478 | $ 421,355 |

| | December 31, | |
|---|---|---|
| | 2007 | 2006 |
| | (In thousands) | |
| **Assets:** | | |
| Lending(a) | $ 345,810 | $ 1,127,397 |
| Real Estate(a) | 97,777 | 133,648 |
| **Total** | $ 443,587 | $ 1,261,045 |

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | (In thousands) | | |
| **Depreciation, amortization of intangibles and goodwill impairment:** | | | |
| Lending(a) | $ 496,052 | $ 25,721 | $ 28,989 |
| Real Estate(a) | 7,938 | 10,007 | 13,045 |
| **Total** | $ 503,990 | $ 35,728 | $ 42,034 |

**NOTE 8—SEGMENT INFORMATION (Continued)**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | | (In thousands) | |
| **Capital expenditures:** | | | |
| Lending and Real Estate(b) | $ 9,421 | $ 13,251 | $ 17,827 |
| **Total** | $ 9,421 | $ 13,251 | $ 17,827 |

(a) Assets related to the Real Estate segment only include goodwill and intangible assets, net as it is impracticable to allocate the remaining jointly used assets between the Lending and Real Estate segments. Accordingly, assets related to the Lending segment include goodwill and intangible assets, net and the remaining jointly used assets comprising both the Lending and Real Estate segments. However, depreciation expense, which Tree.com believes is an ongoing cost of doing business and is included in the calculation of both operating income (loss) and Operating Income Before Amortization, is allocated between the Lending and Real Estate segments.

(b) All capital expenditures related to the Lending and Real Estate segments are included in one segment as it is impracticable to allocate capital expenditures between the Lending and Real Estate segments.

Tree.com maintains operations solely in the United States.

**NOTE 9—SHORT-TERM BORROWINGS AND LONG-TERM OBLIGATIONS**

| | December 31, | |
|---|---|---|
| | 2007 | 2006 |
| | (In thousands) | |
| Lines of credit (primarily warehouse lines) | $ 79,426 | $ 338,472 |
| Installment Note Payable due January 31, 2008 | 20,000 | 30,000 |
| Other long-term obligations maturing through 2008 | 272 | 1,923 |
| Total gross obligations | 99,698 | 370,395 |
| Total unamortized discount | (76) | (976) |
| Total long-term obligations and short-term borrowings | 99,622 | 369,419 |
| Less current maturities of long-term obligations and short-term borrowings | (99,622) | (350,072) |
| Long-term obligations, net of current maturities | $ — | $ 19,347 |

At December 31, 2007 and 2006, current maturities of long-term obligations and short-term borrowings consist primarily of the lines of credit and the installment note payable.

LendingTree Loans has various lines of credit, primarily warehouse lines, that it uses to fund the origination of consumer residential mortgage loans. As of December 31, 2007, LendingTree Loans had committed lines of credit totaling $550 million, of which $500 million expired on January 31, 2008 and $50 million expires on October 31, 2008, and an uncommitted line of credit of $150 million. As of December 31, 2006, LendingTree Loans had committed lines of credit in the aggregate amount of $750 million, which had been scheduled to expire from August 31, 2007 to October 31, 2007, and uncommitted lines of credit aggregating $250 million. Total borrowings under these lines of credit are secured by outstanding mortgage loans held for sale. The interest rate under these lines of credit was 30-day LIBOR plus 75 to 100 basis points, but may have been higher under certain circumstances. Under the terms of the committed lines of credit, LendingTree Loans is required to maintain various financial and other covenants. These financial covenants include maintaining (i) minimum levels of

**NOTE 9—SHORT-TERM BORROWINGS AND LONG-TERM OBLIGATIONS (Continued)**

tangible net worth, cash on hand with a certain lender and liquid assets, (ii) a maximum ratio of total liabilities to net worth and (iii) positive pre-tax net income on a quarterly basis. During the fourth quarter of 2007, LendingTree Loans was not in compliance with the quarterly positive pre-tax net income covenant set forth in one of its lines of credit. LendingTree Loans received a waiver of this covenant breach on February 8, 2008. The breach and the subsequent waiver did not have an impact on LendingTree Loans' other lines of credit and Tree.com does not expect it to have an impact on LendingTree Loans' ability to secure lines of credit in the future. Borrowings under all of LendingTree Loans' lines of credit are non-recourse to Tree.com. In the case of committed lines, LendingTree Loans pays a facility fee based on the size of the lines. There were $79.4 million and $338.5 million outstanding under these lines of credit as of December 31, 2007 and 2006, respectively. The weighted-average interest rates on outstanding borrowings under these lines of credit at December 31, 2007 and 2006 were 5.53% and 6.35%, respectively. Subsequent to December 31, 2007, the committed line of credit which expired on January 31, 2008 was renewed at a reduced size of $50 million and an increased base rate of LIBOR plus 140 basis points and will expire on the earlier of sixty days prior to the spin-off or January 24, 2009. The renewed committed line of credit can be canceled at the option of the lender without default upon sixty days notice.

In connection with the acquisition of LendingTree Loans, Tree.com committed to pay a portion of the purchase price payments to former shareholders under an installment note payable in three installments. The final payment of $20.0 million, due January 31, 2008, is recorded net of imputed interest of $0.1 million at December 31, 2007.

At December 31, 2007 and 2006, Tree.com leased certain equipment under capital leases with interest rates ranging from approximately 6.8% to 9.5%. Included in other long-term obligations above as of December 31, 2007 are capital lease obligations totaling approximately $0.3 million. Included in other long-term obligations above as of December 31, 2006 are capital lease obligations totaling approximately $1.9 million, net of interest of $0.1 million. Total fixed assets under capital leases at December 31, 2007 and 2006 approximate $4.5 million and $6.5 million, respectively, with accumulated depreciation of approximately $2.7 million and $3.6 million, respectively.

**NOTE 10—DERIVATIVE INSTRUMENTS**

Tree.com is exposed to certain interest rate risks in connection with its mortgage banking operations because the fair value of loans held for sale is subject to change primarily due to changes in market interest rates until those loans are sold in the secondary market. LendingTree Loans hedges the changes in fair value of loans held for sale primarily by entering into mortgage forward delivery contracts. Although LendingTree Loans continues to enter into forward delivery contracts for risk management purposes, effective April 1, 2007 it no longer designates these derivatives as hedges for accounting purposes.

Prior to April 1, 2007, the fair value of loans held for sale was determined using current secondary market prices for loans with similar coupons, maturities and credit quality and the carrying value of the loans held for sale and the related derivative instruments were adjusted for changes in fair value during the time the hedge was deemed to be highly effective. If it was determined that the hedging relationship was no longer highly effective, hedge accounting was discontinued. When hedge accounting was discontinued, the affected loans held for sale were no longer adjusted for changes in fair value. However, the changes in fair value of the forward delivery contracts continued to be recognized in current earnings as a component of revenue. The fair value of the forward delivery contracts is recorded in "Prepaid and other current assets" and/or "Accrued expenses and other current liabilities"

**NOTE 10—DERIVATIVE INSTRUMENTS (Continued)**

in the accompanying consolidated balance sheets. For the year ended December 31, 2007, Tree.com recognized losses of $1.1 million related to the changes in fair value of derivative instruments. For the years ended December 31, 2006 and 2005, Tree.com recognized losses of $0.3 million and $1.4 million, respectively, related to hedge ineffectiveness and gains of $0.1 million and $0.1 million, respectively, related to changes in the fair value of derivative instruments when hedge accounting was discontinued.

LendingTree Loans enters into commitments with consumers to originate loans at a locked in interest rate (interest rate lock commitments—"IRLCs"). Tree.com reports IRLCs as derivative instruments in accordance with SAB 105 and SFAS No. 133 and determines the fair value of IRLCs using current secondary market prices for underlying loans with similar coupons, maturity and credit quality, subject to the anticipated loan funding probability, or fallout factor. The fair value of IRLCs is subject to change primarily due to changes in interest rates and fallout factors. Under LendingTree Loans' risk management policy, LendingTree Loans hedges the changes in fair value of IRLCs primarily by entering into mortgage forward delivery contracts which can reduce the volatility of economic outcomes. Neither the IRLCs nor the related hedging instrument qualify for hedge accounting and both are recorded at fair value with changes in fair value being recorded in current earnings as a component of revenue in the statement of operations. The IRLCs are recorded in "Prepaid and other current assets" and/or "Accrued expenses and other current liabilities" in the accompanying consolidated balance sheets. The net change in the fair value of these derivative instruments for the years ended December 31, 2007, 2006 and 2005 resulted in losses of $0.8 million, gains of $0.2 million and losses of $0.4 million, respectively, which have been recognized in the accompanying consolidated statements of operations. At December 31, 2007, there was $157.8 million of IRLC's notional value outstanding.

**NOTE 11—COMMITMENTS**

Tree.com leases office space, equipment and services used in connection with its operations under various operating leases, many of which contain escalation clauses.

Future minimum payments under operating lease agreements are as follows (in thousands):

| Years Ending December 31, | |
|---|---|
| 2008 | $ 7,168 |
| 2009 | 6,565 |
| 2010 | 3,109 |
| 2011 | 2,655 |
| 2012 | 2,328 |
| Thereafter | 5,808 |
| Total | $ 27,633 |

Expenses charged to operations under these agreements were $6.9 million, $6.7 million and $6.1 million for the years ended December 31, 2007, 2006 and 2005, respectively.

**NOTE 11—COMMITMENTS (Continued)**

Tree.com also has funding commitments that could potentially require its performance in the event of demands by third parties or contingent events, such as under letters of credit extended or under surety bonds, as follows (in thousands):

| | Amount of Commitment Expiration Per Period | | | | |
|---|---|---|---|---|---|
| | Total Amounts Committed | Less Than 1 Year | 1-3 Years | 3-5 Years | More Than 5 Years |
| Surety bonds and letters of credit | $ 8,182 | $ 7,477 | $ 705 | $ — | $ — |
| Purchase obligations | 330 | 330 | — | — | — |
| Total commercial commitments | $ 8,512 | $ 7,807 | $ 705 | $ — | $ — |

The total commercial commitments above primarily consist of surety bonds relating to guarantees with mortgage brokers. The purchase obligations primarily relate to marketing event contracts in 2008.

**NOTE 12—CONTINGENCIES**

On November 24, 2003, IMX, Inc. ("IMX") filed suit against Tree.com alleging infringement of a patent held by IMX and seeking damages related to the alleged infringement. A trial was conducted in January 2006 and a verdict was returned finding infringement by Tree.com and awarding IMX $5.8 million in damages. Tree.com established a reserve of $5.8 million in its 2005 financial statements related to this claim. In January 2007 the court enhanced the damages award and rejected Tree.com's counterclaim. During 2006, Tree.com increased the reserve by $6.3 million to $12.1 million at December 31, 2006. During 2007, the court awarded IMX supplemental damages and pre-judgment and post-judgment interest. During 2007, Tree.com increased the reserve by $0.8 million to $12.8 million at December 31, 2007. Tree.com has appealed this judgment to the U.S. Court of Appeals for the Federal Circuit. Tree.com intends to continue to contest this case through all available means. In connection with the appeal, Tree.com's parent, IAC, executed a guarantee of $13.5 million in lieu of posting a bond. Before IAC completes the spin-off, Tree.com will have to post a bond in a like amount.

HLC is party to various employment related lawsuits. During 2006, Tree.com established a reserve of $0.4 million for certain of these actions. During 2007, an additional reserve of $2.1 million was recorded. The balance of the related liability was $0.4 million and $2.5 million at December 31, 2006 and 2007, respectively.

In addition, during 2007 the Company settled a lawsuit (as the plaintiff) and received a payment of $15.0 million, which is reflected as a separate line in the accompanying consolidated statement of operations.

