Use these links to rapidly review the document
TABLE OF CONTENTS

Table of Contents

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

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

**For the Quarterly Period Ended September 30, 2009**

**or**

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

**For the transition period from to**

**Commission File No. 001-34063**

# TREE.COM, INC.

(Exact name of Registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **26-2414818** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**11115 Rushmore Drive, Charlotte, North Carolina 28277**
(Address of principal executive offices)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No o

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

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 definition 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 |

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

As of November 3, 2009 there were 10,902,525 shares of the Registrant's common stock, par value $.01 per share, outstanding.

## TABLE OF CONTENTS

## PART 1—FINANCIAL INFORMATION

**Item 1.** ***Financial Statements***

## TREE.COM, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

**(Unaudited)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (In thousands, except per share amounts) | | | |
| Revenue | | | | |
| LendingTree Loans | $ 24,109 | $ 19,993 | $ 94,738 | $ 76,049 |
| Exchanges and other | 18,610 | 20,484 | 52,662 | 76,007 |
| Real Estate | 7,997 | 9,781 | 21,549 | 28,378 |
| Total revenue | 50,716 | 50,258 | 168,949 | 180,434 |
| Cost of revenue | | | | |
| LendingTree Loans | 11,245 | 9,194 | 37,104 | 32,407 |
| Exchanges and other | 2,389 | 3,425 | 7,387 | 11,497 |
| Real Estate | 5,056 | 5,954 | 13,712 | 16,731 |
| Total cost of revenue (exclusive of depreciation shown separately below) | 18,690 | 18,573 | 58,203 | 60,635 |
| Gross margin | 32,026 | 31,685 | 110,746 | 119,799 |
| Operating expenses | | | | |
| Selling and marketing expense | 17,435 | 23,282 | 45,149 | 81,028 |
| General and administrative expense | 17,529 | 22,672 | 51,335 | 58,358 |
| Product development | 1,673 | 1,797 | 4,842 | 5,349 |
| Restructuring expense | 78 | 2,394 | (158) | 4,557 |
| Amortization of intangibles | 1,055 | 2,204 | 3,636 | 9,532 |
| Depreciation | 1,698 | 1,791 | 5,049 | 5,337 |
| Asset impairments | — | — | 3,903 | 164,335 |
| Total operating expenses | 39,468 | 54,140 | 113,756 | 328,496 |
| Operating loss | (7,442) | (22,455) | (3,010) | (208,697) |
| Other income (expense) | | | | |
| Interest income | 9 | 2 | 84 | 13 |
| Interest expense | (149) | (169) | (451) | (497) |
| Other | — | (2) | — | (4) |
| Total other income (expense), net | (140) | (169) | (367) | (488) |
| Loss before income taxes | (7,582) | (22,624) | (3,377) | (209,185) |
| Income tax (provision) benefit | 182 | 73 | (121) | 13,915 |
| Net loss | $ (7,400) | $ (22,551) | $ (3,498) | $ (195,270) |
| Weighted average common shares outstanding | 10,844 | 9,367 | 10,413 | 9,367 |
| Weighted average diluted shares outstanding | 10,844 | 9,367 | 10,413 | 9,367 |
| Net loss per share available to common shareholders | | | | |
| Basic | $ (0.68) | $ (2.41) | $ (0.34) | $ (20.85) |
| Diluted | $ (0.68) | $ (2.41) | $ (0.34) | $ (20.85) |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

**TREE.COM, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

| | September 30, 2009 (unaudited) | December 31, 2008 |
|---|---|---|
| | (In thousands, except share amounts) | |
| **ASSETS:** | | |
| Cash and cash equivalents | $ 86,859 | $ 73,643 |
| Restricted cash and cash equivalents | 12,826 | 15,204 |
| Accounts receivable, net of allowance of $418 and $367, respectively | 8,114 | 7,234 |
| Loans held for sale ($80,116 and $85,638 measured at fair value, respectively) | 81,931 | 87,835 |
| Prepaid and other current assets | 10,298 | 8,960 |
| Total current assets | 200,028 | 192,876 |
| Property and equipment, net | 13,320 | 17,057 |
| Goodwill | 13,185 | 9,285 |
| Intangible assets, net | 60,148 | 64,663 |
| Other non-current assets | 495 | 202 |
| Total assets | $ 287,176 | $ 284,083 |
| **LIABILITIES:** | | |
| Warehouse lines of credit | $ 67,129 | $ 76,186 |
| Accounts payable, trade | 5,431 | 3,541 |
| Deferred revenue | 1,633 | 1,231 |
| Deferred income taxes | 1,199 | 2,290 |
| Accrued expenses and other current liabilities | 42,042 | 37,146 |
| Total current liabilities | 117,434 | 120,394 |
| Income taxes payable | 470 | 862 |
| Other long-term liabilities | 11,042 | 9,016 |
| Deferred income taxes | 17,167 | 15,683 |
| Total liabilities | 146,113 | 145,955 |
| Commitments and contingencies (Note 12) | | |
| **SHAREHOLDERS' EQUITY:** | | |
| Preferred stock $.01 par value; authorized 5,000,000 shares; none issued or outstanding | — | — |
| Common stock $.01 par value; authorized 50,000,000 shares; issued and outstanding 10,892,405 and 9,369,381 shares, respectively | 109 | 94 |
| Additional paid-in capital | 900,995 | 894,577 |
| Accumulated deficit | (760,041) | (756,543) |
| Total shareholders' equity | 141,063 | 138,128 |
| Total liabilities and shareholders' equity | $ 287,176 | $ 284,083 |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

**TREE.COM, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**

**(Unaudited)**

| | | Common Stock | | | |
|---|---|---|---|---|---|
| | Total | Number of Shares | Amount | Additional Paid-in Capital | Accumulated Deficit |
| | | | (In thousands) | | |
| **Balance as of December 31, 2008** | $ 138,128 | 9,369 | $ 94 | $ 894,577 | $ (756,543) |
| Comprehensive loss: | | | | | |
| Net loss for the nine months ended September 30, 2009 | (3,498) | — | — | — | (3,498) |
| Comprehensive loss | (3,498) | — | — | — | — |
| Non-cash compensation | 3,060 | — | — | 3,060 | — |
| Sale of common stock | 3,656 | 935 | 9 | 3,647 | — |
| Issuance of common stock upon exercise of stock options and vesting of restricted stock units, net of withholding taxes | (283) | 238 | 3 | (286) | — |
| Issuance of restricted stock | — | 350 | 3 | (3) | — |
| **Balance as of September 30, 2009** | $ 141,063 | 10,892 | $ 109 | $ 900,995 | $ (760,041) |

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)**

| | Nine Months Ended September 30, 2009 | Nine Months Ended September 30, 2008 |
|---|---|---|
| | (In thousands) | |
| **Cash flows from operating activities:** | | |
| Net loss | $ (3,498) | $ (195,270) |
| Adjustments to reconcile loss to net cash provided by (used in) operating activities: | | |
| Loss on disposal of assets | 949 | — |
| Amortization of intangibles | 3,636 | 9,532 |
| Depreciation | 5,049 | 5,337 |
| Intangible impairment | 3,903 | 33,378 |
| Goodwill impairment | — | 130,957 |
| Non-cash compensation expense | 3,060 | 10,024 |
| Non-cash restructuring expense | 161 | 1,092 |
| Deferred income taxes | 393 | (13,916) |
| Gain on origination and sale of loans | (89,701) | (68,739) |
| Loss on impaired loans not sold | 564 | 265 |
| Loss on sale of real estate acquired in satisfaction of loans | 51 | 202 |
| Bad debt expense | 325 | 577 |
| Non-cash interest expense | — | 76 |
| Changes in current assets and liabilities: | | |
| Accounts receivable | (1,208) | 2,812 |
| Origination of loans | (2,232,380) | (1,728,458) |
| Proceeds from sales of loans | 2,335,100 | 1,816,273 |
| Principal payments received on loans | 781 | 697 |
| Payments to investors for loan losses and early payoff obligations | (5,641) | (3,780) |
| Prepaid and other current assets | (1,149) | 2,988 |
| Accounts payable and other current liabilities | 3,580 | (17,842) |
| Income taxes payable | (551) | 2,376 |
| Deferred revenue | (130) | (309) |
| Other, net | 1,154 | (118) |
| **Net cash provided by (used in) operating activities** | 24,448 | (11,846) |
| **Cash flows from investing activities:** | | |
| Contingent acquisition consideration | — | (14,487) |
| Acquisitions | (5,726) | — |
| Capital expenditures | (2,200) | (3,322) |
| Other, net | 3,253 | (142) |
| **Net cash used in investing activities** | (4,673) | (17,951) |
| **Cash flows from financing activities:** | | |
| Borrowing under warehouse lines of credit | 1,964,237 | 1,586,413 |
| Repayments of warehouse lines of credit | (1,973,294) | (1,609,036) |
| Principal payments on long-term obligations | — | (20,045) |
| Capital contributions from IAC | — | 109,417 |
| Issuance of common stock | 3,373 | — |
| Excess tax benefits from stock-based awards | — | 393 |
| Increase in restricted cash | (875) | (872) |
| **Net cash (used in) provided by financing activities** | (6,559) | 66,270 |
| **Net increase in cash and cash equivalents** | 13,216 | 36,473 |
| Cash and cash equivalents at beginning of period | 73,643 | 45,940 |
| **Cash and cash equivalents at end of period** | $ 86,859 | $ 82,413 |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

**TREE.COM, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

## NOTE 1—ORGANIZATION

### Spin-Off

On August 20, 2008, Tree.com, Inc. ("Tree.com" or the "Company") was spun off from its parent company, IAC/InterActiveCorp ("IAC") into a separate publicly traded company. 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 consists of the brands and businesses that formerly comprised IAC's Lending and Real Estate segments. We refer herein to these brands and businesses as the "Tree.com Businesses," which include LendingTree.com, RealEstate.com, GetSmart.com and Home Loan Center, Inc. (d/b/a LendingTree Loans).

In conjunction with the spin-off, Tree.com completed the following transactions: (1) extinguished all intercompany payable balances with IAC, which totaled $56.2 million, by recording a non-cash contribution from IAC, (2) recapitalized the invested capital balances with common stock in the amount of $0.1 million, whereby holders of IAC stock received one-thirtieth of a share of common stock of Tree.com, and (3) received $55.2 million of cash from IAC.

### 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 interim consolidated financial statements as of September 30, 2009 and 2008 and for the three and nine months then ended have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for annual financial statements. In the opinion of the Company's management, the unaudited interim consolidated financial statements have been prepared on the same basis as the audited financial statements, and include all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of the Company's financial position for the periods presented. The results for the three and nine months ended September 30, 2009 are not necessarily indicative of the results to be expected for the year ending December 31, 2009, or any other period. These financial statements and notes should be read in conjunction with the audited financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2008.

Tree.com evaluated subsequent events through November 5, 2009, the issuance date of our consolidated financial statements for the period ended September 30, 2009, as this is the date on which we filed such financial statements on Form 10-Q with the SEC.

**Company Overview**

*LendingTree Loans*

The LendingTree Loans segment originates, processes, approves and funds various residential real estate loans through Home Loan Center, Inc. ("HLC"), (d/b/a LendingTree Loans). The HLC and LendingTree Loans brand names are collectively referred to in these consolidated financial statements as "LendingTree Loans."

*Exchanges*

The Exchanges segment consists of online lead generation networks and call centers (principally LendingTree.com and GetSmart.com) that connect consumers and service providers principally in the lending and higher education marketplaces.

*Real Estate*

The Real Estate segment consists of a proprietary full service real estate brokerage (RealEstate.com, REALTORS®) that operates in 20 U.S. markets, as well as an online lead generation network accessed at *www.RealEstate.com*, that connects consumers with real estate brokerages around the country.

Tree.com maintains operations solely in the United States.

**Business Combinations**

In 2009, Tree.com purchased certain assets of four separate companies, with an aggregate purchase price of $6.9 million in cash and contingent consideration. One of the purchases closed in January 2009, and the three other purchases closed in third quarter of 2009. All four transactions are part of our strategic initiative to diversify our revenue streams outside of the mortgage and real estate industries.

These asset purchases are being accounted for under the acquisition method of accounting. Accordingly, the purchase price is allocated to the acquired assets and liabilities based on their estimated fair values at the acquisition date. The purchase price for three of the closed purchases has been allocated as $3.0 million to intangible assets with useful lives of five months to thirteen years and $2.5 million to goodwill. The allocation of the purchase price for the last transaction, including goodwill, if any, is not yet complete and will be finalized upon completion of the analysis of the fair values of the acquired assets and liabilities. The pro forma effect of these purchases was not material to our results of operations.

TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 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 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 unaudited consolidated financial statements include: valuation allowance for impaired loans held for sale; loss reserves on previously sold loans; the fair value of loans held for sale and related derivatives; the recoverability of long-lived assets, goodwill and intangible assets; the determination of income taxes payable and deferred income taxes, including related valuation allowances; various other allowances, reserves and accruals; and assumptions related to the determination of stock-based compensation.

### Reclassifications

In connection with the change in reportable segments (see Note 7), certain prior period amounts have been reclassified to conform with the current year presentation with no effect on net loss or accumulated deficit. Specifically, compensation and other employee-related costs for loan officers within the LendingTree Loans segment totaling $2.8 million and $9.7 million for the three and nine months ending September 30, 2008, respectively, were reclassified from selling and marketing expense to cost of revenue, and certain other expenses totaling $0.1 million and $0.3 million for the three and nine months ending September 30, 2008, respectively, were reclassified from general and administrative expense to selling and marketing expense.

### Restricted Cash and Cash Equivalents

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

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| Cash in escrow for future operating lease commitments | $ 1,382 | $ 5,587 |
| Cash in escrow for surety bonds | 5,030 | 5,016 |
| Cash in escrow for corporate purchasing card program | 2,202 | 2,200 |
| Minimum required balances for warehouse lines of credit | 1,875 | 1,000 |
| Other | 2,337 | 1,401 |
| Total restricted cash and cash equivalents | $ 12,826 | $ 15,204 |

Changes in restricted cash balances are shown within investing and financing activities in the accompanying consolidated statements of cash flows.

**NOTE 2—SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Recent Accounting Pronouncements**

On July 1, 2009, the Financial Accounting Standards Board ("FASB") issued guidance with the objective of establishing the Accounting Standards Codification as the source of authoritative nongovernmental GAAP. This did not replace GAAP, however, all existing accounting standards have been superseded and all other accounting literature not included in the codification will be considered nonauthoritative. Accordingly, all references to accounting standards have been conformed to the new codification hierarchy.

On January 1, 2009, Tree.com adopted the accounting standard for business combinations, which 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. This standard also establishes disclosure requirements that will enable users to evaluate the nature and financial effects of the business combination. The standard applies prospectively to business combinations in fiscal years beginning after December 15, 2008. The Company applied this standard to its business combinations made subsequent to January 1, 2009. See Note 1 for further information.

On January 1, 2009, Tree.com adopted the updated accounting standard for derivatives and hedging. This standard amends and expands the existing disclosure requirements with the intent to provide users of financial statements with an enhanced understanding of: (i) how and why an entity uses derivative instruments; (ii) how derivative instruments and related hedged items are accounted for; and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. The adoption of this standard did not have a material impact on the Company's consolidated financial statements. See Note 9 for further information.

On April 9, 2009, Tree.com adopted the updated accounting standards for financial instruments and interim reporting. The new standards require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The new standards also require those disclosures in summarized financial information at interim reporting periods. See Note 9 for further information.

On May 28, 2009, Tree.com adopted the accounting standard for subsequent events. This standard establishes principles and requirements for subsequent events, in particular: (i) the period after the balance sheet date during which management of a reporting entity shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (ii) the circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its financial statements; and (iii) the disclosures that an entity shall make about events or transactions that occurred after the balance sheet date. See Note 1 for further information.

On June 12, 2009, the FASB amended the accounting standard for transfers and servicing. The objective is to improve relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. This standard is effective for annual reporting periods beginning after November 15, 2009. This amendment will not have a material impact on the Company's consolidated financial statements.

TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 3—GOODWILL AND INTANGIBLE ASSETS

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

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| Goodwill: | | |
| Goodwill—Real Estate | $ 9,285 | $ 9,285 |
| Goodwill—Exchanges | 3,900 | — |
| Total goodwill | 13,185 | 9,285 |
| Intangible assets: | | |
| Intangible assets with indefinite lives | 55,567 | 55,229 |
| Intangible assets with definite lives, net | 4,581 | 9,434 |
| Total intangible assets, net | 60,148 | 64,663 |
| Total goodwill and intangible assets, net | $ 73,333 | $ 73,948 |

Intangible assets with indefinite lives relate principally to trade names and trademarks.

At September 30, 2009, intangible assets with definite lives relate to the following (in thousands):

| | Cost | Accumulated Amortization | Net | Weighted Average Amortization Life (Years) |
|---|---|---|---|---|
| Purchase agreements | $ 76,353 | $ (74,010) | $ 2,343 | 5.7 |
| Technology | 30,246 | (29,285) | 961 | 3.0 |
| Customer lists | 7,389 | (6,617) | 772 | 3.9 |
| Other | 10,034 | (9,529) | 505 | 4.8 |
| Total | $ 124,022 | $ (119,441) | $ 4,581 | |

At December 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 | $ (68,898) | $ 7,219 | 5.7 |
| Technology | 29,100 | (29,100) | — | 3.0 |
| Customer lists | 6,607 | (6,607) | — | 2.8 |
| Other | 9,512 | (7,297) | 2,215 | 4.8 |
| Total | $ 121,336 | $ (111,902) | $ 9,434 | |

**NOTE 3—GOODWILL AND INTANGIBLE ASSETS (Continued)**

Amortization of intangible assets with definite lives is computed on a straight-line basis and, based on September 30, 2009 balances, such amortization is estimated to be as follows (in thousands):

| | Amount |
|---|---|
| Three months ending December 31, 2009 | $ 990 |
| Year ending December 31, 2010 | 2,085 |
| Year ending December 31, 2011 | 564 |
| Year ending December 31, 2012 | 259 |
| Year ending December 31, 2013 | 143 |
| Year ending December 31, 2014 and thereafter | 540 |
| | $ 4,581 |

In the second quarter of 2009, Tree.com recorded impairment charges of $3.9 million related to definite-lived intangible assets within the new homes referral service business of Real Estate. In the second quarter of 2009, the new Real Estate operating segment leadership undertook significant changes in management, operational focus and marketing efforts related to the new homes referral service business. These changes, combined with the continued deterioration of new housing starts and new homes sales in 2009, caused the Company to reassess the remaining useful lives and the likely future recoverability of the remaining value of these intangible assets. In testing the recoverability of these assets, indications of impairment were determined to exist, and subsequent impairment testing resulted in the charge noted above.

In the second quarter of 2008, Tree.com recorded impairment charges of $131.0 million and $33.4 million related to goodwill and an indefinite-lived intangible asset, respectively. The charge related to LendingTree Loans was a goodwill impairment charge of $0.9 million. The charges associated with the Exchanges were $69.3 million related to goodwill and $33.4 million related to an indefinite-lived intangible asset. The charge related to Real Estate was a goodwill impairment charge of $60.8 million.

The impairments in 2008 resulted from the Company's reassessment of its likely future profitability in light of the persistent adverse mortgage and real estate market realities. These adverse conditions included, among others, constrained liquidity, lender focus on low margin mortgage offerings, the decline in real estate values and a high rate of delinquency for existing mortgages. Tree.com updated its assessment of mortgage and real estate market conditions and Tree.com's responsive operational strategies during the second quarter of 2008, and quantified these considerations in Tree.com's future forecasted results.

The following table presents the balance of goodwill by segment, including changes in the carrying amount of goodwill, for the nine months ended September 30, 2008 (in thousands):

| | Balance as of January 1, 2008 | Additions | (Deductions) | Impairments | Balance as of September 30, 2008 |
|---|---|---|---|---|---|
| LendingTree Loans | $ 898 | $ — | $ — | $ (898) | $ — |
| Exchanges | 69,868 | — | (615) | (69,253) | — |
| Real Estate | 70,126 | — | (35) | (60,806) | 9,285 |
| Total | $ 140,892 | $ — | $ (650) | $ (130,957) | $ 9,285 |

TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**NOTE 3—GOODWILL AND INTANGIBLE ASSETS (Continued)**

Deductions principally relate to the establishment of deferred tax assets related to the acquired tax attributes and 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. The impairments are described above.

**NOTE 4—PROPERTY AND EQUIPMENT**

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

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| Computer equipment and capitalized software | $ 37,974 | $ 34,416 |
| Leasehold improvements | 3,184 | 3,184 |
| Furniture and other equipment | 5,055 | 5,088 |
| Projects in progress | 708 | 3,169 |
| | 46,921 | 45,857 |
| Less: accumulated depreciation and amortization | (33,601) | (28,800) |
| Total property and equipment, net | $ 13,320 | $ 17,057 |

**NOTE 5—ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

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

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| Accrued loan loss liability related to loans previously sold | $ 8,165 | $ 3,972 |
| Litigation accruals | — | 2,031 |
| Accrued advertising expense | 8,622 | 5,518 |
| Accrued compensation and benefits | 8,450 | 5,251 |
| Accrued professional fees | 1,416 | 1,576 |
| Accrued restructuring costs | 415 | 3,262 |
| Derivative liabilities | 1,916 | 2,164 |
| Customer deposits and escrows | 3,498 | 2,957 |
| Deferred rent | 858 | 1,035 |
| Other | 8,702 | 9,380 |
| Total accrued expenses and other current liabilities | $ 42,042 | $ 37,146 |

The other category above reflects an estimated earnout payable related to an acquisition and other miscellaneous accrued expenses.

An additional $5.9 million and $6.5 million of accrued loan loss liability related to loans previously sold is classified in other long term liabilities at September 30, 2009 and December 31, 2008, respectively.

**NOTE 6—WAREHOUSE LINES OF CREDIT**

Borrowings on warehouse lines of credit were $67.1 million and $76.2 million at September 30, 2009 and December 31, 2008, respectively.

As of September 30, 2009, LendingTree Loans had two committed lines of credit ("warehouse lines") totaling $100 million of borrowing capacity. In addition, LendingTree Loans obtained a third warehouse line for $75 million on October 30, 2009, bringing the total borrowing capacity to $175 million. Borrowings under these lines are limited for funding, and are secured by, consumer residential loans that are held for sale. Loans under these warehouse lines are repaid directly from proceeds from the sales of loans by LendingTree Loans.

The $50 million first line is scheduled to expire on December 29, 2009; however, that lender has indicated it is exiting the warehouse lending business and will honor the existing contract only through the stated term. The interest rate under this line is 30-day LIBOR plus 125 basis points.

The $50 million second line is scheduled to expire on April 30, 2010, but can be cancelled at the option of the lender without default upon sixty days notice. This second line includes an additional uncommitted credit facility of $75 million and is guaranteed by Tree.com, Inc., LendingTree, LLC and LendingTree Holdings Corp. The interest rate under the second line is 225 basis points plus the greater of (a) the 30-day LIBOR or (b) 200 basis points. The interest rate under the $75 million uncommitted line is 30-day LIBOR plus 150 basis points. LendingTree Loans is also required to sell at least 50% of the loans it originates to an affiliate of the lender under this line or pay a "pair-off fee" of 37.5 basis points on the difference between the required and actual volume of loans sold.

The $75 million third line is scheduled to expire on October 29, 2010. The interest rate under this line is 30-day LIBOR or 2.0% (whichever is greater) plus 250 basis points for loans being sold to the lender and 30-day LIBOR or 2.0% (whichever is greater) plus 275 basis points for loans not being purchased by the lender.

Under the terms of these warehouse lines, LendingTree Loans is required to maintain various financial and other covenants. These financial covenants include, but are not limited to, maintaining (i) minimum tangible net worth of $44.0 million, (ii) minimum liquidity, (iii) a minimum current ratio, (iv) a maximum ratio of total liabilities to net worth, (v) a maximum leverage ratio and (vi) pre-tax net income requirements. During the quarter ended September 30, 2009, LendingTree Loans was in compliance with the covenants under the lines.

The LendingTree Loans business is highly dependent on the availability of these warehouse lines. Although we believe that our existing lines of credit are adequate for our current operations, reductions in our available credit, or the inability to renew or replace these lines, would have a material adverse effect on our business, financial condition and results of operations. Management has determined that it could continue to operate the LendingTree Loans business, at a reduced capacity, if two but not all of the warehouse lines were lost.

**NOTE 7—SEGMENT INFORMATION**

The overall concept that Tree.com employs in determining its reportable 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 Tree.com businesses, how the businesses are organized as to segment management, and the focus of the Tree.com businesses with regards to the types of products or services offered or the target market.

TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**NOTE 7—SEGMENT INFORMATION (Continued)**

Following the spin-off from IAC, the new chief operating decision maker began to realign the Tree.com Businesses into new operating segments. During the first quarter of 2009, management completed its realignment of staffing and direct revenue and costs for each new segment and created reporting structures to enable the chief operating decision maker and management to evaluate the results of operations for each of these new segments on a comparative basis with prior periods. In prior periods, the segments "Lending" and "Real Estate" were presented, which have been changed to "LendingTree Loans", "Exchanges" and "Real Estate" segments. Additionally, certain shared indirect costs that are described below are reported as "Unallocated—Corporate". All items of segment information for prior periods have been restated to conform to the new reportable segment presentation.

The expenses presented below for each of the business segments include an allocation of certain corporate expenses that are identifiable and directly benefit those segments. The unallocated expenses are those corporate overhead expenses that are not directly attributable to a segment and include: corporate expenses such as finance, legal, executive, technology support, and human resources, as well as elimination of inter-segment revenue and costs.

Tree.com's primary performance metrics are EBITDA and Adjusted EBITDA. EBITDA is defined as earnings before interest, taxes, depreciation and amortization. Adjusted EBITDA is defined as EBITDA excluding (1) non-cash compensation expense, (2) non-cash intangible asset impairment charges, (3) gain/loss on disposal of assets, (4) restructuring expenses, (5) proceeds from litigation settlements, (6) pro forma adjustments for significant acquisitions, and (7) one-time items. Tree.com believes these measures are useful to investors because they represent the operating results from Tree.com's segments, but exclude the effects of any other non-cash expenses. EBITDA and Adjusted EBITDA have certain limitations in that they do not take into account the impact to Tree.com's statement of operations of certain expenses, including depreciation, 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.

TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**NOTE 7—SEGMENT INFORMATION (Continued)**

Summarized information by segment and a reconciliation to EBITDA and Adjusted EBITDA is as follows (in thousands):

| | For the Three Months Ended September 30, 2009: | | | | |
|---|---|---|---|---|---|
| | LendingTree Loans | Exchanges | Real Estate | Unallocated— Corporate | Total |
| Revenue | $ 24,109 | $ 23,854 | $ 7,997 | $ (5,244) | $ 50,716 |
| Cost of revenue (exclusive of depreciation shown separately below) | 11,245 | 1,849 | 5,056 | 540 | 18,690 |
| Gross Margin | 12,864 | 22,005 | 2,941 | (5,784) | 32,026 |
| Operating Expenses: | | | | | |
| Selling and marketing expense | 5,820 | 15,637 | 1,221 | (5,243) | 17,435 |
| General and administrative expense | 5,276 | 1,934 | 2,075 | 8,244 | 17,529 |
| Product development | 165 | 762 | 363 | 383 | 1,673 |
| Restructuring expense | (54) | 50 | 53 | 29 | 78 |
| Amortization of intangibles | 70 | 337 | 641 | 7 | 1,055 |
| Depreciation | 741 | 246 | 302 | 409 | 1,698 |
| Total operating expenses | 12,018 | 18,966 | 4,655 | 3,829 | 39,468 |
| Operating income (loss) | 846 | 3,039 | (1,714) | (9,613) | (7,442) |
| Adjustments to reconcile to EBITDA and Adjusted EBITDA: | | | | | |
| Amortization of intangibles | 70 | 337 | 641 | 7 | 1,055 |
| Depreciation | 741 | 246 | 302 | 409 | 1,698 |
| EBITDA | 1,657 | 3,622 | (771) | (9,197) | (4,689) |
| Restructuring expense | (54) | 50 | 53 | 29 | 78 |
| Non-cash compensation | 63 | 48 | 79 | 877 | 1,067 |
| Adjusted EBITDA | $ 1,666 | $ 3,720 | $ (639) | $ (8,291) | $ (3,544) |

**TREE.COM, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 7—SEGMENT INFORMATION (Continued)**

| | For the Three Months Ended September 30, 2008: | | | | |
|---|---|---|---|---|---|
| | LendingTree Loans | Exchanges | Real Estate | Unallocated—Corporate | Total |
| Revenue | $ 19,993 | $ 25,625 | $ 9,781 | $ (5,141) | $ 50,258 |
| Cost of revenue (exclusive of depreciation shown separately below) | 9,194 | 2,896 | 5,954 | 529 | 18,573 |
| Gross Margin | 10,799 | 22,729 | 3,827 | (5,670) | 31,685 |
| Operating Expenses: | | | | | |
| Selling and marketing expense | 5,022 | 21,218 | 1,803 | (4,761) | 23,282 |
| General and administrative expense | 6,304 | 1,858 | 5,035 | 9,475 | 22,672 |
| Product development | 171 | 1,009 | 493 | 124 | 1,797 |
| Restructuring expense | 2,336 | 22 | (28) | 64 | 2,394 |
| Amortization of intangibles | 70 | 1,046 | 1,088 | — | 2,204 |
| Depreciation | 894 | 197 | 248 | 452 | 1,791 |
| Total operating expenses | 14,797 | 25,350 | 8,639 | 5,354 | 54,140 |
| Operating loss | (3,998) | (2,621) | (4,812) | (11,024) | (22,455) |
| Adjustments to reconcile to EBITDA and Adjusted EBITDA: | | | | | |
| Amortization of intangibles | 70 | 1,046 | 1,088 | — | 2,204 |
| Depreciation | 894 | 197 | 248 | 452 | 1,791 |
| EBITDA | (3,034) | (1,378) | (3,476) | (10,572) | (18,460) |
| Restructuring expense | 2,336 | 22 | (28) | 64 | 2,394 |
| Non-cash compensation | — | 1,189 | 2,715 | 3,901 | 7,805 |
| Adjusted EBITDA | $ (698) | $ (167) | $ (789) | $ (6,607) | $ (8,261) |

TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**NOTE 7—SEGMENT INFORMATION (Continued)**

| | For the Nine Months Ended September 30, 2009: | | | | |
|---|---|---|---|---|---|
| | LendingTree Loans | Exchanges | Real Estate | Unallocated—Corporate | Total |
| Revenue | $ 94,738 | $ 63,551 | $ 21,549 | $ (10,889) | $ 168,949 |
| Cost of revenue (exclusive of depreciation shown separately below) | 37,104 | 5,760 | 13,712 | 1,627 | 58,203 |
| Gross Margin | 57,634 | 57,791 | 7,837 | (12,516) | 110,746 |
| Operating Expenses: | | | | | |
| Selling and marketing expense | 12,032 | 40,079 | 3,919 | (10,881) | 45,149 |
| General and administrative expense | 16,524 | 7,390 | 7,130 | 20,291 | 51,335 |
| Product development | 412 | 2,201 | 1,244 | 985 | 4,842 |
| Restructuring expense | (1,246) | 108 | 792 | 188 | (158) |
| Amortization of intangibles | 210 | 493 | 2,926 | 7 | 3,636 |
| Depreciation | 2,287 | 643 | 849 | 1,270 | 5,049 |
| Asset impairments | — | — | 3,903 | — | 3,903 |
| Total operating expenses | 30,219 | 50,914 | 20,763 | 11,860 | 113,756 |
| Operating income (loss) | 27,415 | 6,877 | (12,926) | (24,376) | (3,010) |
| Adjustments to reconcile to EBITDA and Adjusted EBITDA: | | | | | |
| Amortization of intangibles | 210 | 493 | 2,926 | 7 | 3,636 |
| Depreciation | 2,287 | 643 | 849 | 1,270 | 5,049 |
| EBITDA | 29,912 | 8,013 | (9,151) | (23,099) | 5,675 |
| Restructuring expense | (1,246) | 108 | 792 | 188 | (158) |
| Asset impairments | — | — | 3,903 | — | 3,903 |
| Loss on disposal of assets | — | 949 | — | — | 949 |
| Non-cash compensation | 199 | 467 | 210 | 2,184 | 3,060 |
| Adjusted EBITDA | $ 28,865 | $ 9,537 | $ (4,246) | $ (20,727) | $ 13,429 |

## NOTE 7—SEGMENT INFORMATION (Continued)

| | For the Nine Months Ended September 30, 2008: | | | | |
|---|---|---|---|---|---|
| | LendingTree Loans | Exchanges | Real Estate | Unallocated—Corporate | Total |
| Revenue | $ 76,049 | $ 92,813 | $ 28,378 | $ (16,806) | $ 180,434 |
| Cost of revenue (exclusive of depreciation shown separately below) | 32,407 | 9,864 | 16,731 | 1,633 | 60,635 |
| Gross Margin | 43,642 | 82,949 | 11,647 | (18,439) | 119,799 |
| Operating Expenses: | | | | | |
| Selling and marketing expense | 16,661 | 73,981 | 6,217 | (15,831) | 81,028 |
| General and administrative expense | 19,023 | 5,750 | 11,973 | 21,612 | 58,358 |
| Product development | 575 | 2,852 | 1,759 | 163 | 5,349 |
| Restructuring expense | 3,142 | 173 | 485 | 757 | 4,557 |
| Amortization of intangibles | 210 | 6,038 | 3,284 | — | 9,532 |
| Depreciation | 2,544 | 577 | 702 | 1,514 | 5,337 |
| Asset impairments | 898 | 102,630 | 60,807 | — | 164,335 |
| Total operating expenses | 43,053 | 192,001 | 85,227 | 8,215 | 328,496 |
| Operating income (loss) | 589 | (109,052) | (73,580) | (26,654) | (208,697) |
| Adjustments to reconcile to EBITDA and Adjusted EBITDA: | | | | | |
| Amortization of intangibles | 210 | 6,038 | 3,284 | — | 9,532 |
| Depreciation | 2,544 | 577 | 702 | 1,514 | 5,337 |
| EBITDA | 3,343 | (102,437) | (69,594) | (25,140) | (193,828) |
| Restructuring expense | 3,142 | 173 | 485 | 757 | 4,557 |
| Asset impairments | 898 | 102,630 | 60,807 | — | 164,335 |
| Non-cash compensation | — | 1,519 | 3,432 | 5,073 | 10,024 |
| Adjusted EBITDA | $ 7,383 | $ 1,885 | $ (4,870) | $ (19,310) | $ (14,912) |

**TREE.COM, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 7—SEGMENT INFORMATION (Continued)**

Significant components of revenue for the three and nine months ended September 30, 2009 and 2008 are as follows (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| LendingTree Loans: | | | | |
| Origination and sale of loans | $ 22,495 | $ 17,911 | $ 89,701 | $ 68,739 |
| Other(a) | 1,614 | 2,082 | 5,037 | 7,310 |
| Total LendingTree Loans revenue | 24,109 | 19,993 | 94,738 | 76,049 |
| Exchanges: | | | | |
| Match fees | 12,438 | 12,114 | 32,307 | 45,687 |
| Closed loan fees | 5,318 | 8,196 | 18,180 | 29,092 |
| Other | 854 | 554 | 2,175 | 2,203 |
| Inter-segment | 5,244 | 4,761 | 10,889 | 15,831 |
| Total Exchanges | 23,854 | 25,625 | 63,551 | 92,813 |
| Real Estate revenue | 7,997 | 9,781 | 21,549 | 28,378 |
| Inter-segment elimination | (5,244) | (5,141) | (10,889) | (16,806) |
| Total revenue | $ 50,716 | $ 50,258 | $ 168,949 | $ 180,434 |

(a) Other revenue within the LendingTree Loans segment includes $0.4 million and $1.0 million of inter-segment revenue for the three and nine months ended September 30, 2008, respectively, which is also included in the inter-segment elimination.

Total assets by segment at September 30, 2009 and December 31, 2008 are as follows (in thousands):

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| LendingTree Loans | $ 155,968 | $ 149,310 |
| Real Estate | 31,207 | 38,085 |
| Exchanges and Unallocated—Corporate(a) | 100,001 | 96,688 |
| Total | $ 287,176 | $ 284,083 |

(a) Assets are jointly used by the Exchanges and Unallocated—Corporate segments, and it is not practicable to allocate assets between these segments.

TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 8—EARNINGS PER SHARE AND STOCK-BASED COMPENSATION

The following table sets forth the computation of basic and diluted earnings per share:

| | Three Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2009 | | 2008 | |
| | Basic | Diluted | Basic | Diluted |
| | (In thousands, except per share data) | | | |
| **Numerator:** | | | | |
| Net loss available to common shareholders | $ (7,400) | $ (7,400) | $ (22,551) | $ (22,551) |
| **Denominator:** | | | | |
| Weighted average common shares(a) | 10,844 | 10,844 | 9,367 | 9,367 |
| Net loss per common share | $ (0.68) | $ (0.68) | $ (2.41) | $ (2.41) |

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2009 | | 2008 | |
| | Basic | Diluted | Basic | Diluted |
| | (In thousands, except per share data) | | | |
| **Numerator:** | | | | |
| Net loss available to common shareholders | $ (3,498) | $ (3,498) | $ (195,270) | $ (195,270) |
| **Denominator:** | | | | |
| Weighted average common shares(a) | 10,413 | 10,413 | 9,367 | 9,367 |
| Net loss per common share | $ (0.34) | $ (0.34) | $ (20.85) | $ (20.85) |

(a) The weighted average common shares for the period from January 1, 2008 until the spin-off from IAC is equal to the number of shares outstanding immediately following the spin-off from IAC.