In the ordinary course of business, Tree.com is a party to various lawsuits. Tree.com establishes reserves for specific legal matters when it determines that the likelihood of an unfavorable outcome is probable and the loss is reasonably estimable. Management has also identified certain other legal matters where it believes an unfavorable outcome is not probable and, therefore, no reserve is established. Although management currently believes that an unfavorable resolution of claims against Tree.com, including claims where an unfavorable outcome is reasonably possible, will not have a material impact on the liquidity, results of operations, or financial condition of Tree.com, these matters are subject to inherent uncertainties and management's view of these matters may change in the future. It is possible that an unfavorable outcome of one or more of these lawsuits could have a material impact on the liquidity, results of operations, or financial condition of Tree.com. Tree.com also

**NOTE 12—CONTINGENCIES (Continued)**

evaluates other contingent matters, including tax contingencies, to assess the probability and estimated extent of potential loss. See Note 7 for discussion related to income tax contingencies.

**NOTE 13—FINANCIAL INSTRUMENTS**

The additional disclosure below of the estimated fair value of financial instruments has been determined by Tree.com using available market information and appropriate valuation methodologies when available. Tree.com's financial instruments include letters of credit and surety bonds. These commitments are in place to facilitate the commercial operations of certain Tree.com subsidiaries.

| | December 31, 2007 | | December 31, 2006 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | (In thousands) | | | |
| Cash and cash equivalents | $ 45,940 | $ 45,940 | $ 99,498 | $ 99,498 |
| Restricted cash and cash equivalents | 14,953 | 14,953 | 15,467 | 15,467 |
| Accounts receivable, net | 12,433 | 12,433 | 21,581 | 21,581 |
| Loans held for sale | 86,754 | 89,397 | 345,896 | 357,859 |
| Long-term obligations and short-term borrowings | (99,622) | (99,622) | (369,419) | (369,419) |
| Derivative asset related to loans held for sale and interest rate lock commitments | 719 | 719 | 3,859 | 3,859 |
| Derivative liability related to loans held for sale and interest rate lock commitments | (1,185) | (1,185) | (2,470) | (2,470) |
| Surety bonds and letters of credit | N/A | (8,182) | N/A | (7,489) |

The carrying amounts of cash and cash equivalents reflected in the accompanying consolidated balance sheets approximate fair value as they are redeemable at par upon notice or maintained with various high-quality financial institutions. Restricted cash and cash equivalents are primarily maintained with credit line providers, primarily warehouse lines, for the purpose of maintaining financial covenants. Accounts receivable, net, are short-term in nature and are generally settled shortly after the sale. The market value of loans held for sale, net, was estimated using current secondary market prices for loans with similar coupons, maturities and credit quality, subject to the anticipated loan funding probability, or fallout factor. The fair values of derivative asset and liability contracts were estimated based on the difference between the current value of similar loans and the price at which Tree.com has committed to originate the loans, subject to the expected close rate of the loans, or fallout factor. The carrying amounts for the remaining long-term obligations and short-term borrowings and all other financial instruments approximate their fair value.

**NOTE 14—SUPPLEMENTAL CASH FLOW INFORMATION**

**Supplemental Disclosure of Cash Flow Information:**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | (In thousands) | | |
| Cash paid during the period for: | | | |
| Interest | $ 14,888 | $ 19,056 | $ 12,626 |
| Income tax payments including amounts paid to IAC for Tree.com's share of IAC's consolidated tax liability | 6,426 | 3,046 | 7,258 |
| Income tax refunds | — | (26) | (403) |

**NOTE 15—RELATED PARTY TRANSACTIONS**

Tree.com has various agreements with Microsoft Corporation ("Microsoft"), which was the beneficial owner of more than 5% of IAC's outstanding common stock during 2006 and 2005. These agreements include partner agreements, licensing agreements and support agreements. Total fees paid related to these agreements in 2006 and 2005 were approximately $21.8 million and $8.5 million, respectively. Amounts payable related to these various agreements at December 31, 2006 were $1.2 million and are included in "Accrued expenses and other current liabilities" in the accompanying consolidated balance sheets. In the first quarter of 2007, Microsoft publicly disclosed that it was no longer the beneficial owner of 5% or more of IAC's outstanding common stock, and as a result, it is no longer a related party.

During the period from January 1, 2005 through June 6, 2005, Tree.com paid $6.9 million to the National Broadcasting Company, a subsidiary of GE, related to television advertising. As a result of the sale of IAC's common and preferred interests in VUE on June 7, 2005, GE and its subsidiaries are no longer related parties.

Tree.com's expenses include allocations from IAC of costs associated with IAC's accounting, treasury, legal, tax, corporate support, human resources and internal audit functions. These expenses were allocated based on the ratio of Tree.com's revenue as a percentage of IAC's total revenue. Allocated costs were $1.0 million, $1.2 million and $1.1 million in 2007, 2006 and 2005, respectively, and are included in "General and administrative expense" in the accompanying consolidated statements of operations. It is not practicable to determine the amounts of these expenses that would have been incurred had Tree.com operated as an unaffiliated entity. In the opinion of management, the allocation method is reasonable.

The portion of interest income reflected in the consolidated statements of operations that is intercompany in nature, was $1.0 million and $1.1 million for the years ended December 31, 2007 and 2006, respectively. This intercompany interest arose from the transfer of cash from Tree.com to IAC that occurred in connection with IAC's treasury operations.

An analysis of Tree.com's payables to IAC and subsidiaries is as follows (in thousands):

| | 2007 | 2006 |
|---|---|---|
| Payables to IAC and subsidiaries, beginning of year | $ (29,126) | $ (26,410) |
| Cash transfers related to IAC's centrally managed U.S. treasury function | 35,652 | 34,079 |
| Interest income | 1,000 | 1,062 |
| Employee equity instruments and associated tax withholdings | 1,253 | 894 |
| Taxes (excludes tax withholdings associated with employee equity instruments) | 5,158 | (3,041) |
| Allocation of non-cash compensation expense | (3,139) | (3,501) |
| Administrative expenses and other | (30,865) | (32,209) |
| Payables to IAC and subsidiaries, end of year | $ (20,067) | $ (29,126) |

**Relationship Between IAC and Tree.com after the Spin-Off**

For purposes of governing certain of the ongoing relationships between Tree.com and IAC at and after the spin-off, and to provide for an orderly transition, Tree.com and IAC are expected to enter into a separation agreement, a tax sharing agreement, an employee matters agreement and a transition services agreement (the "Spin-Off Agreements"), among other agreements.

**NOTE 15—RELATED PARTY TRANSACTIONS (Continued)**

***Separation Agreement***

The separation agreement is expected to provide generally that (i) immediately prior to the spin-off, IAC will contribute or otherwise transfer to Tree.com all of the subsidiaries and assets comprising the Tree.com Businesses, (ii) Tree.com will assume all of the liabilities related to the Tree.com Businesses, (iii) each party will indemnify the other and its respective affiliates, current and former directors, officers and employees for any losses arising out of any breach of any of the Spin-Off Agreements and (iv) Tree.com will indemnify IAC for its failure to assume and perform any assumed liabilities and any liabilities relating to Tree.com, financial and business information included in the SEC documentation filed with respect to the spin-off, as well as such other terms as to which IAC and Tree.com mutually agree.

***Tax Sharing Agreement***

The tax sharing agreement will govern the respective rights, responsibilities and obligations of IAC and Tree.com after the spin-off with respect to taxes for the periods ending on or before the spin-off. Generally, IAC will pay taxes with respect to Tree.com income included on its consolidated, unitary or combined federal or state tax returns including audit adjustments with respect thereto. Other pre-distribution taxes that are attributable to the Tree.com Businesses, including taxes reported on separately-filed returns and audit adjustments with respect thereto, will be borne solely by Tree.com. The tax sharing agreement is expected to contain certain customary restrictive covenants that generally prohibit Tree.com (absent a supplemental IRS ruling or an unqualified opinion of counsel to the contrary, in each case, in a form and substance satisfactory and acceptable to IAC in its sole discretion) from taking actions that could jeopardize the tax free nature of the spin-off. Tree.com is expected to agree to indemnify IAC for any taxes and related losses resulting from its non-compliance with these restrictive covenants, as well as for the breach of certain representations in the Spin-Off Agreements and other documentation relating to the tax-free nature of the spin-off.

***Employee Matters Agreement***

The employee matters agreement will generally provide that Tree.com will be responsible for, among other obligations, all employment and benefit-related obligations and liabilities related to its employees immediately prior to the spin-off (and their dependents and beneficiaries) and former employees who most recently worked for the Tree.com Businesses. This agreement is also expected to provide that assets and liabilities from the IAC Retirement Savings Plan of Tree.com employees will be transferred to a newly established Tree.com Retirement Savings Plan as soon as practicable following the spin-off.

***Transition Services Agreement***

Under the transition services agreement, beginning on the date of the completion of the spin-off, IAC will provide to Tree.com on an interim, transitional basis, various services, which are expected to relate primarily to public company and operational matters, and such other services as to which IAC and Tree.com mutually agree. The agreed upon charges for these services will generally allow IAC to recover fully the allocated costs of providing the services, plus all out-of-pocket costs and expenses. Tree.com may terminate the agreement with respect to one or more particular services upon prior written notice.

## NOTE 15—RELATED PARTY TRANSACTIONS (Continued)

***Commercial Agreements***

IAC and Tree.com currently, and for the foreseeable future, expect to provide certain services to each other pursuant to certain commercial relationships. In connection with the spin-off, IAC and Tree.com will enter into a number of commercial agreements between subsidiaries of IAC, on the one hand, and subsidiaries of Tree.com, on the other hand, many of which will memorialize (in most material respects) pre-existing arrangements in effect prior to the spin-off and all of which are intended to reflect arm's length terms. In addition, IAC and Tree.com believe that such agreements, whether taken individually or in the aggregate, do not constitute a material contract to either IAC or Tree.com.

Aggregate revenue earned with respect to these commercial agreements by the Tree.com Businesses was not material in 2007, 2006 and 2005. The Tree.com Businesses incurred approximately $0.4 million, $1.9 million and $0.9 million in 2007, 2006 and 2005, respectively, in expenses related to these commercial agreements with IAC subsidiaries.

## NOTE 16—BENEFIT PLANS

During the three years ended December 31, 2007, Tree.com either participated in a retirement savings plan sponsored by IAC or had a retirement savings plan in the United States that was qualified under Section 401(k) of the Internal Revenue Code. Subsequent to the spin-off, the net assets available for benefits of the employees of Tree.com are expected to be transferred from the IAC plan to a newly created Tree.com plan. Under the IAC plan, participating employees may contribute up to 16% of their pretax earnings, but not more than statutory limits. Tree.com's match under the IAC plan is fifty cents for each dollar a participant contributes in this plan, with a maximum contribution of 3% of a participant's eligible earnings. Matching contributions for all plans were approximately $2.7 million, $3.0 million and $2.3 million in 2007, 2006, and 2005, respectively. The decrease in matching contributions in 2007 is primarily due to the reduction in workforce associated with the current year restructuring. The increase in matching contributions in 2006 is primarily due to increased participation in the plan. Matching contributions are invested in the same manner as each participant's voluntary contributions in the investment options provided under the plan. Investment options in the plan include IAC common stock, but neither participant nor matching contributions are required to be invested in IAC common stock.

## NOTE 17—RESTRUCTURING CHARGES

Restructuring charges were approximately $22.9 million in 2007. Costs that relate to ongoing operations are not part of restructuring charges.

The restructuring charges primarily relate to Tree.com's significant reduction in its mortgage origination operations in response to the persistent adverse mortgage market conditions. Restructuring charges by segment and type are as follows:

| | For the Year Ended December 31, 2007 | | | | |
|---|---|---|---|---|---|
| | Employee Termination Costs | Continuing Lease Obligations | Asset Write-offs | Other | Total |
| | (In thousands) | | | | |
| Lending | $ 8,973 | $ 5,004 | $ 7,510 | $ 80 | $ 21,567 |
| Real Estate | 333 | — | 493 | 474 | 1,300 |
| Total | $ 9,306 | $ 5,004 | $ 8,003 | $ 554 | $ 22,867 |

## NOTE 17—RESTRUCTURING CHARGES (Continued)

Restructuring charges and spending against liabilities are as follows:

| | For the Year Ended December 31, 2007 | | | | |
|---|---|---|---|---|---|
| | Employee Termination Costs | Continuing Lease Obligations | Asset Write-offs | Other | Total |
| | (In thousands) | | | | |
| Balance, beginning of period | $ — | $ — | $ — | $ — | $ — |
| Restructuring charges | 9,306 | 5,004 | 8,003 | 554 | 22,867 |
| Payments | (7,242) | (1,633) | — | — | (8,875) |
| Write-offs | — | 514 | (8,003) | — | (7,489) |
| Balance, end of period | $ 2,064 | $ 3,885 | $ — | $ 554 | $ 6,503 |

At December 31, 2007, restructuring liabilities of $5.6 million are included in "Accrued expenses and other current liabilities" and $0.9 million are included in "Other long-term liabilities" in the accompanying consolidated balance sheet. Tree.com does not expect to incur significant additional costs related to the 2007 restructuring.

## NOTE 18—QUARTERLY RESULTS (UNAUDITED)

| | Quarter Ended March 31, | Quarter Ended June 30, | Quarter Ended September 30, | Quarter Ended December 31,(a) |
|---|---|---|---|---|
| | (In thousands) | | | |
| **Year Ended December 31, 2007** | | | | |
| Revenue | $ 109,999 | $ 110,639 | $ 74,953 | $ 50,787 |
| Gross margin | 89,503 | 89,697 | 56,674 | 37,390 |
| Operating loss | (8,404) | (11,756) | (11,916) | (508,364) |
| Net loss | (5,123) | (7,492) | (6,293) | (531,494) |
| **Year Ended December 31, 2006** | | | | |
| Revenue | $ 122,658 | $ 120,747 | $ 120,230 | $ 112,843 |
| Gross margin | 104,749 | 101,910 | 100,844 | 95,758 |
| Operating income | 922 | 1,455 | 5,811 | 5,983 |
| Net income | 386 | 746 | 3,240 | 4,321 |

(a) The fourth quarter of 2007 includes an impairment charge of $475.7 million related to the write-down of Lending's goodwill and intangible assets.

## TREE.COM AND SUBSIDIARIES

## VALUATION AND QUALIFYING ACCOUNTS

| Description | Balance at Beginning of Period | Charges to Earnings | Charges to Other Accounts | Deductions | Balance at End of Period |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| **2007** | | | | | |
| Allowance for doubtful accounts | $ 1,129 | $ 1,925 | $ — | $ (2,732)(2) | $ 322 |
| Deferred tax valuation allowance | 5,835 | 62,995(1) | — | — | 68,830 |
| **2006** | | | | | |
| Allowance for doubtful accounts | $ 727 | $ 1,768 | $ — | $ (1,366)(2) | $ 1,129 |
| Deferred tax valuation allowance | 3,652 | 2,183(1) | — | — | 5,835 |
| **2005** | | | | | |
| Allowance for doubtful accounts | $ 594 | $ 560 | $ — | $ (427)(2) | $ 727 |
| Deferred tax valuation allowance | 735 | 2,917(1) | — | — | 3,652 |

(1) Amount is primarily related to Tree.com net operating losses and other deferred tax assets including accrued expenses and goodwill which impacted the income tax provision.

(2) Write-off of uncollectible accounts receivable.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2008 | 2007 |
| | (In thousands) | |
| Revenue | $ 70,193 | $ 109,999 |
| Cost of revenue (exclusive of depreciation shown separately below) | 17,766 | 20,496 |
| Gross margin | 52,427 | 89,503 |
| Selling and marketing expense | 33,197 | 56,478 |
| General and administrative expense | 20,764 | 30,046 |
| Product development | 2,109 | 4,270 |
| Restructuring expense | 402 | — |
| Amortization of intangibles | 3,668 | 4,274 |
| Depreciation | 1,775 | 2,839 |
| Operating loss | (9,488) | (8,404) |
| Other income (expense): | | |
| Interest income | 9 | 70 |
| Interest expense | (109) | (280) |
| Other (expense) income | (2) | 1 |
| Total other expense, net | (102) | (209) |
| Loss before income taxes | (9,590) | (8,613) |
| Income tax (provision) benefit | (209) | 3,490 |
| **Net loss** | $ (9,799) | $ (5,123) |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

**TREE.COM, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

| | March 31, 2008 | December 31, 2007 |
|---|---|---|
| | (unaudited) | (audited) |
| | (In thousands) | |
| **ASSETS** | | |
| Cash and cash equivalents | $ 52,516 | $ 45,940 |
| Restricted cash and cash equivalents | 2,442 | 14,953 |
| Accounts receivable, net of allowance of $382 and $322, respectively | 14,460 | 12,433 |
| Loans held for sale | 91,185 | 86,754 |
| Deferred income taxes | 6,420 | 6,420 |
| Prepaid and other current assets | 9,607 | 6,011 |
| Total current assets | 176,630 | 172,511 |
| Property and equipment, net | 20,582 | 21,466 |
| Goodwill | 140,619 | 140,892 |
| Intangible assets, net | 104,772 | 108,440 |
| Other non-current assets | 207 | 278 |
| **TOTAL ASSETS** | $ 442,810 | $ 443,587 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **LIABILITIES:** | | |
| Short-term borrowings and current maturities of long-term obligations | $ 78,754 | $ 99,622 |
| Accounts payable, trade | 6,991 | 3,335 |
| Deferred revenue | 1,397 | 1,435 |
| Income taxes payable | 913 | 993 |
| Accrued expenses and other current liabilities | 69,913 | 83,613 |
| Total current liabilities | 157,968 | 188,998 |
| Income taxes payable | 819 | 730 |
| Other long-term liabilities | 2,257 | 2,529 |
| Deferred income taxes | 37,221 | 36,706 |
| Commitments and contingencies | | |
| **SHAREHOLDERS' EQUITY:** | | |
| Invested capital | 766,374 | 751,923 |
| Payables to IAC and subsidiaries | 42,237 | 20,067 |
| Accumulated deficit | (564,066) | (557,366) |
| Total shareholders' equity | 244,545 | 214,624 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | $ 442,810 | $ 443,587 |

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)**

| | Total | Invested Capital | Payables to IAC and Subsidiaries | Accumulated Deficit |
|---|---|---|---|---|
| | | (In thousands) | | |
| **Balance as of December 31, 2007** | $ 214,624 | $ 751,923 | $ 20,067 | $ (557,366) |
| Comprehensive loss: | | | | |
| Net loss for the three months ended March 31, 2008 | (9,799) | — | — | (9,799) |
| Comprehensive loss | (9,799) | | | |
| Cumulative effect of adoption of SFAS No. 157 | 3,099 | — | — | 3,099 |
| Net transfers from IAC (principally funding of contingent consideration paid to former shareholders of Home Loan Center) | 14,451 | 14,451 | — | — |
| Net change in payables to IAC and subsidiaries | 22,170 | — | 22,170 | — |
| **Balance as of March 31, 2008** | $ 244,545 | $ 766,374 | $ 42,237 | $ (564,066) |

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)**

| | Three Months Ended March 31, 2008 | 2007 |
|---|---|---|
| | (In thousands) | |
| **Cash flows from operating activities:** | | |
| Net loss | $ (9,799) | $ (5,123) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Amortization of intangibles | 3,668 | 4,274 |
| Depreciation | 1,775 | 2,839 |
| Non-cash compensation expense | 556 | 1,121 |
| Non-cash restructuring expense | 337 | — |
| Deferred income taxes | 192 | (4,535) |
| Gain on sales of loans held for sale | (23,573) | (48,617) |
| Provision for loans losses | 784 | 1,548 |
| Bad debt expense | 238 | 613 |
| Non-cash interest expense | 76 | 249 |
| Changes in current assets and liabilities: | | |
| Accounts receivable | (1,233) | (4,481) |
| Origination of loans held for sale | (611,490) | (1,997,623) |
| Proceeds from sales of loans held for sale | 628,501 | 1,981,313 |
| Prepaid and other current assets | (424) | (2,663) |
| Accounts payable and other current liabilities | 4,767 | (2,930) |
| Income taxes payable | 310 | (392) |
| Deferred revenue | (127) | 177 |
| Other, net | (181) | (359) |
| **Net cash used in operating activities** | (5,623) | (74,589) |
| **Cash flows from investing activities:** | | |
| Contingent consideration paid to former shareholders of Home Loan Center | (14,487) | — |
| Capital expenditures | (1,470) | (3,698) |
| Other, net | 4 | 1 |
| **Net cash used in investing activities** | (15,953) | (3,697) |
| **Cash flows from financing activities:** | | |
| Borrowing under lines of credit | 553,141 | 1,947,302 |
| Repayments of lines of credit | (553,828) | (1,884,903) |
| Principal payments on long-term obligations | (20,031) | (10,449) |
| Transfers from IAC | 21,774 | 17,960 |
| Capital contributions from IAC | 14,487 | — |
| Excess tax benefits from stock-based awards | 98 | 484 |
| Decrease (increase) in restricted cash | 12,511 | (843) |
| **Net cash provided by financing activities** | 28,152 | 69,551 |
| **Net increase (decrease) in cash and cash equivalents** | 6,576 | (8,735) |
| Cash and cash equivalents at beginning of period | 45,940 | 99,498 |
| **Cash and cash equivalents at end of period** | $ 52,516 | $ 90,763 |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

## NOTE 1—ORGANIZATION

### Spin-Off

On November 5, 2007, IAC/InterActiveCorp ("IAC") announced that its Board of Directors approved a plan to separate IAC into five publicly traded companies, identifying Tree.com, Inc. ("Tree.com") as one of those five companies. In these consolidated financial statements, we refer to the separation transaction as the "spin-off." In connection with the spin-off, Tree.com was incorporated as a Delaware corporation in April 2008. Tree.com currently does not have any material assets or liabilities, nor does it engage in any business or other activities and, other than in connection with the spin-off, will not acquire or incur any material assets or liabilities, nor will it engage in any business or other activities. Upon completion of the spin-off, Tree.com will consist of the businesses that formerly comprised IAC's Lending and Real Estate segments. We refer herein to these businesses as the "Tree.com Businesses," which include LendingTree.com, RealEstate.com, GetSmart.com, LendingTree Loans, iNest and Domania.

### Basis of Presentation

The historical consolidated financial statements of Tree.com and its subsidiaries reflect the contribution or other transfer to Tree.com of all of the subsidiaries and assets and the assumption by Tree.com of all of the liabilities relating to the Tree.com Businesses in connection with the spin-off and the allocation to Tree.com of certain IAC corporate expenses relating to the Tree.com Businesses. Accordingly, the historical consolidated financial statements of Tree.com reflect the historical financial position, results of operations and cash flows of the Tree.com Businesses since their respective dates of acquisition by IAC, based on the historical consolidated financial statements and accounting records of IAC and using the historical results of operations and historical bases of the assets and liabilities of the Tree.com Businesses with the exception of accounting for income taxes. For purposes of these financial statements, income taxes have been computed for Tree.com on an as if stand-alone, separate tax return basis. Intercompany transactions and accounts have been eliminated.

In the opinion of Tree.com's management, the assumptions underlying the historical consolidated financial statements of Tree.com are reasonable. However, this financial information does not necessarily reflect what the historical financial position, results of operations and cash flows of Tree.com would have been had Tree.com been a stand-alone company during the periods presented.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of Tree.com's management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Interim results are not necessarily indicative of the results that may be expected for a full year. The accompanying unaudited consolidated financial statements should be read in conjunction with Tree.com's audited consolidated financial statements and notes thereto for the year ended December 31, 2007.

**NOTE 1—ORGANIZATION (Continued)**

**Company Overview**

***Lending***

Lending consists of online networks (principally LendingTree.com and GetSmart.com) and call centers that connect consumers and financial providers in the lending industry. Tree.com also originates, processes, approves and funds various residential real estate loans through Home Loan Center ("HLC"), which does business as LendingTree Loans in certain jurisdictions. The HLC and LendingTree Loans brand names are collectively referred to in these consolidated financial statements as "LendingTree Loans." Additionally, Tree.com provides mortgage settlement services, including title search, appraisals, flood certification and closing transactions, under the name "LendingTree Settlement Services."