Non-cash compensation expense related to equity awards is included in the following line items in the accompanying consolidated statements of operations for the three and nine months ended September 30, 2009 and 2008 (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Cost of revenue | $ 11 | $ 600 | $ 80 | $ 762 |
| Selling and marketing expense | 38 | 659 | 124 | 836 |
| General and administrative expense | 991 | 6,534 | 2,756 | 8,412 |
| Product development | 27 | 12 | 100 | 14 |
| Non-cash compensation expense | $ 1,067 | $ 7,805 | $ 3,060 | $ 10,024 |

The forms of stock-based awards granted to Tree.com employees are principally restricted stock units ("RSUs"), restricted stock and stock options. RSUs are awards in the form of units, denominated in a hypothetical equivalent number of shares of Tree.com common stock and with the value of each award equal to the fair value of Tree.com common stock at the date of grant. RSUs may be settled in cash, stock or both, as determined by the Compensation Committee at the time of grant. Each stock-based award is subject to service-based vesting, where a specific period of continued employment must

**NOTE 8—EARNINGS PER SHARE AND STOCK-BASED COMPENSATION (Continued)**

pass before an award vests. Tree.com recognizes expense for all stock-based awards for which vesting is considered probable. For stock-based awards the accounting charge is measured at the grant date as the fair value of Tree.com common stock and expensed ratably as non-cash compensation over the vesting term.

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.

A summary of changes in outstanding stock options for the nine months ended September 30, 2009 is as follows:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value (In thousands) |
|---|---|---|---|---|
| Outstanding at January 1, 2009 | 1,870,707 | $ 14.43 | | |
| Granted | 21,250 | 7.46 | | |
| Exercised | (11,961) | 6.89 | | |
| Forfeited | (639,082) | 24.07 | | |
| Expired | (18,657) | 9.04 | | |
| Outstanding at September 30, 2009 | 1,222,257 | $ 9.43 | 7.4 | $ 141 |
| Options exercisable | 277,831 | $ 9.64 | 4.0 | $ 120 |

The following table summarizes the information about stock options outstanding and exercisable as of September 30, 2009:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Outstanding at September 30, 2009 | Weighted Average Remaining Contractual Life in Years | Weighted Average Exercise Price | Exercisable at September 30, 2009 | Weighted Average Exercise Price |
| $.01 to $4.99 | 20,891 | 2.84 | $ 2.96 | 20,891 | $ 2.96 |
| $5.00 to $7.45 | 19,900 | 2.98 | 6.69 | 19,900 | 6.69 |
| $7.46 to $9.99 | 921,045 | 8.56 | 8.15 | 103,275 | 7.79 |
| $10.00 to $14.99 | 123,999 | 2.16 | 11.86 | 123,999 | 11.86 |
| $15.00 to $19.99 | 86,880 | 5.33 | 15.30 | 6,887 | 18.73 |
| $20.00 to $24.99 | 48,447 | 5.49 | 20.24 | 1,784 | 21.50 |
| Greater than $25.00 | 1,095 | 0.24 | 38.69 | 1,095 | 38.69 |
| | 1,222,257 | 7.37 | $ 9.43 | 277,831 | $ 9.64 |

**TREE.COM, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 8—EARNINGS PER SHARE AND STOCK-BASED COMPENSATION (Continued)**

Nonvested RSUs and restricted stock outstanding as of September 30, 2009 and changes during the nine months ended September 30, 2009 were as follows:

| | RSUs | | Restricted Stock | |
|---|---|---|---|---|
| | Number of Shares | Weighted Average Grant Date Fair Value | Number of Shares | Weighted Average Grant Date Fair Value |
| Nonvested at January 1, 2009 | 380,205 | $ 11.39 | 117,970 | $ 7.46 |
| Granted | 503,220 | 5.29 | 350,000 | 5.42 |
| Vested | (24,078) | 9.10 | (117,970) | 7.46 |
| Forfeited | (113,750) | 11.22 | — | — |
| Nonvested at September 30, 2009 | 745,597 | $ 7.91 | 350,000 | $ 5.42 |

**NOTE 9—FAIR VALUE MEASUREMENTS**

Tree.com categorizes its assets and liabilities measured at 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 presents Tree.com's assets and liabilities that are measured at fair value on a recurring basis at September 30, 2009 and December 31, 2008 (in thousands):

| | As of September 30, 2009 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 | $ — | $ 79,846 | $ 270 | $ 80,116 |
| Interest rate lock commitments ("IRLCs") | — | — | 6,179 | 6,179 |
| Forward delivery contracts | — | (1,712) | (32) | (1,744) |
| Total | $ — | $ 78,134 | $ 6,417 | $ 84,551 |

TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**NOTE 9—FAIR VALUE MEASUREMENTS (Continued)**

| | As of December 31, 2008 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 | $ — | $ 84,824 | $ 814 | $ 85,638 |
| Interest rate lock commitments ("IRLCs") | — | — | 5,904 | 5,904 |
| Forward delivery contracts | — | (1,884) | (20) | (1,904) |
| Total | $ — | $ 82,940 | $ 6,698 | $ 89,638 |

The following 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) for the three and nine months ended September 30, 2009 and 2008 (in thousands):

| | Three Months Ended September 30, 2009 | | Nine Months Ended September 30, 2009 | |
|---|---|---|---|---|
| | Interest Rate Lock Commitments and Forward Delivery Contracts | Loans Held for Sale | Interest Rate Lock Commitments and Forward Delivery Contracts | Loans Held for Sale |
| Balance at beginning of period | $ 6,616 | $ 271 | $ 5,884 | $ 814 |
| Total net gains (realized and unrealized) included in earnings | 20,810 | — | 74,184 | 66 |
| Transfers of IRLCs to closed loans | (13,682) | — | (41,162) | — |
| Purchase, sales, issuances and settlements, net | (8,064) | (1) | (32,741) | (610) |
| Transfers in or out of Level 3, net | 467 | — | (18) | — |
| Balance at September 30, 2009 | $ 6,147 | $ 270 | $ 6,147 | $ 270 |

| | Three Months Ended September 30, 2008 | | Nine Months Ended September 30, 2008 | |
|---|---|---|---|---|
| | Interest Rate Lock Commitments and Forward Delivery Contracts | Loans Held for Sale | Interest Rate Lock Commitments and Forward Delivery Contracts | Loans Held for Sale |
| Balance at beginning of period | $ 3,059 | $ — | $ 3,465 | $ — |
| Total net gains (realized and unrealized) included in earnings | 14,668 | (692) | 43,805 | (692) |
| Transfers of IRLCs to closed loans | (10,312) | — | (25,893) | — |
| Purchase, sales, issuances and settlements, net | (5,155) | (1,397) | (18,025) | (1,397) |
| Transfers in or out of Level 3, net | 20 | 2,580 | (1,072) | 2,580 |
| Balance at September 30, 2008 | $ 2,280 | $ 491 | $ 2,280 | $ 491 |

**TREE.COM, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 9—FAIR VALUE MEASUREMENTS (Continued)**

The following presents the gains included in earnings for the three and nine months ended September 30, 2009 and 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):

| | Three Months Ended September 30, 2009 | | Nine Months Ended September 30, 2009 | |
|---|---|---|---|---|
| | Interest Rate Lock Commitments and Forward Delivery Contracts | Loans Held for Sale | Interest Rate Lock Commitments and Forward Delivery Contracts | Loans Held for Sale |
| Total net gains included in earnings, which are included in revenue from LendingTree Loans | $ 20,810 | $ — | $ 74,184 | $ 66 |
| Change in unrealized gains relating to assets and liabilities still held at September 30, 2009, which are included in revenue from LendingTree Loans | $ 6,147 | $ — | $ 6,147 | $ 1 |

| | Three Months Ended September 30, 2008 | | Nine Months Ended September 30, 2008 | |
|---|---|---|---|---|
| | Interest Rate Lock Commitments and Forward Delivery Contracts | Loans Held for Sale | Interest Rate Lock Commitments and Forward Delivery Contracts | Loans Held for Sale |
| Total net gains (losses) included in earnings, which are included in revenue from LendingTree Loans | $ 13,028 | $ (692) | $ 39,586 | $ (692) |
| Change in unrealized gains (losses) relating to assets and liabilities still held at September 30, 2008, which are included in revenue from LendingTree Loans | $ 2,280 | $ (210) | 2,280 | $ (210) |

LendingTree Loans economically hedges the changes in fair value of certain loans held for sale primarily by entering into mortgage forward delivery contracts. The changes in fair value of the forward delivery contracts are recognized in current earnings as a component of LendingTree Loans revenue.

LendingTree Loans enters into commitments with consumers to originate loans at a specified interest rate (interest rate lock commitments—"IRLCs"). Tree.com reports IRLCs as derivative instruments at fair value. 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. The fair value of IRLCs is subject to change primarily due to changes in interest rates and the loan funding probability. Under LendingTree Loans' risk management policy, LendingTree Loans economically hedges the changes in fair value of IRLCs primarily by entering into mortgage forward delivery contracts which can reduce the volatility of economic outcomes. IRLCs and the related hedging instruments are recorded at fair value with changes in fair value being recorded in current earnings as a component of revenue from the origination and

**NOTE 9—FAIR VALUE MEASUREMENTS (Continued)**

sale of loans in the consolidated statement of operations. At September 30, 2009 and December 31, 2008, there were $289.1 million and $252.9 million, respectively, of IRLCs notional value outstanding.

The following table summarizes the Company's derivative instruments not designated as hedging instruments as of September 30, 2009 and December 31, 2008 (in thousands):

| | September 30, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Interest Rate Lock Commitments | Prepaid and other current assets | $ 6,227 | Prepaid and other current assets | $ 5,913 |
| Forward Delivery Contracts | Prepaid and other current assets | 124 | Prepaid and other current assets | 251 |
| Interest Rate Lock Commitments | Accrued expenses and other current liabilities | (48) | Accrued expenses and other current liabilities | (9) |
| Forward Delivery Contracts | Accrued expenses and other current liabilities | (1,868) | Accrued expenses and other current liabilities | (2,155) |
| Total Derivatives | | $ 4,435 | | $ 4,000 |

The gain/(loss) recognized in the consolidated statements of operations for derivatives for the three and nine months ended September 30, 2009 and 2008 was as follows (in thousands):

| | | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|---|
| | Location of Gain/(Loss) Recognized in Income on Derivative | September 30, 2009 | September 30, 2008 | September 30, 2009 | September 30, 2008 |
| Interest Rate Lock Commitments | LendingTree Loans revenue | $ 21,227 | $ 12,804 | $ 74,178 | $ 38,306 |
| Forward Delivery Contracts | LendingTree Loans revenue | (2,270) | 1,516 | 149 | 3,786 |
| Total | | $ 18,957 | $ 14,320 | $ 74,327 | $ 42,092 |

Tree.com has elected to account for loans held for sale originated on or 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.

Tree.com did not elect the fair value option on loans held for sale originated prior to January 1, 2008 and on loans that were repurchased from investors on or subsequent to that date. As of September 30, 2009 and December 31, 2008, 38 and 60 such loans, respectively, all of which were impaired, were included in loans held for sale and were carried at the lower of cost or market ("LOCOM") value assessed on an individual loan basis. The market value (or fair value) of these impaired loans at September 30, 2009 and December 31, 2008, measured on a non-recurring basis using

**NOTE 9—FAIR VALUE MEASUREMENTS (Continued)**

significant unobservable inputs (Level 3), was $1.8 and $2.2 million, respectively. This fair value measurement is management's best estimate of the market value of such loans and considers current bids in the secondary market for similar loans.