***Real Estate***

Real Estate consists of a proprietary full service real estate brokerage that operates in fourteen U.S. markets, *www.RealEstate.com*, an online network that connects consumers with real estate brokerages around the country, iNest, an online network that matches buyers and builders of new homes, and Domania, an online lead provider for banks, mortgage lenders and real estate professionals.

**NOTE 2—SIGNIFICANT ACCOUNTING POLICIES**

**Accounting Estimates**

Tree.com's management is required to make certain estimates and assumptions during the preparation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles. These estimates and assumptions impact the reported amounts 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 include: reserves for losses associated with loans held for sale and loans that have been previously sold; the fair value of loans held for sale and related derivatives; the recoverability of long-lived assets; the recovery of goodwill and intangible assets; the determination of income taxes payable and deferred income taxes, including related valuation allowances; various other allowances, reserves and accruals; and assumptions related to the determination of stock-based compensation.

**Recent Accounting Pronouncements**

In December 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51" ("SFAS No. 160"). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. The Statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the

**NOTE 2—SIGNIFICANT ACCOUNTING POLICIES (Continued)**

interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. SFAS No. 160 will be applied prospectively, except as it relates to disclosures, for which the effects will be applied retrospectively for all periods presented. Early adoption is not permitted. Tree.com is currently assessing the impact of SFAS No. 160 on its consolidated financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS No. 141R"), which replaces FASB Statement No. 141. SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. The Statement also establishes disclosure requirements that will enable users to evaluate the nature and financial effects of the business combination. SFAS No. 141R applies prospectively to business combinations in fiscal years beginning after December 15, 2008. Early adoption is not permitted. Tree.com is currently assessing the impact of the adoption of SFAS No. 141R on its consolidated financial position, results of operations and cash flows.

**NOTE 3—GOODWILL AND INTANGIBLE ASSETS**

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

| | March 31, 2008 | December 31, 2007 |
|---|---|---|
| Goodwill | $ 140,619 | $ 140,892 |
| Intangible assets with indefinite lives | 88,607 | 88,607 |
| Intangible assets with definite lives, net | 16,165 | 19,833 |
| Total goodwill and intangible assets, net | $ 245,391 | $ 249,332 |

Intangible assets with indefinite lives relate principally to trade names and trademarks acquired in various acquisitions. At March 31, 2008, intangible assets with definite lives relate to the following (in thousands):

| | Cost | Accumulated Amortization | Net | Weighted Average Amortization Life (Years) |
|---|---|---|---|---|
| Purchase agreements | $ 76,117 | $ (62,544) | $ 13,573 | 5.7 |
| Technology | 29,100 | (28,794) | 306 | 3.0 |
| Customer lists | 6,607 | (6,607) | — | 2.8 |
| Other | 8,928 | (6,642) | 2,286 | 4.9 |
| Total | $ 120,752 | $ (104,587) | $ 16,165 | |

**NOTE 3—GOODWILL AND INTANGIBLE ASSETS (Continued)**

At December 31, 2007, intangible assets with definite lives relate to the following (in thousands):

| | Cost | Accumulated Amortization | Net | Weighted Average Amortization Life (Years) |
|---|---|---|---|---|
| Purchase agreements | $ 76,117 | $ (59,212) | $ 16,905 | 5.7 |
| Technology | 29,100 | (28,663) | 437 | 3.0 |
| Customer lists | 6,607 | (6,607) | — | 2.8 |
| Other | 8,928 | (6,437) | 2,491 | 4.9 |
| Total | $ 120,752 | $ (100,919) | $ 19,833 | |

Amortization of intangible assets with definite lives is computed on a straight-line basis and, based on December 31, 2007 balances, such amortization for the next five years is estimated to be as follows (in thousands):

| Years Ending December 31, | |
|---|---|
| 2008 | $ 10,883 |
| 2009 | 4,138 |
| 2010 | 2,768 |
| 2011 | 1,218 |
| 2012 | 826 |
| | $ 19,833 |

The following table presents the balance of goodwill by segment, including changes in the carrying amount of goodwill, for the three months ended March 31, 2008 (in thousands):

| | Balance as of January 1, 2008 | Additions | (Deductions) | Balance as of March 31, 2008 |
|---|---|---|---|---|
| Lending | $ 70,766 | $ — | $ (262) | $ 70,504 |
| Real Estate | 70,126 | — | (11) | 70,115 |
| Total | $ 140,892 | $ — | $ (273) | $ 140,619 |

Deductions principally relate to the establishment of deferred tax assets related to acquired tax attributes and the income tax benefit realized pursuant to the exercise of stock options assumed in a business acquisition that were vested at the transaction date and are treated as a reduction in goodwill when the income tax deductions are realized.

**NOTE 4—PROPERTY AND EQUIPMENT**

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

| | March 31, 2008 | December 31, 2007 |
|---|---|---|
| Computer equipment and capitalized software | $ 35,278 | $ 35,183 |
| Leasehold improvements | 3,204 | 3,076 |
| Furniture and other equipment | 3,923 | 3,737 |
| Projects in progress | 4,728 | 5,002 |
| | 47,133 | 46,998 |
| Less: accumulated depreciation and amortization | (26,551) | (25,532) |
| Total property and equipment, net | $ 20,582 | $ 21,466 |

**NOTE 5—SEGMENT INFORMATION**

The overall concept that Tree.com employs in determining its operating segments and related financial information is to present them in a manner consistent with how the chief operating decision maker and executive management view the businesses, how the businesses are organized as to segment management, and the focus of the businesses with regards to the types of products or services offered or the target market.

Tree.com's primary metric is Operating Income Before Amortization, which is defined as operating income excluding, if applicable: (1) non-cash compensation expense, (2) amortization of intangibles and goodwill impairment, (3) pro forma adjustments for significant acquisitions, and (4) one-time items. Tree.com believes this measure is useful to investors because it represents the operating results from Tree.com's segments taking into account depreciation, which it believes is an ongoing cost of doing business, but excluding the effects of any other non-cash expenses. Operating Income Before Amortization has certain limitations in that it does not take into account the impact to Tree.com's statement of operations of certain expenses, including non-cash compensation, and acquisition related accounting.

The following tables reconcile Operating Income Before Amortization to operating loss for Tree.com's operating segments and to net loss in total (in thousands):

| | For the Three Months Ended March 31, 2008: | | | |
|---|---|---|---|---|
| | Operating Income Before Amortization | Non-Cash Compensation Expense | Amortization of Intangibles | Operating Loss |
| Lending | $ (1,298) | $ (391) | $ (2,560) | $ (4,249) |
| Real Estate | (3,966) | (165) | (1,108) | (5,239) |
| Total | $ (5,264) | $ (556) | $ (3,668) | (9,488) |
| Other expense, net | | | | (102) |
| Loss before income taxes | | | | (9,590) |
| Income tax provision | | | | (209) |
| Net loss | | | | $ (9,799) |

**NOTE 5—SEGMENT INFORMATION (Continued)**

| | For the Three Months Ended March 31, 2007: | | | |
|---|---|---|---|---|
| | Operating Income Before Amortization | Non-Cash Compensation Expense | Amortization of Intangibles | Operating Loss |
| Lending | $ 3,239 | $ (742) | $ (2,890) | $ (393) |
| Real Estate | (6,248) | (379) | (1,384) | (8,011) |
| Total | $ (3,009) | $ (1,121) | $ (4,274) | (8,404) |
| Other expense, net | | | | (209) |
| Loss before income taxes | | | | (8,613) |
| Income tax benefit | | | | 3,490 |
| Net loss | | | | $ (5,123) |

Non-cash compensation expense in the tables above is included in the following line items in the accompanying consolidated statements of operations for the three months ended March 31, 2008 and 2007 (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2008 | 2007 |
| Cost of revenue | $ 37 | $ 79 |
| Selling and marketing expense | 41 | 85 |
| General and administrative expense | 477 | 956 |
| Product development | 1 | 1 |
| Non-cash compensation expense | $ 556 | $ 1,121 |

| | Three Months Ended March 31, | |
|---|---|---|
| | 2008 | 2007 |
| | (In thousands) | |
| **Revenue:** | | |
| Gain on sales of loans held for sale | $ 23,573 | $ 48,617 |
| Transmit fees | 19,858 | 23,749 |
| Closed loan fees | 10,741 | 18,823 |
| Other | 7,639 | 5,579 |
| Lending | 61,811 | 96,768 |
| Real Estate | 8,382 | 13,231 |
| **Total** | $ 70,193 | $ 109,999 |

Tree.com maintains operations solely in the United States.

**NOTE 6—FAIR VALUE MEASUREMENTS**

Effective January 1, 2008, Tree.com adopted SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). In accordance with SFAS No. 157, Tree.com categorizes its assets and liabilities measured at

**NOTE 6—FAIR VALUE MEASUREMENTS (Continued)**

fair value into a fair value hierarchy that prioritizes the assumptions used in pricing the asset or liability into the following three levels:

- Level 1: Observable inputs such as quoted prices for identical assets and liabilities in active markets obtained from independent sources.
- Level 2: Other inputs that are observable directly or indirectly, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs that are derived principally from or corroborated by observable market data.
- Level 3: Unobservable inputs for which there is little or no market data and require Tree.com to develop its own assumptions, based on the best information available in the circumstances, about the assumptions market participants would use in pricing the asset or liability.

The following table presents Tree.com's assets and liabilities that are measured at fair value on a recurring basis at March 31, 2008 (in thousands):

| | Recurring Fair Value Measurements Using | | | |
|---|---|---|---|---|
| | Quoted Market Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value Measurements |
| Loans held for sale | $ — | $ 87,532 | $ — | $ 87,532 |
| Net derivatives related to loans held for sale and interest rate lock commitments | — | (1,612) | 5,264 | 3,652 |
| Total | $ — | $ 85,920 | $ 5,264 | $ 91,184 |

The following table presents the changes in Tree.com's assets and liabilities that are measured at fair value on a recurring basis using significant unobservable inputs (Level 3) (in thousands):

| | Net Derivatives Related to Loans Held for Sale and Interest Rate Lock Commitments |
|---|---|
| Balance at January 1, 2008 | $ 3,465 |
| Total net gains or losses (realized and unrealized): | |
| Included in earnings | 15,361 |
| Included in other comprehensive income | — |
| Transfers of IRLCs to closed loans | (13,094) |
| Transfers in and/or out of Level 3 | (468) |
| Balance at March 31, 2008 | $ 5,264 |

**NOTE 6—FAIR VALUE MEASUREMENTS (Continued)**

The following table presents the gains and losses included in earnings for the three months ended March 31, 2008 relating to Tree.com's assets and liabilities that are measured at fair value on a recurring basis using significant unobservable inputs (Level 3) (in thousands):

| | | Net Derivatives Related to Loans Held for Sale and Interest Rate Lock Commitments |
|---|---|---|
| Total gains included in earnings for the three months ended March 31, 2008, which are included in revenue | $ | 15,361 |
| Change in unrealized gains relating to assets and liabilities still held at March 31, 2008, which are included in revenue | $ | 5,264 |

**Net derivatives related to loans held for sale and interest rate lock commitments**

LendingTree Loans hedges the changes in fair value of certain loans held for sale primarily by entering into mortgage forward delivery contracts. Although LendingTree Loans continues to enter into forward delivery contracts for risk management purposes, effective April 1, 2007 it no longer designates these derivatives as hedges for accounting purposes. When hedge accounting was discontinued, the affected loans held for sale were no longer adjusted for changes in fair value. However, the changes in fair value of the forward delivery contracts continued to be recognized in current earnings as a component of revenue. The fair value of the forward delivery contracts is recorded in "Prepaid and other current assets" and/or "Accrued expenses and other current liabilities" in the accompanying consolidated balance sheets. For the three months ended March 31, 2008, Tree.com recognized losses of less than $0.1 million related to the changes in fair value of forward delivery contracts related to loans held for sale.

LendingTree Loans enters into commitments with consumers to originate loans at a locked in interest rate (interest rate lock commitments—"IRLCs"). Tree.com reports IRLCs as derivative instruments at fair value in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). Accordingly, LendingTree Loans determines the fair value of IRLCs using current secondary market prices for underlying loans with similar coupons, maturity and credit quality, subject to the anticipated loan funding probability, or fallout factor. The fair value of IRLCs is subject to change primarily due to changes in interest rates and fallout factors. Under LendingTree Loans' risk management policy, LendingTree Loans hedges the changes in fair value of IRLCs primarily by entering into mortgage forward delivery contracts which can reduce the volatility of economic outcomes. Neither the IRLCs nor the related hedging instrument qualify for hedge accounting and both are recorded at fair value with changes in fair value being recorded in current earnings as a component of revenue in the statement of operations.

Prior to the adoption of SFAS No. 157 the recognition of gains and losses at the inception of a derivative contract were prohibited unless the fair value of the contract was evidenced by a quoted price in an active market. As no active market exists for IRLCs, such day one gains and losses were not recognized until the related loan was sold. Prior to January 1, 2008, guidance also prohibited including the value of servicing the loan in calculating the fair value of an IRLC. Such guidance was rescinded by Staff Accounting Bulletin No. 109, "Written Loan Commitments Recorded at Fair Value Through

**NOTE 6—FAIR VALUE MEASUREMENTS (Continued)**

Earnings" ("SAB 109"). Accordingly, with the adoption of SFAS No. 157 and SAB 109 on January 1, 2008, the day one gains and servicing value, adjusted by the loan funding probability, are included in the value of IRLCs.

The net change in fair value of the IRLCs and related forward delivery contracts for the three months ended March 31, 2008 and 2007 resulted in gains of $14.8 million and losses of $0.3 million, respectively, which have been recognized in the accompanying consolidated statements of operations. The significant change year over year is due principally to the inclusion of day one gains and the value of servicing the loan in 2008 associated with the adoption of SFAS No. 157 and SAB 109. The IRLCs are recorded in "Prepaid and other current assets" and/or "Accrued expenses and other current liabilities" in the accompanying consolidated balance sheets. At March 31, 2008, there was $254.1 million of IRLCs notional value outstanding.

Effective January 1, 2008 Tree.com adopted SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115" ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure certain financial instruments at fair value with the objective of reducing both the complexity in the accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. Upon adoption, Tree.com elected to account for loans held for sale issued after January 1, 2008 at fair value. Electing the fair value option allows a better offset of the changes in fair values of the loans and the forward delivery contracts used to economically hedge them without the burden of complying with the requirements for hedge accounting under SFAS No. 133.

Tree.com did not elect the fair value option on loans held for sale of $3.7 million originated prior to January 1, 2008. These loans are carried at the lower of cost or market value determined on an aggregate basis except for loans that are impaired, which are assessed on an individual basis. The fair value of impaired loans at March 31, 2008, measured based on significant unobservable inputs (Level 3) was $2.9 million. The fair value of impaired loans is measured on a non-recurring basis and is based on management's best estimate of the market value of such loans and considers reprice bids received from the investors prior to repurchase, if applicable, or current bids in the secondary market for similar loans and represent management's best estimate of the market value of such loans.

During the three months ended March 31, 2008, the change in fair value of loans held for sale for which the fair value option has been elected was a loss of $0.1 million and is included as a component of revenue in the accompanying consolidated statement of operations.

The following table presents the difference between the aggregate fair value and the aggregate unpaid principal balance of loans held for sale at March 31, 2008 for which the fair value option has been elected (in thousands):

| | Aggregate Fair Value | Aggregate Unpaid Principal Balance | Difference |
|---|---|---|---|
| Loans held for sale | $ 87,532 | $ 84,952 | $ 2,580 |

For the quarter ended March 31, 2008 and 2007, LendingTree Loans sold approximately 3,100 and 12,700 loans, respectively, with initial loan values of $606.4 million and $1.9 billion, respectively. From loans sold in those periods, LendingTree Loans has not experienced any repurchase and indemnification losses.

**NOTE 7—INCOME TAXES**

Tree.com calculates its interim income tax provision in accordance with Accounting Principles Board Opinion No. 28 and FASB Interpretation No. 18. At the end of each interim period, Tree.com makes its best estimate of the annual expected effective tax rate and applies that rate to its ordinary year-to-date earnings or loss. The tax or benefit related to significant, unusual, or extraordinary items that will be separately reported or reported net of their related tax effect are individually computed and recognized in the interim period in which those items occur. In addition, the effect of changes in enacted tax laws or rates, tax status, or judgment on the realizability of a beginning-of-the-year deferred tax asset in future years is recognized in the interim period in which the change occurs.

The computation of the annual expected effective tax rate at each interim period requires certain estimates and assumptions including, but not limited to, the expected operating income for the year, permanent and temporary differences, and the likelihood of recovering deferred tax assets generated in the current year. The accounting estimates used to compute the provision for income taxes may change as new events occur, more experience is acquired, additional information is obtained or Tree.com's tax environment changes. To the extent that the estimated annual effective tax rate changes during a quarter, the effect of the change on prior quarters is included in tax expense for the current quarter.

For the three months ended March 31, 2008, Tree.com recorded a tax provision of $0.2 million despite a loss from operations, due principally to an increase in valuation allowance on deferred tax assets. For the three months ended March 31, 2007, Tree.com recorded a tax benefit of $3.5 million on a pre-tax loss of $8.6 million, which represents an effective tax rate of 41%. This tax benefit is higher than the federal statutory rate of 35% due principally to state taxes.

As of December 31, 2007 and March 31, 2008, Tree.com had unrecognized tax benefits of approximately $4.4 million. Included in unrecognized tax benefits at March 31, 2008 is approximately $3.6 million for tax positions included in IAC's consolidated tax return filings that will remain a liability of IAC after the spin-off. Tree.com recognizes interest and, if applicable, penalties related to unrecognized tax benefits in income tax expense. There were no material accruals for interest for the quarter ended March 31, 2008. At March 31, 2008, Tree.com has accrued $1.5 million for the payment of interest. There are no material accruals for penalties.

By virtue of previously filed separate company and consolidated tax returns with IAC, Tree.com is routinely under audit by federal, state, local and foreign authorities in the area of income tax. These audits include questioning the timing and the amount of deductions and the allocation of income among various tax jurisdictions. Income taxes payable include amounts considered sufficient to pay assessments that may result from examination of prior year returns; however, the amount paid upon resolution of issues raised may differ from the amount provided. Differences between the reserves for tax contingencies and the amounts owed by Tree.com are recorded in the period they become known.

The Internal Revenue Service is currently examining the IAC consolidated tax returns for the years ended December 31, 2001 through 2003, which includes the operations of Tree.com from August 8, 2003, the date which Tree.com joined the IAC consolidated tax return. The statute of limitations for these years has been extended to December 31, 2008. Various IAC consolidated tax returns filed with state, local and foreign jurisdictions are currently under examination, the most significant of which are California, Florida, New York state and New York City, for various tax years after December 31, 2001. These examinations are expected to be completed by late 2008.

**NOTE 7—INCOME TAXES (Continued)**

Tree.com believes that it is reasonably possible that its unrecognized tax benefits could decrease by approximately $2.7 million within twelve months of the current reporting date due to the reversal of deductible temporary differences which will result in a corresponding increase in net deferred tax liabilities. An estimate of other changes in unrecognized tax benefits cannot be made, but are not expected to be significant.

**NOTE 8—CONTINGENCIES**

On November 24, 2003, IMX, Inc. ("IMX") filed suit against Tree.com alleging infringement of a patent held by IMX and seeking damages related to the alleged infringement. A trial was conducted in January 2006 and a verdict was returned finding infringement by Tree.com and awarding IMX $5.8 million in damages. Tree.com established a reserve of $5.8 million in its 2005 financial statements related to this claim. In January 2007, the court enhanced the damages award and rejected Tree.com's counterclaim. During 2006, Tree.com increased the reserve by $6.3 million to $12.1 million at December 31, 2006. During 2007, the court awarded IMX supplemental damages and pre-judgment and post-judgment interest. During 2007, Tree.com increased the reserve by $0.8 million to $12.8 million at December 31, 2007. During 2008, Tree.com increased the reserve by $0.1 million to $12.9 million at March 31, 2008. Tree.com has appealed this judgment to the U.S. Court of Appeals for the Federal Circuit. Tree.com intends to continue to contest this case through all available means. In connection with the appeal, Tree.com's parent, IAC, executed a guarantee of $13.5 million in lieu of posting a bond. Before IAC completes the spin-off, Tree.com will be required to post a bond in a like amount.

HLC is party to various employment related lawsuits. During 2006, Tree.com established a reserve of $0.4 million for certain of these actions. During 2007, an additional reserve of $2.1 million was recorded. The balance of the related liability was $2.5 million at March 31, 2008 and December 31, 2007, respectively.

In the ordinary course of business, Tree.com is a party to various lawsuits. Tree.com establishes reserves for specific legal matters when it determines that the likelihood of an unfavorable outcome is probable and the loss is reasonably estimable. Management has also identified certain other legal matters where it believes an unfavorable outcome is not probable and, therefore, no reserve is established. Although management currently believes that an unfavorable resolution of claims against Tree.com, including claims where an unfavorable outcome is reasonably possible, will not have a material impact on the liquidity, results of operations, or financial condition of Tree.com, these matters are subject to inherent uncertainties and management's view of these matters may change in the future. It is possible that an unfavorable outcome of one or more of these lawsuits could have a material impact on the liquidity, results of operations, or financial condition of Tree.com. Tree.com also evaluates other contingent matters, including tax contingencies, to assess the probability and estimated extent of potential loss. See Note 7 for discussion related to income tax contingencies.

**NOTE 9—RELATED PARTY TRANSACTIONS**

Tree.com's expenses include allocations from IAC of costs associated with IAC's accounting, treasury, legal, tax, corporate support, human resources and internal audit functions. These expenses were allocated based on the ratio of Tree.com's revenue as a percentage of IAC's total revenue. Allocated costs were $0.2 million and $0.3 million for the three months ended March 31, 2008 and 2007, respectively, and are included in "General and administrative expense" in the accompanying

**NOTE 9—RELATED PARTY TRANSACTIONS (Continued)**

consolidated statements of operations. It is not practicable to determine the amounts of these expenses that would have been incurred had Tree.com operated as an unaffiliated entity. In the opinion of management, the allocation method is reasonable.

An analysis of Tree.com's payables to IAC and subsidiaries is as follows (in thousands):

| | March 31, 2008 |
|---|---|
| Payables to IAC and subsidiaries at December 31, 2007 | $ (20,067) |
| Cash transfers related from IAC's centrally managed U.S. treasury function | (17,402) |
| Interest expense | (32) |
| Employee equity instruments and associated tax withholdings | 330 |
| Taxes (excludes tax withholdings associated with employee equity instruments) | 73 |
| Allocation of non-cash compensation expense | (471) |
| Administrative expenses and other | (4,668) |
| Payables to IAC and subsidiaries at March 31, 2008 | $ (42,237) |

**Relationship Between IAC and Tree.com after the Spin-Off**

For purposes of governing certain of the ongoing relationships between Tree.com and IAC at and after the spin-off, and to provide for an orderly transition, Tree.com and IAC are expected to enter into a separation agreement, a tax sharing agreement, an employee matters agreement and a transition services agreement (the "Spin-Off Agreements"), among other agreements. See Tree.com's consolidated financial statements for the year ended December 31, 2007 for descriptions of the Spin-Off Agreements.