The following presents the difference between the aggregate principal balance of loans held for sale for which the fair value option has been elected and for loans measured at LOCOM as of September 30, 2009 and December 31, 2008 (in thousands):

| | As of September 30, 2009 | | |
|---|---|---|---|
| | Loans Held for Sale— Measured at Fair Value | Loans Held for Sale— Measured at LOCOM | Total Loans Held For Sale |
| Aggregate unpaid principal balance | $ 78,246 | $ 4,170 | $ 82,416 |
| Difference between fair value and aggregate unpaid principal balance | 1,870 | — | 1,870 |
| Lower of cost or market valuation allowance | — | (2,339) | (2,339) |
| Deferred loan fees, net of costs | — | (16) | (16) |
| Loans held for sale | $ 80,116 | $ 1,815 | $ 81,931 |

| | As of December 31, 2008 | | |
|---|---|---|---|
| | Loans Held for Sale— Measured at Fair Value | Loans Held for Sale— Measured at LOCOM | Total Loans Held For Sale |
| Aggregate unpaid principal balance | $ 83,094 | $ 5,949 | $ 89,043 |
| Difference between fair value and aggregate unpaid principal balance | 2,544 | — | 2,544 |
| Lower of cost or market valuation allowance | — | (3,726) | (3,726) |
| Deferred loan fees, net of costs | — | (26) | (26) |
| Loans held for sale | $ 85,638 | $ 2,197 | $ 87,835 |

During the three months ended September 30, 2009 and 2008, the change in fair value of loans held for sale for which the fair value option has been elected was a gain of $1.6 million and a loss of $0.7 million, respectively, and is included as a component of LendingTree Loans revenue in the accompanying consolidated statements of operations.

During the nine months ended September 30, 2009 and 2008, the change in fair value of loans held for sale for which the fair value option has been elected were losses of $0.4 million and $2.4 million, respectively, and is included as a component of LendingTree Loans revenue in the accompanying consolidated statements of operations.

The following disclosures represent financial instruments in which the ending balances at September 30, 2009 and December 31, 2008 are not carried at fair value in their entirety on the Company's consolidated balance sheets. The additional disclosure below of the estimated fair value of financial instruments has been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required to

**TREE.COM, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 9—FAIR VALUE MEASUREMENTS (Continued)**

interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions or estimation methodologies may have a material impact on the estimated fair value amounts. The Company's financial instruments include letters of credit and surety bonds. The Company had $5.0 million in restricted cash at September 30, 2009 and December 31, 2008 as collateral for the surety bonds. These commitments remain in place to facilitate the commercial operations of certain Tree.com subsidiaries.

| | September 30, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Cash and cash equivalents | $ 86,859 | $ 86,859 | $ 73,643 | $ 73,643 |
| Restricted cash | 12,826 | 12,826 | 15,204 | 15,204 |
| Accounts receivable, net | 8,114 | 8,114 | 7,234 | 7,234 |
| Loans held for sale, net | 81,931 | 81,931 | 87,835 | 87,835 |
| Warehouse lines of credit and notes payable | (67,129) | (67,129) | (76,186) | (76,186) |
| Accounts payable | (5,431) | (5,431) | (3,541) | (3,541) |
| Accrued expenses | (42,042) | (42,042) | (37,146) | (37,146) |
| Surety bonds and letters of credit | N/A | (8,357) | N/A | (7,732) |

The carrying amounts of cash and cash equivalents and restricted cash reflected in the accompanying consolidated balance sheets approximate fair value as they are maintained with various high-quality financial institutions or in short-term duration high-quality debt securities. Accounts receivable, net, are short-term in nature and are generally settled shortly after the sale, and therefore the carrying amount approximates fair value. The fair value of loans held for sale, net, was estimated using current secondary market prices for underlying loans with similar coupons, maturity and credit quality. The carrying amounts for the remaining warehouse lines of credit and notes payable and all other financial instruments approximate their fair value.

**NOTE 10—ORIGINATION AND SALE OF LOANS, LOANS HELD FOR SALE AND LOAN LOSS OBLIGATIONS**

**Origination and Sale of Loans**

LendingTree Loans' revenues are primarily derived from the origination and sale of loans. Mortgage loans are funded through warehouse lines of credit and are recorded at fair value. Changes in the fair value of mortgage loans are recorded through revenue prior to the sale of the loans to investors, which typically occurs within thirty days. The gain or loss on the sale of loans is recognized on the date the loans are sold and is based on the difference between the sale proceeds received and the fair value of the loans. The Company sells its loans on a servicing released basis in which the Company gives up the right to service the loans.

**NOTE 10—ORIGINATION AND SALE OF LOANS, LOANS HELD FOR SALE AND LOAN LOSS OBLIGATIONS (Continued)**

A summary of the initial unpaid principal balance of loans sold by type of loan for the three months ended September 30, 2009 and 2008 is presented below ($ amounts in millions):

| | Three Months ended September 30, | | | | Nine Months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | | 2008 | | 2009 | | 2008 | |
| | Amount | % | Amount | % | Amount | % | Amount | % |
| Conforming | $ 512 | 79% | $ 388 | 77% | $ 1,899 | 85% | $ 1,448 | 83% |
| FHA and Alt-A | 127 | 19% | 110 | 22% | 315 | 14% | 282 | 16% |
| Jumbo | 11 | 2% | 5 | 1% | 23 | 1% | 19 | 1% |
| **Total** | $ 650 | 100% | $ 503 | 100% | $ 2,237 | 100% | $ 1,749 | 100% |

**Loans Held for Sale**

LendingTree Loans originates all of its residential real estate loans with the intent to sell them in the secondary market. Loans held for sale consist primarily of residential first mortgage loans that are secured by residential real estate throughout the United States.

The following table represents the loans held for sale by type of loan as of September 30, 2009 and December 31, 2008 ($ amounts in thousands):

| | September 30, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| Conforming | $ 63,972 | 78% | $ 74,993 | 86% |
| FHA and Alt-A | 17,075 | 21% | 11,737 | 13% |
| Subprime | 760 | 1% | 878 | 1% |
| Home equity | 124 | —% | 227 | —% |
| **Total** | $ 81,931 | 100% | $ 87,835 | 100% |

The unpaid principal amount of loans on nonaccrual status at September 30, 2009 and December 31, 2008 was $4.6 million and $7.0 million, respectively. These loans have a net book value (net of lower of cost or market valuation allowances and fair value adjustments) of $2.1 million and $3.0 million at September 30, 2009 and December 31, 2008, respectively. Included within the loans on nonaccrual status are repurchased loans with a net book value of $1.0 million and $1.1 million at September 30, 2009 and December 31, 2008, respectively. During the three and nine months ended September 30, 2009 LendingTree Loans repurchased one loan with unpaid principal balance of $0.1 million. During the three months ended September 30, 2008, LendingTree Loans did not repurchase any loans. During the nine months ended September 30, 2008 LendingTree Loans repurchased 16 loans with $1.3 million of unpaid principal balances.

Real estate properties acquired in satisfaction of loans totaled $0.8 million and $0.9 million, net of estimated selling expenses, at September 30, 2009 and December 31, 2008, respectively, and is included in prepaid and other current assets in the accompanying consolidated balance sheets.

**NOTE 10—ORIGINATION AND SALE OF LOANS, LOANS HELD FOR SALE AND LOAN LOSS OBLIGATIONS (Continued)**

**Loan Loss Obligations**

LendingTree Loans sells loans it originates to investors on a servicing released basis 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. These representations and warranties may extend through the contractual life of the mortgage loan. Subsequent to the sale, if underwriting deficiencies, borrower fraud or documentation defects are discovered in individual mortgage loans, LendingTree Loans may be obligated to repurchase the respective mortgage loan or indemnify the investors for any losses from borrower defaults if such deficiency or defect cannot be cured within the specified period following discovery.

In the case of early payoffs and early defaults on certain loans, LendingTree Loans may be required to repay all or a portion of the premium initially paid by the investor. The estimated obligation associated with early payoffs and early defaults is calculated based on historical loss experience by type of loan.

The obligation for losses related to the representations and warranties and other provisions discussed above is initially recorded at its estimated fair value, which includes a projection of expected future losses as well as a market based premium. 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. Accordingly, the Company is unable to determine, with precision, its maximum exposure under its representations and warranties. However, LendingTree Loans utilizes the original loan balance (before it was sold to an investor), historical and projected loss frequency and loss severity ratios by loan segment as well as analyses of loss claims in process to estimate its exposure to losses on loans previously sold. As of September 30, 2009, LendingTree Loans has estimated the range of losses due to representations and warranty issues as $11 million to $18 million based on the methodology described below.

The Company maintains a liability related to this exposure based, in part, on historical and projected loss frequency and loss severity using its claims history (adjusted for recent trends in claims experience), the original principal amount of the loans previously sold, the year the loans were sold, and loan type. Accordingly, subsequent adjustments to the obligation, if any, are not made based on changes in the fair value of the obligation, which might include an estimated change in losses that may be expected in the future, but are made once further losses are estimated to be both probable and estimable. As such, given current general industry trends in mortgage loans as well as housing prices, market expectations around losses related to the Company's obligations could vary significantly from the obligation recorded as of the balance sheet date or the range estimated above. In estimating its exposure to loan losses, LendingTree Loans segments its loan sales into four segments based on the extent of the documentation provided by the borrower to substantiate income and/or assets (full or limited documentation) and the lien position of the mortgage in the underling property (first or second position). Each of these segments has a different loss experience with full documentation, first lien position loans generally having the lowest loss ratios and limited documentation, second lien position loans generally having the highest loss ratios.

**NOTE 10—ORIGINATION AND SALE OF LOANS, LOANS HELD FOR SALE AND LOAN LOSS OBLIGATIONS (Continued)**

For the nine months ended September 30, 2009, LendingTree Loans sold approximately 10,200 loans with an original principal balance of $2.2 billion. Through September 30, 2009 there had been no loans from this group which had experienced losses.

For 2008, LendingTree Loans sold approximately 11,000 loans with an original principal balance of $2.2 billion. Through September 30, 2009 there were 10 loans from this group with an original balance of $2.1 million that had experienced aggregate losses of $0.3 million.

For 2007, LendingTree Loans sold approximately 36,300 loans with an original principal balance of $6.1 billion. Through September 30, 2009 there were 112 loans from this group with an original balance of $13.6 million that had experienced aggregate losses of $3.8 million.

For 2006, LendingTree Loans sold approximately 55,000 loans with an original principal balance of $7.9 billion. Through September 30, 2009 there were 155 loans from this group with an original balance of $17.6 million that had experienced aggregate losses of $8.8 million.

For 2005 and prior years, LendingTree Loans sold an aggregate of approximately 86,700 loans with an original principal balance of $13.0 billion. Through September 30, 2009 there were 76 loans from this group with an original balance of $10.1 million that had experienced aggregate losses of $3.7 million.

The current pipeline of 138 loan loss claims and indemnifications was considered in determining the appropriate reserve amount. The status of these 138 loans varies from an initial review stage, which may result in a rescission of the request, to in process, where the probability of incurring a loss is high, to indemnification, whereby the Company has agreed to reimburse the purchaser of that loan if and when losses are incurred. The indemnification may have a specific term, thereby limiting the Company's exposure. The original principal amount of these loans is approximately $17.8 million, comprised of approximately 37% full documentation first liens, 6% full documentation second liens, 25% low documentation first liens, and 32% being low documentation second liens.

Based on historical experience, it is anticipated that the Company will continue to receive loss claims and incur losses on loans sold in prior years. The Company believes that it has adequately reserved for these losses.

The activity related to loss reserves on previously sold loans for the three and nine months ended September 30, 2009 and 2008, is as follows (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Balance, beginning of period | $ 12,085 | $ 11,392 | $ 10,451 | $ 13,886 |
| Provisions | 4,190 | 756 | 10,133 | 870 |
| Charge-offs | (2,239) | (1,086) | (6,548) | (3,694) |
| Balance, end of period | $ 14,036 | $ 11,062 | $ 14,036 | $ 11,062 |

Based on an analysis of the Company's historical loan loss experience, it has been determined that a portion of the loss claims expected to be made by investors will be made more than twelve months following the initial sale of the underlying loan. Accordingly, the Company has estimated the portion of its Loans Sold Reserve that it anticipates it will be liable for after twelve months and has classified that portion of the reserve as a long-term liability. The liability for losses on previously sold loans is presented in the accompanying consolidated balance sheet as of September 30, 2009 and December 31, 2008 as follows (in thousands):

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| Current portion, included in accrued expenses and other current liabilities | $ 8,165 | $ 3,972 |
| Long term portion, included in other long-term liabilities | 5,871 | 6,479 |
| Total | $ 14,036 | $ 10,451 |

## NOTE 11—INCOME TAXES

For the three months ended September 30, 2009 and 2008, Tree.com recorded a tax benefit of $0.2 million and $0.1 million, respectively, which represents effective tax rates of 2.4% and 0.3%, respectively. These tax rates are lower than the federal statutory rate of 35% due to the change in the valuation allowance on deferred tax assets.