QuickLinks

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 99.2

## HSN, Inc. and Subsidiaries

## Combined Statements of Operations

## Year Ended December 31, 2007

## (In thousands)

| | Quarter Ended March 31 | Quarter Ended June 30 | Quarter Ended September 30 | Quarter Ended December 31 |
|---|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Revenue | $ 666,705 | $ 681,506 | $ 680,763 | $ 879,268 |
| Cost of sales (exclusive of depreciation shown separately below) | 418,706 | 421,474 | 424,468 | 555,400 |
| Gross margin | 247,999 | 260,032 | 256,295 | 323,868 |
| Selling and marketing expense | 136,453 | 153,556 | 139,066 | 166,836 |
| General and administrative expense | 53,966 | 51,074 | 52,222 | 54,693 |
| Production and programming expense | 14,880 | 13,867 | 13,630 | 16,674 |
| Amortization of non-cash marketing | — | 450 | 3,992 | — |
| Amortization of intangibles | 4,085 | 2,701 | 2,197 | 3,698 |
| Depreciation | 8,468 | 8,621 | 8,760 | 8,514 |
| Operating income | 30,147 | 29,763 | 36,428 | 73,453 |
| Other income (expense): | | | | |
| Interest income | 69 | 120 | 36 | 27 |
| Other expense | (108) | (148) | — | — |
| Total other (expense) income, net | (39) | (28) | 36 | 27 |
| Earnings from continuing operations before income taxes | 30,108 | 29,735 | 36,464 | 73,480 |
| Income tax provision | (11,456) | (11,315) | (13,874) | (27,909) |
| **Earnings from continuing operations** | 18,652 | 18,420 | 22,590 | 45,571 |
| Gain (loss) on sale of discontinued operations, net of tax | — | 34,795 | (4,223) | — |
| (Loss) income from discontinued operations, net of tax | (1,566) | 21,391 | (1,711) | 10,885 |
| **Net income** | $ 17,086 | $ 74,606 | $ 16,656 | $ 56,456 |

Non-cash compensation expense is included in the following line items in the combined statements of operations:

| | Quarter Ended March 31 | Quarter Ended June 30 | Quarter Ended September 30 | Quarter Ended December 31 |
|---|---|---|---|---|
| Cost of sales | $ 231 | $ 249 | $ 190 | $ 267 |
| Selling and marketing expense | 253 | 272 | 209 | 291 |
| General and administrative expense | 2,549 | 2,698 | 2,073 | 2,869 |
| Production and programming expense | 2 | 2 | 3 | 2 |
| Total non-cash compensation expense | $ 3,035 | $ 3,221 | $ 2,475 | $ 3,429 |

**HSN, Inc. and Subsidiaries**

**Combined Statements of Operations (Continued)**

**Year Ended December 31, 2007**

**(In thousands)**

| | Quarter Ended March 31 | Six Months Ended June 30 | Nine Months Ended September 30 | Year Ended December 31 |
|---|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) | (audited) |
| Revenue | $ 666,705 | $ 1,348,211 | $ 2,028,974 | $ 2,908,242 |
| Cost of sales (exclusive of depreciation shown separately below) | 418,706 | 840,180 | 1,264,648 | 1,820,048 |
| Gross margin | 247,999 | 508,031 | 764,326 | 1,088,194 |
| Selling and marketing expense | 136,453 | 290,009 | 429,075 | 595,911 |
| General and administrative expense | 53,966 | 105,040 | 157,262 | 211,955 |
| Production and programming expense | 14,880 | 28,747 | 42,377 | 59,051 |
| Amortization of non-cash marketing | — | 450 | 4,442 | 4,442 |
| Amortization of intangibles | 4,085 | 6,786 | 8,983 | 12,681 |
| Depreciation | 8,468 | 17,089 | 25,849 | 34,363 |
| Operating income | 30,147 | 59,910 | 96,338 | 169,791 |
| Other income (expense): | | | | |
| Interest income | 69 | 189 | 225 | 252 |
| Other expense | (108) | (256) | (256) | (256) |
| Total other expense, net | (39) | (67) | (31) | (4) |
| Earnings from continuing operations before income taxes | 30,108 | 59,843 | 96,307 | 169,787 |
| Income tax provision | (11,456) | (22,771) | (36,645) | (64,554) |
| **Earnings from continuing operations** | 18,652 | 37,072 | 59,662 | 105,233 |
| Gain on sale of discontinued operations, net of tax | — | 34,795 | 30,572 | 30,572 |
| (Loss) income from discontinued operations, net of tax | (1,566) | 19,825 | 18,114 | 28,999 |
| **Net income** | $ 17,086 | $ 91,692 | $ 108,348 | $ 164,804 |

Non-cash compensation expense is included in the following line items in the combined statements of operations:

| | | | | |
|---|---|---|---|---|
| Cost of sales | $ 231 | $ 480 | $ 670 | $ 937 |
| Selling and marketing expense | 253 | 525 | 734 | 1,025 |
| General and administrative expense | 2,549 | 5,247 | 7,320 | 10,189 |
| Production and programming expense | 2 | 4 | 7 | 9 |
| Total non-cash compensation expense | $ 3,035 | $ 6,256 | $ 8,731 | $ 12,160 |

**HSN, Inc. and Subsidiaries**

**Combined Statements of Operations**

**Year Ended December 31, 2006**

**(In thousands)**

| | Quarter Ended March 31 | Quarter Ended June 30 | Quarter Ended September 30 | Quarter Ended December 31 |
|---|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Revenue | $ 665,587 | $ 682,349 | $ 671,753 | $ 858,265 |
| Cost of sales (exclusive of depreciation shown separately below) | 410,741 | 410,870 | 413,563 | 530,029 |
| Gross margin | 254,846 | 271,479 | 258,190 | 328,236 |
| Selling and marketing expense | 131,771 | 148,890 | 135,761 | 168,575 |
| General and administrative expense | 44,222 | 45,192 | 45,936 | 50,911 |
| Production and programming expense | 14,547 | 13,971 | 13,783 | 14,499 |
| Amortization of intangibles | 15,355 | 8,557 | 5,156 | 5,156 |
| Depreciation | 10,281 | 9,816 | 8,830 | 8,346 |
| Operating income | 38,670 | 45,053 | 48,724 | 80,749 |
| Other income (expense): | | | | |
| Interest income | 148 | 148 | 104 | 186 |
| Other expense | (163) | (310) | (253) | (314) |
| Total other expense, net | (15) | (162) | (149) | (128) |
| Earnings from continuing operations before income taxes | 38,655 | 44,891 | 48,575 | 80,621 |
| Income tax provision | (14,392) | (16,715) | (18,086) | (30,017) |
| **Earnings from continuing operations** | 24,263 | 28,176 | 30,489 | 50,604 |
| Income (loss) from discontinued operations, net of tax | 469 | (7,934) | (3,963) | 713 |
| **Net income** | $ 24,732 | $ 20,242 | $ 26,526 | $ 51,317 |

Non-cash compensation expense is included in the following line items in the combined statements of operations:

| | | | | |
|---|---|---|---|---|
| Cost of sales | $ 109 | $ 302 | $ 107 | $ 237 |
| Selling and marketing expense | 410 | 330 | 117 | 260 |
| General and administrative expense | 2,692 | 3,311 | 1,252 | 2,612 |
| Production and programming expense | — | 3 | 1 | 3 |
| Total non-cash compensation expense | $ 3,211 | $ 3,946 | $ 1,477 | $ 3,112 |

**HSN, Inc. and Subsidiaries**

**Combined Statements of Operations (Continued)**

**Year Ended December 31, 2006**

**(In thousands)**

| | Quarter Ended March 31 | Six Months Ended June 30 | Nine Months Ended September 30 | Year Ended December 31 |
|---|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) | (audited) |
| Revenue | $ 665,587 | $ 1,347,936 | $ 2,019,689 | $ 2,877,954 |
| Cost of sales (exclusive of depreciation shown separately below) | 410,741 | 821,611 | 1,235,174 | 1,765,203 |
| Gross margin | 254,846 | 526,325 | 784,515 | 1,112,751 |
| Selling and marketing expense | 131,771 | 280,661 | 416,422 | 584,997 |
| General and administrative expense | 44,222 | 89,414 | 135,350 | 186,261 |
| Production and programming expense | 14,547 | 28,518 | 42,301 | 56,800 |
| Amortization of intangibles | 15,355 | 23,912 | 29,068 | 34,224 |
| Depreciation | 10,281 | 20,097 | 28,927 | 37,273 |
| Operating income | 38,670 | 83,723 | 132,447 | 213,196 |
| Other income (expense): | | | | |
| Interest income | 148 | 296 | 400 | 586 |
| Other expense | (163) | (473) | (726) | (1,040) |
| Total other expense, net | (15) | (177) | (326) | (454) |
| Earnings from continuing operations before income taxes | 38,655 | 83,546 | 132,121 | 212,742 |
| Income tax provision | (14,392) | (31,107) | (49,193) | (79,210) |
| **Earnings from continuing operations** | 24,263 | 52,439 | 82,928 | 133,532 |
| Income (loss) from discontinued operations, net of tax | 469 | (7,465) | (11,428) | (10,715) |
| **Net income** | $ 24,732 | $ 44,974 | $ 71,500 | $ 122,817 |

Non-cash compensation expense is included in the following line items in the combined statements of operations:

| | | | | |
|---|---|---|---|---|
| Cost of sales | $ 109 | $ 411 | $ 518 | $ 755 |
| Selling and marketing expense | 410 | 740 | 857 | 1,117 |
| General and administrative expense | 2,692 | 6,003 | 7,255 | 9,867 |
| Production and programming expense | — | 3 | 4 | 7 |
| Total non-cash compensation expense | $ 3,211 | $ 7,157 | $ 8,634 | $ 11,746 |

**Interval Leisure Group, Inc. and Subsidiaries**

**Consolidated Statements of Operations**

**Year Ended December 31, 2007**

**(In thousands)**

| | Quarter Ended March 31 | Quarter Ended June 30 | Quarter Ended September 30 | Quarter Ended December 31 |
|---|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Revenue | $ 86,433 | $ 85,885 | $ 96,019 | $ 92,070 |
| Cost of sales (exclusive of depreciation shown separately below) | 18,944 | 22,508 | 30,266 | 29,081 |
| Gross profit | 67,489 | 63,377 | 65,753 | 62,989 |
| Selling and marketing expense | 11,662 | 11,413 | 11,580 | 11,180 |
| General and administrative expense | 15,805 | 17,260 | 19,021 | 19,827 |
| Amortization of intangibles | 6,305 | 6,305 | 7,851 | 6,418 |
| Depreciation | 1,888 | 1,965 | 2,247 | 2,315 |
| Operating income | 31,829 | 26,434 | 25,054 | 23,249 |
| Other income (expense): | | | | |
| Interest income | 2,641 | 2,637 | 2,416 | 2,651 |
| Interest expense | (46) | (70) | (49) | (40) |
| Other (expense) income | (113) | (736) | 233 | 10 |
| Total other income, net | 2,482 | 1,831 | 2,600 | 2,621 |
| Earnings before income taxes and minority interest | 34,311 | 28,265 | 27,654 | 25,870 |
| Income tax provision | (13,162) | (10,843) | (11,103) | (9,924) |
| Minority interest in income of consolidated subsidiaries | — | (3) | (5) | (4) |
| **Net income** | $ 21,149 | $ 17,419 | $ 16,546 | $ 15,942 |

Non-cash compensation expense is included in the following line items in the consolidated statements of operations:

| | | | | |
|---|---|---|---|---|
| Cost of sales | $ 29 | $ 78 | $ 67 | $ 108 |
| Selling and marketing expense | 32 | 85 | 74 | 117 |
| General and administrative expense | 304 | 829 | 744 | 1,162 |
| Total non-cash compensation expense | $ 365 | $ 992 | $ 885 | $ 1,387 |