For the nine months ended September 30, 2009 and 2008, Tree.com recorded a tax (provision) benefit of $(0.1) million and $13.9 million, respectively, which represents effective tax rates of (3.6)% and 6.7%, respectively. These tax rates are lower than the federal statutory rate of 35% due principally to non-deductible impairment charges and an increase in the valuation allowance on deferred tax assets.

The 2009 provision includes a benefit of $0.3 million related to the release of uncertain tax position reserves as a result of the expiration of the statute of limitations. Tree.com believes that it is reasonably possible that its unrecognized tax benefits could decrease by approximately $0.3 million within twelve months of the current reporting date due to the expiration of statutes of limitations. An estimate of other changes in unrecognized tax benefits cannot be made, but are not expected to be significant.

Tree.com determined that its valuation allowance and permanent differences yielded an unusual effective tax rate, therefore Tree.com utilized the actual year to date effective tax rate for purposes of determining year to date tax expense.

## NOTE 12—CONTINGENCIES

HLC is party to various employment related lawsuits. During the nine months ended September 30, 2009 and 2008, provisions of $0.3 million and $1.1 million, respectively, were recorded in general and administrative expenses in the accompanying consolidated statements of operations. The balance of the related liability was $-0- and $2.0 million at September 30, 2009 and December 31, 2008, respectively.

**TREE.COM, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 12—CONTINGENCIES (Continued)**

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.

**NOTE 13—RELATED PARTY TRANSACTIONS**

While affiliated with IAC, Tree.com's expenses included 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- and $0.3 million for the three and nine months ended September 30, 2008, 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 was reasonable.

For purposes of governing certain ongoing relationships between Tree.com and IAC at and after the spin-off, and to provide for an orderly transition, Tree.com and IAC entered 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 14—RESTRUCTURING CHARGES**

The restructuring charges in 2009 primarily relate to Tree.com's segment reorganizations and aligning the cost structure with future revenue opportunities. The restructuring charges in 2008 primarily relate to Tree.com's significant reduction in its mortgage origination and real estate operations in response to the adverse developments in mortgage and real estate market conditions.

TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 14—RESTRUCTURING CHARGES (Continued)

Costs that relate to ongoing operations are not part of restructuring charges. Restructuring charges by segment and type are as follows (in thousands):

| | For The Three Months Ended September 30, 2009 | | | | |
|---|---|---|---|---|---|
| | Employee Termination Costs | Continuing Lease Obligations | Asset Write-offs | Other | Total |
| LendingTree Loans | $ — | $ (54) | $ — | $ — | $ (54) |
| Exchanges | 50 | — | — | — | 50 |
| Real Estate | 53 | — | — | — | 53 |
| Unallocated—corporate | 29 | — | — | — | 29 |
| Total | $ 132 | $ (54) | $ — | $ — | $ 78 |

| | For The Three Months Ended September 30, 2008 | | | | |
|---|---|---|---|---|---|
| | Employee Termination Costs | Continuing Lease Obligations | Asset Write-offs | Other | Total |
| LendingTree Loans | $ 241 | $ 1,429 | $ 646 | $ 20 | $ 2,336 |
| Exchanges | 22 | — | — | — | 22 |
| Real Estate | 4 | — | — | (32) | (28) |
| Unallocated—corporate | 64 | — | — | — | 64 |
| Total | $ 331 | $ 1,429 | $ 646 | $ (12) | $ 2,394 |

| | For The Nine Months Ended September 30, 2009 | | | | |
|---|---|---|---|---|---|
| | Employee Termination Costs | Continuing Lease Obligations | Asset Write-offs | Other | Total |
| LendingTree Loans | $ — | $ (1,246) | $ — | $ — | $ (1,246) |
| Exchanges | 108 | — | — | — | 108 |
| Real Estate | 595 | 73 | 124 | — | 792 |
| Unallocated—corporate | 237 | (49) | — | — | 188 |
| Total | $ 940 | $ (1,222) | $ 124 | $ — | $ (158) |

| | For The Nine Months Ended September 30, 2008 | | | | |
|---|---|---|---|---|---|
| | Employee Termination Costs | Continuing Lease Obligations | Asset Write-offs | Other | Total |
| LendingTree Loans | $ 644 | $ 1,494 | $ 984 | $ 20 | $ 3,142 |
| Exchanges | 173 | — | — | — | 173 |
| Real Estate | 371 | — | 34 | 80 | 485 |
| Unallocated—corporate | 769 | — | — | (12) | 757 |
| Total | $ 1,957 | $ 1,494 | $ 1,018 | $ 88 | $ 4,557 |

TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**NOTE 14—RESTRUCTURING CHARGES (Continued)**

The recovery of restructuring charges under the continuing lease obligations category for LendingTree Loans during the three and nine months ended September 30, 2009 primarily relate to the cancellation of certain lease agreements for facilities that had been previously exited. The remaining obligation was cancelled in conjunction with cancelling the lease agreement and renewing the lease on facilities currently occupied, resulting in the recovery of the expense.

Restructuring charges and spending against liabilities are as follows (in thousands):

| | For The Nine Months Ended September 30, 2009 | | | | |
|---|---|---|---|---|---|
| | Employee Termination Costs | Continuing Lease Obligations | Asset Write-offs | Other | Total |
| Balance, beginning of period | $ 385 | $ 3,703 | $ — | $ — | $ 4,088 |
| Restructuring charges | 940 | (1,222) | 124 | — | (158) |
| Payments | (1,266) | (1,596) | — | — | (2,862) |
| Write-offs | — | 20 | (124) | — | (104) |
| Balance, end of period | $ 59 | $ 905 | $ — | $ — | $ 964 |

At September 30, 2009, restructuring liabilities of $0.4 million are included in "Accrued expenses and other current liabilities" and $0.6 million are included in "Other long-term liabilities" in the accompanying consolidated balance sheet. At December 31, 2008, restructuring liabilities of $3.3 million are included in "Accrued expenses and other current liabilities" and $0.8 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 prior restructurings noted above.

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

**Management Overview**

On August 20, 2008, Tree.com, Inc. ("Tree.com") was spun off from its parent company, IAC/InterActiveCorp ("IAC") into a separate publicly traded company. 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 consists of the brands and businesses that formerly comprised IAC's Lending and Real Estate segments. These brands and businesses include LendingTree.com, RealEstate.com, GetSmart.com and Home Loan Center, Inc. (d/b/a LendingTree Loans).

Following the spin-off from IAC, the new chief operating decision maker began to realign the Tree.com businesses into new operating segments. For the first quarter of 2009, management completed its realignment of staffing and direct revenue and costs for each new segment and created reporting structures to enable the chief operating decision maker and management to evaluate the results of operations for each of these new segments on a comparative basis with prior periods. In prior periods, the segments "Lending" and "Real Estate" were presented, which have been changed to "LendingTree Loans", "Exchanges" and "Real Estate" segments. Additionally, certain shared indirect costs that are described below are reported as "Unallocated—Corporate." All items of segment information for prior periods have been restated to conform to the new reportable segment presentation.

The expenses presented below for each of the business segments include an allocation of certain corporate expenses that are identifiable and directly benefit those segments. The unallocated expenses are those corporate overhead expenses that are not directly attributable to a segment and include: corporate expenses such as finance, legal, executive, technology support, and human resources, as well as elimination of inter-segment revenue and costs.

The LendingTree Loans segment originates, processes, approves and funds various residential real estate loans through Home Loan Center, Inc. ("HLC"), (d/b/a LendingTree Loans). The HLC and LendingTree Loans brand names are collectively referred to in these consolidated financial statements as "LendingTree Loans."

The Exchanges segment consists of online lead generation networks and call centers (principally LendingTree.com and GetSmart.com) that connect consumers and service providers principally in the lending and higher education marketplaces.The Real Estate segment consists of a proprietary full-service real estate brokerage (RealEstate.com, REALTORS®) that operates in 20 U.S. markets, as well as an online lead generation network accessed at *www.RealEstate.com*, that connects consumers with real estate brokerages around the country.

***Results of operations for the three and nine months ended September 30, 2009 compared to the three and nine months ended September 30, 2008:***

***Revenue***

*For the three months ended September 30, 2009 compared to the three months ended September 30, 2008*

| | Three Months Ended September 30, | | |
|---|---|---|---|
| | 2009 | % Change | 2008 |
| | (Dollars in thousands) | | |
| LendingTree Loans: | | | |
| Origination and sale of loans | $ 22,495 | 26% | $ 17,911 |
| Other | 1,614 | (23)% | 2,082 |
| Total LendingTree Loans | 24,109 | 21% | 19,993 |
| Exchanges: | | | |
| Match fees | 12,438 | 3% | 12,114 |
| Closed loan fees | 5,318 | (35)% | 8,196 |
| Other | 854 | 54% | 554 |
| Inter-segment revenue | 5,244 | 10% | 4,761 |
| Total Exchanges | 23,854 | (7)% | 25,625 |
| Real Estate | 7,997 | (18)% | 9,781 |
| Inter-segment revenue | (5,244) | 2% | (5,141) |
| Total revenue | $ 50,716 | 1% | $ 50,258 |

LendingTree Loans revenue in 2009 increased $4.1 million, or 21%, from the same period in 2008. Revenue generated from the origination and sale of loans in the secondary market increased $4.6 million, or 26%, primarily due to a dramatically declining mortgage interest rate environment that began late in the fourth quarter of 2008, improvement in revenue per closed loan and higher loan closing rates. Offsetting this increase in revenue was a higher charge to the provision for previously sold loans, which is recorded as a reduction of revenue. The provision increased from $0.8 million in 2008 to $4.2 million in 2009, reflecting an increase in the trend of loan repurchase requests received in the third quarter that related primarily to loans sold in 2006 and 2007.

The dollar value of loans closed directly by LendingTree Loans is as follows:

| | Three Months Ended September 30, | | |
|---|---|---|---|
| | 2009 | % Change | 2008 |
| | (Dollars in millions) | | |
| Refinance mortgages | $ 538 | 48% | $ 363 |
| Purchase mortgages | 82 | (31)% | 120 |
| Total | $ 620 | 29% | $ 483 |

LendingTree Loans originates mortgage loans on property located throughout the United States. Revenue from loans originated for property in California totaled approximately 8% and 4% of Tree.com's consolidated revenue for the three months ended September 30, 2009 and 2008, respectively.

Revenue from the Exchanges decreased $1.8 million, or 7%, due primarily to fewer loans closed through network lenders, reflecting the impact on consumers of continued tight credit standards at most lenders. Match fees did increase slightly during the period, which reflects an increase in matched requests for our education leads as a result of an acquisition in the third quarter of 2009, offset by fewer matched requests with network lenders. Matched requests with network lenders in the third quarter of 2009 were down 29% from the same period in 2008. Following the first five months of 2009 when consumer mortgage rates were at or near historical lows, rates increased significantly (50 to 60 basis points) over a short span late in the second quarter and early in the third quarter of 2009. This rapid increase in rates from historical low levels contributed to fewer consumers making a loan request in the third quarter. The decline in loan requests coupled with fewer consumers who could qualify for a loan in this tight credit market caused the decline in matched loan requests.

The dollar value of loans closed by Exchange network lenders is as follows:

| | Three Months Ended September 30, | | |
|---|---|---|---|
| | 2009 | % Change | 2008 |
| | | (Dollars in millions) | |
| Refinance mortgages | $ 991 | (24)% | $ 1,310 |
| Purchase mortgages | 705 | (43)% | 1,231 |
| Other | 155 | (66)% | 429 |
| Total | $ 1,851 | (38)% | $ 2,970 |

No single Exchange network lender accounts for revenue representing more than 10% of Tree.com's consolidated revenue for any periods presented.

Real Estate revenue decreased $1.8 million, or 18%, principally due to a decrease in closings year-over-year due to the persistent negative real estate market conditions contributing to lower home sales prices and fewer real estate transactions overall. The dollar value of the Company's real estate closings decreased $186 million, or 36%, from $516 million in 2008 to $330 million in 2009. However, Real Estate experienced positive growth in the number of agents working for our company-owned brokerage, which increased from 1,100 at the end of the third quarter 2008 to over 1,300 at the end of the third quarter 2009.