**Interval Leisure Group, Inc. and Subsidiaries**

**Consolidated Statements of Operations (Continued)**

**Year Ended December 31, 2007**

**(In thousands)**

| | Quarter Ended March 31 | Six Months Ended June 30 | Nine Months Ended September 30 | Year Ended December 31 |
|---|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) | (audited) |
| Revenue | $ 86,433 | $ 172,318 | $ 268,337 | $ 360,407 |
| Cost of sales (exclusive of depreciation shown separately below) | 18,944 | 41,452 | 71,718 | 100,799 |
| Gross profit | 67,489 | 130,866 | 196,619 | 259,608 |
| Selling and marketing expense | 11,662 | 23,075 | 34,655 | 45,835 |
| General and administrative expense | 15,805 | 33,065 | 52,086 | 71,913 |
| Amortization of intangibles | 6,305 | 12,610 | 20,461 | 26,879 |
| Depreciation | 1,888 | 3,853 | 6,100 | 8,415 |
| Operating income | 31,829 | 58,263 | 83,317 | 106,566 |
| Other income (expense): | | | | |
| Interest income | 2,641 | 5,278 | 7,694 | 10,345 |
| Interest expense | (46) | (116) | (165) | (205) |
| Other expense | (113) | (849) | (616) | (606) |
| Total other income, net | 2,482 | 4,313 | 6,913 | 9,534 |
| Earnings before income taxes and minority interest | 34,311 | 62,576 | 90,230 | 116,100 |
| Income tax provision | (13,162) | (24,005) | (35,108) | (45,032) |
| Minority interest in income of consolidated subsidiaries | — | (3) | (8) | (12) |
| **Net income** | $ 21,149 | $ 38,568 | $ 55,114 | $ 71,056 |

Non-cash compensation expense is included in the following line items in the consolidated statements of operations:

| | | | | |
|---|---|---|---|---|
| Cost of sales | $ 29 | $ 107 | $ 174 | $ 282 |
| Selling and marketing expense | 32 | 117 | 191 | 308 |
| General and administrative expense | 304 | 1,133 | 1,877 | 3,039 |
| Total non-cash compensation expense | $ 365 | $ 1,357 | $ 2,242 | $ 3,629 |

**Interval Leisure Group, Inc. and Subsidiaries**

**Consolidated Statements of Operations**

**Year Ended December 31, 2006**

**(In thousands)**

| | Quarter Ended March 31 | Quarter Ended June 30 | Quarter Ended September 30 | Quarter Ended December 31 |
|---|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Revenue | $ 78,676 | $ 71,377 | $ 70,359 | $ 68,234 |
| Cost of sales (exclusive of depreciation shown separately below) | 17,457 | 17,096 | 16,349 | 15,391 |
| Gross profit | 61,219 | 54,281 | 54,010 | 52,843 |
| Selling and marketing expense | 11,191 | 10,539 | 10,313 | 9,592 |
| General and administrative expense | 15,500 | 16,331 | 15,553 | 14,154 |
| Amortization of intangibles | 6,305 | 6,305 | 6,305 | 6,305 |
| Depreciation | 2,044 | 1,933 | 1,926 | 1,929 |
| Operating income | 26,179 | 19,173 | 19,913 | 20,863 |
| Other income (expense): | | | | |
| Interest income | 1,790 | 2,235 | 2,361 | 2,528 |
| Interest expense | (102) | (120) | (75) | (60) |
| Other (expense) income | (134) | 674 | (831) | (483) |
| Total other income, net | 1,554 | 2,789 | 1,455 | 1,985 |
| Earnings before income taxes | 27,733 | 21,962 | 21,368 | 22,848 |
| Income tax provision | (10,492) | (8,706) | (8,075) | (8,595) |
| **Net income** | $ 17,241 | $ 13,256 | $ 13,293 | $ 14,253 |

Non-cash compensation expense is included in the following line items in the consolidated statements of operations:

| | | | | |
|---|---|---|---|---|
| Cost of sales | $ 80 | $ 57 | $ 38 | $ 50 |
| Selling and marketing expense | 52 | 62 | 41 | 55 |
| General and administrative expense | 1,327 | 601 | 396 | 527 |
| Total non-cash compensation expense | $ 1,459 | $ 720 | $ 475 | $ 632 |

**Interval Leisure Group, Inc. and Subsidiaries**

**Consolidated Statements of Operations (Continued)**

**Year Ended December 31, 2006**

**(In thousands)**

| | Quarter Ended March 31 | Six Months Ended June 30 | Nine Months Ended September 30 | Year Ended December 31 |
|---|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) | (audited) |
| Revenue | $ 78,676 | $ 150,053 | $ 220,412 | $ 288,646 |
| Cost of sales (exclusive of depreciation shown separately below) | 17,457 | 34,553 | 50,902 | 66,293 |
| Gross profit | 61,219 | 115,500 | 169,510 | 222,353 |
| Selling and marketing expense | 11,191 | 21,730 | 32,043 | 41,635 |
| General and administrative expense | 15,500 | 31,831 | 47,384 | 61,538 |
| Amortization of intangibles | 6,305 | 12,610 | 18,915 | 25,220 |
| Depreciation | 2,044 | 3,977 | 5,903 | 7,832 |
| Operating income | 26,179 | 45,352 | 65,265 | 86,128 |
| Other income (expense): | | | | |
| Interest income | 1,790 | 4,025 | 6,386 | 8,914 |
| Interest expense | (102) | (222) | (297) | (357) |
| Other (expense) income | (134) | 540 | (291) | (774) |
| Total other income, net | 1,554 | 4,343 | 5,798 | 7,783 |
| Earnings before income taxes | 27,733 | 49,695 | 71,063 | 93,911 |
| Income tax provision | (10,492) | (19,198) | (27,273) | (35,868) |
| **Net income** | $ 17,241 | $ 30,497 | $ 43,790 | $ 58,043 |

Non-cash compensation expense is included in the following line items in the consolidated statements of operations:

| | | | | |
|---|---|---|---|---|
| Cost of sales | $ 80 | $ 137 | $ 175 | $ 225 |
| Selling and marketing expense | 52 | 114 | 155 | 210 |
| General and administrative expense | 1,327 | 1,928 | 2,324 | 2,851 |
| Total non-cash compensation expense | $ 1,459 | $ 2,179 | $ 2,654 | $ 3,286 |

**Ticketmaster and Subsidiaries**

**Combined Statements of Operations**

**Year Ended December 31, 2007**

**(In thousands)**

| | Quarter Ended March 31 | Quarter Ended June 30 | Quarter Ended September 30 | Quarter Ended December 31 |
|---|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Revenue | $ 303,577 | $ 293,416 | $ 292,466 | $ 351,018 |
| Cost of sales (exclusive of depreciation shown separately below) | 184,784 | 183,860 | 181,186 | 216,708 |
| Gross profit | 118,793 | 109,556 | 111,280 | 134,310 |
| Selling and marketing expense | 7,073 | 8,158 | 8,560 | 19,696 |
| General and administrative expense | 34,258 | 39,892 | 39,108 | 36,220 |
| Amortization of intangibles | 6,853 | 6,667 | 6,081 | 6,599 |
| Depreciation | 9,121 | 9,471 | 9,495 | 10,371 |
| Operating income | 61,488 | 45,368 | 48,036 | 61,424 |
| Other income (expense): | | | | |
| Interest income | 5,378 | 8,499 | 8,533 | 10,655 |
| Interest expense | (266) | (133) | (242) | (362) |
| Equity in income of uncombined affiliates | 865 | 960 | 1,196 | 3,280 |
| Other income (expense) | 83 | (208) | 230 | 1,015 |
| Total other income, net | 6,060 | 9,118 | 9,717 | 14,588 |
| Earnings before income taxes and minority interest | 67,548 | 54,486 | 57,753 | 76,012 |
| Income tax provision | (24,637) | (19,873) | (18,671) | (25,826) |
| Minority interest in losses of combined subsidiaries | 14 | 191 | 1,459 | 895 |
| **Net income** | $ 42,925 | $ 34,804 | $ 40,541 | $ 51,081 |

Non-cash compensation expense is included in the following line items in the combined statements of operations:

| | | | | |
|---|---|---|---|---|
| Cost of sales | $ 148 | $ 242 | $ 211 | $ 199 |
| Selling and marketing expense | 163 | 265 | 230 | 218 |
| General and administrative expense | 1,568 | 2,556 | 4,082 | 2,690 |
| Total non-cash compensation expense | $ 1,879 | $ 3,063 | $ 4,523 | $ 3,107 |

**Ticketmaster and Subsidiaries**

**Combined Statements of Operations (Continued)**

**Year Ended December 31, 2007**

**(In thousands)**

| | Quarter Ended March 31 | Six Months Ended June 30 | Nine Months Ended September 30 | Year Ended December 31 |
|---|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) | (audited) |
| Revenue | $ 303,577 | $ 596,993 | $ 889,459 | $ 1,240,477 |
| Cost of sales (exclusive of depreciation shown separately below) | 184,784 | 368,644 | 549,830 | 766,538 |
| Gross profit | 118,793 | 228,349 | 339,629 | 473,939 |
| Selling and marketing expense | 7,073 | 15,231 | 23,791 | 43,487 |
| General and administrative expense | 34,258 | 74,150 | 113,258 | 149,478 |
| Amortization of intangibles | 6,853 | 13,520 | 19,601 | 26,200 |
| Depreciation | 9,121 | 18,592 | 28,087 | 38,458 |
| Operating income | 61,488 | 106,856 | 154,892 | 216,316 |
| Other income (expense): | | | | |
| Interest income | 5,378 | 13,877 | 22,410 | 33,065 |
| Interest expense | (266) | (399) | (641) | (1,003) |
| Equity in income of uncombined affiliates | 865 | 1,825 | 3,021 | 6,301 |
| Other income (expense) | 83 | (125) | 105 | 1,120 |
| Total other income, net | 6,060 | 15,178 | 24,895 | 39,483 |
| Earnings before income taxes and minority interest | 67,548 | 122,034 | 179,787 | 255,799 |
| Income tax provision | (24,637) | (44,510) | (63,181) | (89,007) |
| Minority interest in losses of combined subsidiaries | 14 | 205 | 1,664 | 2,559 |
| **Net income** | $ 42,925 | $ 77,729 | $ 118,270 | $ 169,351 |

Non-cash compensation expense is included in the following line items in the combined statements of operations:

| | | | | |
|---|---|---|---|---|
| Cost of sales | $ 148 | $ 390 | $ 601 | $ 800 |
| Selling and marketing expense | 163 | 428 | 658 | 876 |
| General and administrative expense | 1,568 | 4,124 | 8,206 | 10,896 |
| Total non-cash compensation expense | $ 1,879 | $ 4,942 | $ 9,465 | $ 12,572 |

## Ticketmaster and Subsidiaries

## Combined Statements of Operations

## Year Ended December 31, 2006

## (In thousands)

| | Quarter Ended March 31 | Quarter Ended June 30 | Quarter Ended September 30 | Quarter Ended December 31 |
|---|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Revenue | $ 240,722 | $ 287,595 | $ 258,497 | $ 275,858 |
| Cost of sales (exclusive of depreciation shown separately below) | 140,932 | 171,998 | 158,384 | 165,838 |
| Gross profit | 99,790 | 115,597 | 100,113 | 110,020 |
| Selling and marketing expense | 4,247 | 5,116 | 5,091 | 5,669 |
| General and administrative expense | 21,737 | 29,450 | 34,136 | 32,994 |
| Amortization of intangibles | 6,898 | 7,036 | 6,571 | 6,604 |
| Depreciation | 8,765 | 8,780 | 8,782 | 8,753 |
| Operating income | 58,143 | 65,215 | 45,533 | 56,000 |
| Other income (expense): | | | | |
| Interest income | 4,230 | 7,621 | 9,236 | 12,895 |
| Interest expense | (44) | (75) | (67) | (116) |
| Equity in income of uncombined affiliates | 872 | 612 | 835 | 678 |
| Other income | 412 | 70 | 61 | 439 |
| Total other income, net | 5,470 | 8,228 | 10,065 | 13,896 |
| Earnings before income taxes and minority interest | 63,613 | 73,443 | 55,598 | 69,896 |
| Income tax provision | (23,977) | (27,682) | (20,921) | (13,387) |
| Minority interest in losses of combined subsidiaries | — | — | 29 | 89 |
| **Net income** | $ 39,636 | $ 45,761 | $ 34,706 | $ 56,598 |