*For the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008*

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| | 2009 | % Change | 2008 |
| | | (Dollars in thousands) | |
| LendingTree Loans: | | | |
| Origination and sale of loans | $ 89,701 | 30% | $ 68,739 |
| Other | 5,037 | (31)% | 7,310 |
| Total LendingTree Loans | 94,738 | 25% | 76,049 |
| Exchanges: | | | |
| Match fees | 32,307 | (29)% | 45,687 |
| Closed loan fees | 18,180 | (38)% | 29,092 |
| Other | 2,175 | (1)% | 2,203 |
| Inter-segment revenue | 10,889 | (31)% | 15,831 |
| Total Exchanges | 63,551 | (32)% | 92,813 |
| Real Estate | 21,549 | (24)% | 28,378 |
| Inter-segment revenue | (10,889) | (35)% | (16,806) |
| Total revenue | $ 168,949 | (6)% | $ 180,434 |

LendingTree Loans revenue in 2009 increased $18.7 million, or 25%, from the same period in 2008. Revenue generated from the origination and sale of loans in the secondary market increased $21.0 million, or 30%, primarily due to a dramatically declining mortgage interest rate environment that began late in the fourth quarter of 2008, improvement in revenue per closed loan and higher loan closing rates. Offsetting this increase in revenue was a higher charge to the provision for previously sold loans, which is recorded as a reduction of revenue. The provision increased from $0.9 million in 2008 to $10.1 million in 2009, reflecting an increase in losses realized in the second and third quarters of 2009 that related primarily to loans sold in 2006 and 2007.

The dollar value of loans closed directly by LendingTree Loans is as follows:

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| | 2009 | % Change | 2008 |
| | | (Dollars in millions) | |
| Refinance mortgages | $ 1,997 | 47% | $ 1,356 |
| Purchase mortgages | 236 | (37)% | 374 |
| Total | $ 2,233 | 29% | $ 1,730 |

LendingTree Loans originates mortgage loans on property located throughout the United States. Revenue from loans originated for property in California totaled approximately 12% and 4% of Tree.com's consolidated revenue for the nine months ended September 30, 2009 and 2008, respectively.

Revenue from the Exchanges declined $29.3 million, or 32%, due primarily to fewer loan requests from consumers, fewer matched requests with network lenders and fewer loans closed through network lenders. Matched requests in 2009 were down 27% from the same period in 2008 due to the five Federal Reserve interest rate cuts during the first quarter of 2008, which stimulated significant consumer demand on our network in the first quarter and the early part of the second quarter of 2008. Although mortgage rates remained at or near historical lows during most of 2009, the Exchanges experienced a decline in matched requests, reflecting both fewer qualified consumers in a tight credit market and lower network lender demand for consumer leads through the first six months of 2009. Management believes the lower demand for loan requests from network lenders during this time was primarily attributable to many lenders experiencing their own higher levels of organic lead volume through other channels during a low interest rate environment. This surge in organic volume likely caused production and warehouse capacity limitations for many of the lenders participating on the network. During the third quarter of 2009, network lender demand began to increase as the sudden rise in interest rates (50 to 60 basis points) in a brief span late in the second quarter and early in the third quarter caused many network lenders' organic consumer loan request volume to diminish. Additionally, as a result of fewer matched requests, closed loan units through the Exchange also declined resulting in 38% lower closed loan fees.

The dollar value of loans closed by Exchange network lenders is as follows:

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| | 2009 | % Change | 2008 |
| | | (Dollars in millions) | |
| Refinance mortgages | $ 4,880 | (12)% | $ 5,551 |
| Purchase mortgages | 1,756 | (44)% | 3,145 |
| Other | 453 | (72)% | 1,650 |
| Total | $ 7,089 | (31)% | $ 10,346 |

Real Estate revenue decreased $6.8 million, or 24%, principally due to a decrease in closings year-over-year due to the persistent negative real estate market conditions contributing to lower home sales prices and fewer real estate transactions overall. The dollar value of the Company's real estate closings decreased $528 million, or 36%, from $1.5 billion in 2008 to $944 million in 2009. However, Real Estate experienced positive growth in the number of agents working for our company-owned brokerage, which increased from 1,100 at the end of the third quarter 2008 to over 1,300 at the end of the third quarter 2009.

***Cost of revenue***

*For the three months ended September 30, 2009 compared to the three months ended September 30, 2008*

| | Three Months Ended September 30, | | |
|---|---|---|---|
| | 2009 | % Change | 2008 |
| | (Dollars in thousands) | | |
| LendingTree Loans | $ 11,245 | 22% | $ 9,194 |
| Exchanges | 1,849 | (36)% | 2,896 |
| Real Estate | 5,056 | (15)% | 5,954 |
| Unallocated—corporate | 540 | 2% | 529 |
| Cost of revenue | $ 18,690 | 1% | $ 18,573 |
| As a percentage of total revenue | 37% | | 37% |

| As a Percentage of Segment Revenue | Three Months Ended September 30, 2009 | 2008 |
|---|---|---|
| LendingTree Loans | 47% | 46% |
| Exchanges | 8% | 11% |
| Real Estate | 63% | 61% |
| Unallocated—corporate, as a percentage of total revenue | 1% | 1% |

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 overall in 2009 remained flat from 2008, however, there was some variation within the operating segments. The costs associated with loan originations in LendingTree Loans increased by $1.3 million, which corresponds to the increases in both revenue from the origination and sales of loans and the dollar value of loans closed directly by LendingTree Loans. In addition, commissions paid to real estate agents increased $0.6 million.

Offsetting these increases in cost of revenue were decreases of $0.7 million in compensation and other employee-related costs and $1.5 million in consumer incentive rebates related to decreased closings at the Exchanges and in Real Estate. The decrease in compensation and other employee-related costs reflects the net of reduced personnel costs associated with Tree.com's customer call center, settlement services operation and portions of its loan processing department, offset by an increase in commissions paid to loan officers at LendingTree Loans due to higher loan originations.

*For the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008*

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| | 2009 | % Change | 2008 |
| | (Dollars in thousands) | | |
| LendingTree Loans | $ 37,104 | 14% | $ 32,407 |
| Exchanges | 5,760 | (42)% | 9,864 |
| Real Estate | 13,712 | (18)% | 16,731 |
| Unallocated—corporate | 1,627 | —% | 1,633 |
| Cost of revenue | $ 58,203 | (4)% | $ 60,635 |
| As a percentage of total revenue | 34% | | 34% |

| As a Percentage of Segment Revenue | Nine Months Ended September 30, 2009 | 2008 |
|---|---|---|
| LendingTree Loans | 39% | 43% |
| Exchanges | 9% | 11% |
| Real Estate | 64% | 59% |
| Unallocated—corporate, as a percentage of total revenue | 1% | 1% |

Cost of revenue in 2009 decreased $2.4 million from 2008 primarily due to decreases of $3.3 million in compensation and other employee-related costs and $4.6 million in consumer incentive rebates related to decreased closings at the Exchanges and in Real Estate. The decrease in compensation and other employee-related costs reflects the net of reduced personnel costs associated with Tree.com's customer call center, settlement services operation and portions of its loan processing department, offset by an increase in commissions paid to loan officers at LendingTree Loans due to higher loan originations.

Offsetting these decreases in cost of revenue was an increase of $4.0 million in costs associated with loan originations in LendingTree Loans and a $1.0 million increase in commissions paid to real estate agents. The increase in loan origination costs corresponds to the increases in both revenue from the origination and sales of loans and the dollar value of loans closed directly by LendingTree Loans. The increase in commissions paid to real estate agents both in dollars and as a percentage of revenue is due to an increase in the number of closings from agent-generated leads compared to closings from company-generated leads. Commissions paid to agents for closings from self-generated leads are typically paid out at a higher percentage of revenue than closings from company-generated leads.

***Selling and marketing expense***

*For the three months ended September 30, 2009 compared to the three months ended September 30, 2008*

| | Three Months Ended September 30, | | |
|---|---|---|---|
| | 2009 | % Change | 2008 |
| | (Dollars in thousands) | | |
| LendingTree Loans | $ 5,820 | 16% | $ 5,022 |
| Exchanges | 15,637 | (26)% | 21,218 |
| Real Estate | 1,221 | (32)% | 1,803 |
| Elimination of inter-segment marketing | (5,243) | 10% | (4,761) |
| Selling and marketing expense | $ 17,435 | (25)% | $ 23,282 |
| As a percentage of total revenue | 34% | | 46% |

| As a Percentage of Segment Revenue | Three Months Ended September 30, 2009 | 2008 |
|---|---|---|
| LendingTree Loans | 24% | 25% |
| Exchanges | 66% | 83% |
| Real Estate | 15% | 18% |

Selling and marketing expense consists primarily of advertising and promotional expenditures, fees paid to lead sources and compensation and other employee-related costs (including stock-based compensation) for personnel engaged in 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.

Advertising for the Exchanges is primarily the building and maintaining of the Company's core brands, using both online and offline spending, and generates leads not only for the Exchanges but for our other segments as well. Marketing expense for LendingTree Loans is primarily comprised of inter-segment purchases of leads from the Exchanges, leveraging the LendingTree and GetSmart brands. The remainder of the expense is comprised of lead purchases from third parties. Advertising for Real Estate primarily consists of lead generation through online spending, as well as lead purchases from the Exchanges.

Overall selling and marketing expense in 2009 decreased $5.8 million from 2008 primarily due to a decrease of $5.5 million in advertising and promotional expenditures. In 2009, Tree.com decreased its online marketing advertising by $2.8 million, from $13.3 million in 2008 to $10.5 million in 2009. Tree.com also decreased its broadcast advertising by $2.3 million, from $6.4 million in 2008 to $4.1 million in 2009.

The decline in selling and marketing expense for the Exchanges segment, both in dollars and as a percentage of revenue, is due to the Exchanges' ability to decrease advertising spend due to naturally higher consumer demand driven by the favorable mortgage rate trends and improvements in organic traffic.

Tree.com anticipates that it will continue to adjust selling and marketing expenditures generally in relation to revenue producing opportunities and that selling and marketing will continue to represent a high percentage of revenue as it continues to promote its brands both online and offline.

*For the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008*

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| | 2009 | % Change | 2008 |
| | (Dollars in thousands) | | |
| LendingTree Loans | $ 12,032 | (28)% | $ 16,661 |
| Exchanges | 40,079 | (46)% | 73,981 |
| Real Estate | 3,919 | (37)% | 6,217 |
| Elimination of inter-segment marketing | (10,881) | (31)% | (15,831) |
| Selling and marketing expense | $ 45,149 | (44)% | $ 81,028 |
| As a percentage of total revenue | 27% | | 45% |

| | Nine Months Ended September 30, | |
|---|---|---|
| As a Percentage of Segment Revenue | 2009 | 2008 |
| LendingTree Loans | 13% | 22% |
| Exchanges | 63% | 80% |
| Real Estate | 18% | 22% |

Overall selling and marketing expense in 2009 decreased $35.9 million from 2008 primarily due to a decrease of $34.9 million in advertising and promotional expenditures. In 2009, Tree.com decreased its online marketing advertising by $21.7 million, from $46.4 million in 2008 to $24.7 million in 2009. Tree.com also decreased its broadcast advertising by $10.1 million, from $22.5 million in 2008 to $12.4 million in 2009.

The decline in selling and marketing expense for the LendingTree Loans segment, both in dollars and as a percentage of revenue, is related to a decrease in the cost per lead acquired from the Exchanges and receiving "overflow" leads from a partner that received more leads than their capacity could handle. The Exchanges were able to decrease advertising spend due to naturally higher consumer demand driven by the favorable mortgage rate trends and improvements in organic traffic.

***General and administrative expense***

*For the three months ended September 30, 2009 compared to the three months ended September 30, 2008*

| | Three Months Ended September 30, 2009 | % Change | 2008 |
|---|---|---|---|
| | (Dollars in thousands) | | |
| LendingTree Loans | $ 5,276 | (16)% | $ 6,304 |
| Exchanges | 1,934 | 4% | 1,858 |
| Real Estate | 2,075 | (59)% | 5,035 |
| Unallocated—corporate | 8,244 | (13)% | 9,475 |
| General and administrative expense | $ 17,529 | (23)% | $ 22,672 |
| As a percentage of total revenue | 35% | | 45% |

| As a Percentage of Segment Revenue | Three Months Ended September 30, 2009 | 2008 |
|---|---|---|
| LendingTree Loans | 22% | 32% |
| Exchanges | 8% | 7% |
| Real Estate | 26% | 51% |
| Unallocated—corporate, as a percentage of total revenue | 16% | 19% |

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

General and administrative expense in 2009 decreased by $5.1 million from 2008. However, the third quarter of 2008 included a $5.5 million charge to non-cash compensation expense due to the modification of equity-based awards related to the spin-off, which consisted of accelerated vesting of certain restricted stock units and the modification of vested stock options.