Non-cash compensation expense is included in the following line items in the combined statements of operations:

| | | | | |
|---|---|---|---|---|
| Cost of sales | $ 149 | $ 63 | $ 269 | $ 173 |
| Selling and marketing expense | 92 | 70 | 294 | 190 |
| General and administrative expense | 1,206 | 667 | 2,836 | 1,830 |
| Total non-cash compensation expense | $ 1,447 | $ 800 | $ 3,399 | $ 2,193 |

**Ticketmaster and Subsidiaries**

**Combined Statements of Operations (Continued)**

**Year Ended December 31, 2006**

**(In thousands)**

| | Quarter Ended March 31 | Six Months Ended June 30 | Nine Months Ended September 30 | Year Ended December 31 |
|---|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) | (audited) |
| Revenue | $ 240,722 | $ 528,317 | $ 786,814 | $ 1,062,672 |
| Cost of sales (exclusive of depreciation shown separately below) | 140,932 | 312,930 | 471,314 | 637,152 |
| Gross profit | 99,790 | 215,387 | 315,500 | 425,520 |
| Selling and marketing expense | 4,247 | 9,363 | 14,454 | 20,123 |
| General and administrative expense | 21,737 | 51,187 | 85,323 | 118,317 |
| Amortization of intangibles | 6,898 | 13,934 | 20,505 | 27,109 |
| Depreciation | 8,765 | 17,545 | 26,327 | 35,080 |
| Operating income | 58,143 | 123,358 | 168,891 | 224,891 |
| Other income (expense): | | | | |
| Interest income | 4,230 | 11,851 | 21,087 | 33,982 |
| Interest expense | (44) | (119) | (186) | (302) |
| Equity in income of uncombined affiliates | 872 | 1,484 | 2,319 | 2,997 |
| Other income | 412 | 482 | 543 | 982 |
| Total other income, net | 5,470 | 13,698 | 23,763 | 37,659 |
| Earnings before income taxes and minority interest | 63,613 | 137,056 | 192,654 | 262,550 |
| Income tax provision | (23,977) | (51,659) | (72,580) | (85,967) |
| Minority interest in losses of combined subsidiaries | — | — | 29 | 118 |
| **Net income** | $ 39,636 | $ 85,397 | $ 120,103 | $ 176,701 |

Non-cash compensation expense is included in the following line items in the combined statements of operations:

| | Quarter Ended March 31 | Six Months Ended June 30 | Nine Months Ended September 30 | Year Ended December 31 |
|---|---|---|---|---|
| Cost of sales | $ 149 | $ 212 | $ 481 | $ 654 |
| Selling and marketing expense | 92 | 162 | 456 | 646 |
| General and administrative expense | 1,206 | 1,873 | 4,709 | 6,539 |
| Total non-cash compensation expense | $ 1,447 | $ 2,247 | $ 5,646 | $ 7,839 |

**Tree.com, Inc. and Subsidiaries**

**Consolidated Statements of Operations**

**Year Ended December 31, 2007**

**(In thousands)**

| | Quarter Ended March 31 | Quarter Ended June 30 | Quarter Ended September 30 | Quarter Ended December 31 |
|---|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Revenue | $ 109,999 | $ 110,639 | $ 74,953 | $ 50,787 |
| Cost of revenue (exclusive of depreciation shown separately below) | 20,496 | 20,942 | 18,279 | 13,397 |
| Gross margin | 89,503 | 89,697 | 56,674 | 37,390 |
| Selling and marketing expense | 56,478 | 56,852 | 43,755 | 30,527 |
| General and administrative expense | 30,046 | 27,514 | 23,166 | 18,518 |
| Product development | 4,270 | 3,896 | 3,844 | 2,981 |
| Proceeds from a legal settlement | — | — | (15,000) | — |
| Amortization of intangibles | 4,274 | 6,013 | 3,993 | 20,189 |
| Restructuring expense | — | 4,598 | 6,401 | 11,868 |
| Depreciation | 2,839 | 2,580 | 2,431 | 2,208 |
| Goodwill impairment | — | — | — | 459,463 |
| Operating loss | (8,404) | (11,756) | (11,916) | (508,364) |
| Other income (expense): | | | | |
| Interest income | 70 | 207 | 368 | 526 |
| Interest expense | (280) | (241) | (236) | (229) |
| Other income | 1 | — | 13 | — |
| Total other (expense) income, net | (209) | (34) | 145 | 297 |
| Loss before income taxes | (8,613) | (11,790) | (11,771) | (508,067) |
| Income tax benefit (provision) | 3,490 | 4,298 | 5,478 | (23,427) |
| **Net loss** | $ (5,123) | $ (7,492) | $ (6,293) | $ (531,494) |

Non-cash compensation expense is included in the following line items in the consolidated statements of operations:

| | | | | |
|---|---|---|---|---|
| Cost of revenue | $ 79 | $ 97 | $ 85 | $ (13) |
| Selling and marketing expense | 85 | 107 | 93 | (13) |
| General and administrative expense | 956 | 1,153 | 295 | (1) |
| Product development | 1 | 1 | — | — |
| Total non-cash compensation expense | $ 1,121 | $ 1,358 | $ 473 | $ (27) |

**Tree.com, Inc. and Subsidiaries**

**Consolidated Statements of Operations (Continued)**

**Year Ended December 31, 2007**

**(In thousands)**

| | Quarter Ended March 31 | Six Months Ended June 30 | Nine Months Ended September 30 | Year Ended December 31 |
|---|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) | (audited) |
| Revenue | $ 109,999 | $ 220,638 | $ 295,591 | $ 346,378 |
| Cost of revenue (exclusive of depreciation shown separately below) | 20,496 | 41,438 | 59,717 | 73,114 |
| Gross margin | 89,503 | 179,200 | 235,874 | 273,264 |
| Selling and marketing expense | 56,478 | 113,330 | 157,085 | 187,612 |
| General and administrative expense | 30,046 | 57,560 | 80,726 | 99,244 |
| Product development | 4,270 | 8,166 | 12,010 | 14,991 |
| Proceeds from a legal settlement | — | — | (15,000) | (15,000) |
| Amortization of intangibles | 4,274 | 10,287 | 14,280 | 34,469 |
| Restructuring expense | — | 4,598 | 10,999 | 22,867 |
| Depreciation | 2,839 | 5,419 | 7,850 | 10,058 |
| Goodwill impairment | — | — | — | 459,463 |
| Operating loss | (8,404) | (20,160) | (32,076) | (540,440) |
| Other income (expense): | | | | |
| Interest income | 70 | 277 | 645 | 1,171 |
| Interest expense | (280) | (521) | (757) | (986) |
| Other income | 1 | 1 | 14 | 14 |
| Total other expense, net | (209) | (243) | (98) | 199 |
| Loss before income taxes | (8,613) | (20,403) | (32,174) | (540,241) |
| Income tax benefit (provision) | 3,490 | 7,788 | 13,266 | (10,161) |
| **Net loss** | $ (5,123) | $ (12,615) | $ (18,908) | $ (550,402) |

Non-cash compensation expense is included in the following line items in the consolidated statements of operations:

| | | | | |
|---|---|---|---|---|
| Cost of revenue | $ 79 | $ 176 | $ 261 | $ 248 |
| Selling and marketing expense | 85 | 192 | 285 | 272 |
| General and administrative expense | 956 | 2,109 | 2,404 | 2,403 |
| Product development | 1 | 2 | 2 | 2 |
| Total non-cash compensation expense | $ 1,121 | $ 2,479 | $ 2,952 | $ 2,925 |

**Tree.com, Inc. and Subsidiaries**

**Consolidated Statements of Operations**

**Year Ended December 31, 2006**

**(In thousands)**

| | Quarter Ended March 31 | Quarter Ended June 30 | Quarter Ended September 30 | Quarter Ended December 31 |
|---|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Revenue | $ 122,658 | $ 120,747 | $ 120,230 | $ 112,843 |
| Cost of revenue (exclusive of depreciation shown separately below) | 17,909 | 18,837 | 19,386 | 17,085 |
| Gross margin | 104,749 | 101,910 | 100,844 | 95,758 |
| Selling and marketing expense | 60,293 | 58,094 | 52,473 | 48,050 |
| General and administrative expense | 28,920 | 28,711 | 30,560 | 31,093 |
| Product development | 3,890 | 3,547 | 3,879 | 3,852 |
| Amortization of intangibles | 7,266 | 7,284 | 5,157 | 4,311 |
| Depreciation | 3,458 | 2,819 | 2,964 | 2,469 |
| Operating income | 922 | 1,455 | 5,811 | 5,983 |
| Other income (expense): | | | | |
| Interest income | 107 | 89 | 136 | 975 |
| Interest expense | (419) | (388) | (378) | (371) |
| Other income (expense) | — | 9 | (212) | (4) |
| Total other (expense) income, net | (312) | (290) | (454) | 600 |
| Earnings before income taxes | 610 | 1,165 | 5,357 | 6,583 |
| Income tax provision | (224) | (419) | (2,117) | (2,262) |
| **Net income** | $ 386 | $ 746 | $ 3,240 | $ 4,321 |

Non-cash compensation expense is included in the following line items in the consolidated statements of operations:

| | | | | |
|---|---|---|---|---|
| Cost of revenue | $ 54 | $ 71 | $ 72 | $ 66 |
| Selling and marketing expense | 59 | 79 | 78 | 73 |
| General and administrative expense | (1,059) | 741 | 989 | 932 |
| Product development | 20 | — | 1 | 1 |
| Total non-cash compensation expense | $ (926) | $ 891 | $ 1,140 | $ 1,072 |

**Tree.com, Inc. and Subsidiaries**

**Consolidated Statements of Operations (Continued)**

**Year Ended December 31, 2006**

**(In thousands)**

| | Quarter Ended March 31 | Six Months Ended June 30 | Nine Months Ended September 30 | Year Ended December 31 |
|---|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) | (audited) |
| Revenue | $ 122,658 | $ 243,405 | $ 363,635 | $ 476,478 |
| Cost of revenue (exclusive of depreciation shown separately below) | 17,909 | 36,746 | 56,132 | 73,217 |
| Gross margin | 104,749 | 206,659 | 307,503 | 403,261 |
| Selling and marketing expense | 60,293 | 118,387 | 170,860 | 218,910 |
| General and administrative expense | 28,920 | 57,631 | 88,191 | 119,284 |
| Product development | 3,890 | 7,437 | 11,316 | 15,168 |
| Amortization of intangibles | 7,266 | 14,550 | 19,707 | 24,018 |
| Depreciation | 3,458 | 6,277 | 9,241 | 11,710 |
| Operating income | 922 | 2,377 | 8,188 | 14,171 |
| Other income (expense): | | | | |
| Interest income | 107 | 196 | 332 | 1,307 |
| Interest expense | (419) | (807) | (1,185) | (1,556) |
| Other income (expense) | — | 9 | (203) | (207) |
| Total other expense, net | (312) | (602) | (1,056) | (456) |
| Earnings before income taxes | 610 | 1,775 | 7,132 | 13,715 |
| Income tax provision | (224) | (643) | (2,760) | (5,022) |
| **Net income** | $ 386 | $ 1,132 | $ 4,372 | $ 8,693 |

Non-cash compensation expense is included in the following line items in the consolidated statements of operations:

| | | | | |
|---|---|---|---|---|
| Cost of revenue | $ 54 | $ 125 | $ 197 | $ 263 |
| Selling and marketing expense | 59 | 138 | 216 | 289 |
| General and administrative expense | (1,059) | (318) | 671 | 1,603 |
| Product development | 20 | 20 | 21 | 22 |
| Total non-cash compensation expense | $ (926) | $ (35) | $ 1,105 | $ 2,177 |

QuickLinks