General and administrative expense within the LendingTree Loans segment declined $1.0 million primarily due to a decrease of $1.2 million in litigation expense.

General and administrative expense within the Real Estate segment declined $3.0 million due to a reduction of $2.2 million in non-cash compensation and a decrease of $0.7 million in cash compensation and other employee-related costs.

General and administrative expense within the Unallocated—corporate segment declined $1.2 million due to a reduction of $3.0 million in non-cash compensation, offset by a $1.0 million increase in cash compensation and other employee-related costs and a $0.7 million increase in professional fees related to various litigation, regulatory and general corporate matters.

*For the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008*

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| | 2009 | % Change | 2008 |
| | (Dollars in thousands) | | |
| LendingTree Loans | $ 16,524 | (13)% | $ 19,023 |
| Exchanges | 7,390 | 29% | 5,750 |
| Real Estate | 7,130 | (40)% | 11,973 |
| Unallocated—corporate | 20,291 | (6)% | 21,612 |
| General and administrative expense | $ 51,335 | (12)% | $ 58,358 |
| As a percentage of total revenue | 30% | | 32% |

| | Nine Months Ended September 30, | |
|---|---|---|
| As a Percentage of Segment Revenue | 2009 | 2008 |
| LendingTree Loans | 17% | 25% |
| Exchanges | 12% | 6% |
| Real Estate | 33% | 42% |
| Unallocated—corporate, as a percentage of total revenue | 12% | 12% |

General and administrative expense in 2009 decreased by $7.0 million from 2008. However, 2008 included a $5.5 million charge to non-cash compensation expense due to the modification of equity-based awards related to the spin-off, which consisted of accelerated vesting of certain restricted stock units and the modification of vested stock options. The overall decrease also reflects a $1.4 million reduction in compensation and other employee-related costs (excluding non-cash compensation) as a result of prior restructuring activities, and a $0.7 million decrease in facilities costs due to lower headcount and occupying fewer facilities.

General and administrative expense within the LendingTree Loans segment declined $2.5 million primarily due to a decrease of $1.2 million in litigation expense and a decrease of $0.9 million in compensation and other employee-related costs (excluding non-cash compensation).

General and administrative expense within the Real Estate segment declined $4.8 million due to a reduction of $2.7 million in non-cash compensation and a decrease of $1.9 million in cash compensation and other employee-related costs as a result of prior restructuring activities.

General and administrative expense within the Unallocated—corporate segment declined $1.3 million due to a reduction of $3.0 million in non-cash compensation, offset by a $0.7 million increase in cash compensation and other employee-related costs and a $1.0 million increase in professional fees related to various litigation, regulatory and general corporate matters.

As a result of the spin-off and reductions in base salaries for executives and other employees, the Company has placed greater emphasis on equity compensation than did IAC. In February 2009, the Compensation Committee determined that the Company's compensation programs should have less of a fixed component and, instead, should be much more variable and tied to individual and corporate performance. The Compensation Committee believes placing a greater emphasis on incentive arrangements and equity compensation will result in the Company's executives and employees being paid for performance and will better align their incentives with the Company's strategic goals.

As of September 30, 2009, there was approximately $3.1 million, $3.5 million and $1.6 million of unrecognized compensation cost, net of estimated forfeitures, related to stock options, RSUs and restricted stock, respectively. These costs are expected to be recognized over a weighted average period of approximately 3.5 years for stock options, 2.2 years for RSUs and 3.4 years for restricted stock.

***Product development***

*For the three months ended September 30, 2009 compared to the three months ended September 30, 2008*

| | Three Months Ended September 30, | | |
|---|---|---|---|
| | 2009 | % Change | 2008 |
| | (Dollars in thousands) | | |
| LendingTree Loans | $ 165 | (3)% | $ 171 |
| Exchanges | 762 | (25)% | 1,009 |
| Real Estate | 363 | (26)% | 493 |
| Unallocated—corporate | 383 | 211% | 124 |
| Product development | $ 1,673 | (7)% | $ 1,797 |
| As a percentage of total revenue | 3% | | 4% |

| As a Percentage of Segment Revenue | Three Months Ended September 30, 2009 | 2008 |
|---|---|---|
| LendingTree Loans | 1% | 1% |
| Exchanges | 3% | 4% |
| Real Estate | 5% | 5% |
| Unallocated—corporate, as a percentage of total revenue | 1% | — |

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 2009 decreased $0.1 million from 2008, due to a decrease in compensation and other employee-related costs.

*For the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008*

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| | 2009 | % Change | 2008 |
| | (Dollars in thousands) | | |
| LendingTree Loans | $ 412 | (28)% | $ 575 |
| Exchanges | 2,201 | (23)% | 2,852 |
| Real Estate | 1,244 | (29)% | 1,759 |
| Unallocated—corporate | 985 | 505% | 163 |
| Product development | $ 4,842 | (9)% | $ 5,349 |
| As a percentage of total revenue | 3% | | 3% |

| As a Percentage of Segment Revenue | Nine Months Ended September 30, 2009 | 2008 |
|---|---|---|
| LendingTree Loans | — | 1% |
| Exchanges | 3% | 3% |
| Real Estate | 6% | 6% |
| Unallocated—corporate, as a percentage of total revenue | 1% | — |

Product development expense in 2009 decreased $0.5 million from 2008, due to decreased compensation and other employee-related costs, offset by an increase in outsourcing and technology contractors.

***Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization***

*For the three months ended September 30, 2009 compared to the three months ended September 30, 2008*

Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA") is a non-GAAP measure and is defined in "Tree.com's Principles of Financial Reporting". For a reconciliation of Adjusted EBITDA to operating loss for Tree.com's operating segments, see Note 7 to the consolidated financial statements.

| | Three Months Ended September 30, 2009 | % Change | 2008 |
|---|---|---|---|
| | (Dollars in thousands) | | |
| LendingTree Loans | $ 1,666 | NM | $ (698) |
| Exchanges | 3,720 | NM | (167) |
| Real Estate | (639) | 19% | (789) |
| Unallocated and inter-segment eliminations | (8,291) | (25)% | (6,607) |
| Adjusted EBITDA | $ (3,544) | 57% | $ (8,261) |
| As a percentage of total revenue | (7)% | | (16)% |

| As a Percentage of Segment Revenue | Three Months Ended September 30, 2009 | 2008 |
|---|---|---|
| LendingTree Loans | 7% | (3)% |
| Exchanges | 16% | (1)% |
| Real Estate | (8)% | (8)% |
| Unallocated and inter-segment eliminations, as a percentage of total revenue | (16)% | (13)% |

Adjusted EBITDA in 2009 improved $4.8 million, from a loss of $8.3 million in 2008 to a loss of $3.5 million in 2009. This reflects a decrease in operating costs principally due to the marketing reductions and previous restructuring activities noted above, while revenue increased slightly.

*For the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008*

| | Nine Months Ended September 30, 2009 | % Change | 2008 |
|---|---|---|---|
| | (Dollars in thousands) | | |
| LendingTree Loans | $ 28,865 | 291% | $ 7,383 |
| Exchanges | 9,537 | 406% | 1,885 |
| Real Estate | (4,246) | 13% | (4,870) |
| Unallocated and inter-segment eliminations | (20,727) | (7)% | (19,310) |
| Adjusted EBITDA | $ 13,429 | NM | $ (14,912) |
| As a percentage of total revenue | 8% | | (8)% |

| As a Percentage of Segment Revenue | Nine Months Ended September 30, 2009 | 2008 |
|---|---|---|
| LendingTree Loans | 30% | 10% |
| Exchanges | 15% | 2% |
| Real Estate | (20)% | (17)% |
| Unallocated and inter-segment eliminations, as a percentage of total revenue | (12)% | (11)% |

Adjusted EBITDA in 2009 improved $28.3 million, from a loss of $14.9 million in 2008 to a profit of $13.4 million in 2009. This reflects an increase in the LendingTree Loans gross margin, and operating costs decreasing more rapidly than overall revenue in 2009 principally due to the marketing reductions and previous restructuring activities noted above.

***Operating loss***

*For the three months ended September 30, 2009 compared to the three months ended September 30, 2008*

| | Three Months Ended September 30, 2009 | % Change | 2008 |
|---|---|---|---|
| | (Dollars in thousands) | | |
| LendingTree Loans | $ 846 | NM | $ (3,998) |
| Exchanges | 3,039 | NM | (2,621) |
| Real Estate | (1,714) | 64% | (4,812) |
| Unallocated and inter-segment eliminations | (9,613) | 13% | (11,024) |
| Operating loss | $ (7,442) | 67% | $ (22,455) |
| As a percentage of total revenue | (15)% | | (45)% |

| As a Percentage of Segment Revenue | Three Months Ended September 30, 2009 | 2008 |
|---|---|---|
| LendingTree Loans | 4% | (20)% |
| Exchanges | 13% | (10)% |
| Real Estate | (21)% | (49)% |
| Unallocated and inter-segment eliminations, as a percentage of total revenue | (19)% | (22)% |

Operating loss in 2009 improved $15.0 million from 2008. This reflects a decrease in operating costs principally due to the marketing reductions and previous restructuring activities noted above, while revenue increased slightly.

*For the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008*

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| | 2009 | % Change | 2008 |
| | (Dollars in thousands) | | |
| LendingTree Loans | $ 27,415 | 4,563% | $ 589 |
| Exchanges | 6,877 | NM | (109,052) |
| Real Estate | (12,926) | 82% | (73,580) |
| Unallocated and inter-segment eliminations | (24,376) | 9% | (26,654) |
| Operating loss | $ (3,010) | 99% | $ (208,697) |
| As a percentage of total revenue | (2)% | | (116)% |

| As a Percentage of Segment Revenue | Nine Months Ended September 30, 2009 | 2008 |
|---|---|---|
| LendingTree Loans | 29% | 1% |
| Exchanges | 11% | (117)% |
| Real Estate | (60)% | (259)% |
| Unallocated and inter-segment eliminations, as a percentage of total revenue | (14)% | (15)% |

Operating loss in 2009 improved $205.7 million from 2008, primarily as a result of asset impairment charges totaling $164.3 million that were incurred in 2008, and a decrease in operating costs principally due to the marketing reductions and previous restructuring activities noted above. The charge related to LendingTree Loans was a goodwill impairment charge of $0.9 million. The charges associated with the Exchanges were $69.3 million related to goodwill and $33.4 million related to an indefinite-lived intangible asset. The charge related to Real Estate was a goodwill impairment charge of $60.8 million.

The impairments in 2008 resulted from the Company's reassessment of the likely future profitability in light of the persistent adverse mortgage and real estate market realities. These adverse conditions included, among others, constrained liquidity, lender focus on low margin mortgage offerings, the decline in real estate values and a high rate of delinquency for existing mortgages. Tree.com updated its assessment of mortgage and real estate market conditions and Tree.com's responsive operational strategies during the second quarter of 2008, and quantified these considerations in Tree.com's future forecasted results.

In addition to the increase in Adjusted EBITDA discussed above, operating loss in 2009 includes impairment charges of $3.9 million related to definite-lived intangible assets with Real Estate. In the second quarter of 2009, the new Real Estate operating segment leadership undertook significant changes in management, operational focus and marketing efforts related to the new homes referral services business. These changes combined with the continued deterioration of new housing starts and new homes sales in 2009, caused the Company to reassess the remaining useful lives and the likely future recoverability of the remaining value of these intangible assets. In testing the recoverability of these assets, indications of impairment were determined to exist, and subsequent impairment testing resulted in the charge noted above.

***Income tax provision***

For the three months ended September 30, 2009 and 2008, Tree.com recorded a tax benefit of $0.2 million and $0.1 million, respectively, which represents effective tax rates of 2.4% and 0.3%, respectively. These tax rates are lower than the federal statutory rate of 35% due to the change in the valuation allowance on deferred tax assets.

For the nine months ended September 30, 2009 and 2008, Tree.com recorded a tax (provision) benefit of $(0.1) million and $13.9 million, respectively, which represents effective tax rates of (3.6)% and 6.7%, respectively. These tax rates are lower than the federal statutory rate of 35% due principally to non-deductible impairment charges and an increase in the valuation allowance on deferred tax assets.

The 2009 provision includes a benefit of $0.3 million related to the release of uncertain tax position reserves as a result of the expiration of the statute of limitations. Tree.com believes that it is reasonably possible that its unrecognized tax benefits could decrease by approximately $0.3 million within twelve months of the current reporting date due to the expiration of statutes of limitations. An estimate of other changes in unrecognized tax benefits cannot be made, but are not expected to be significant.

## FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2009, Tree.com had $99.7 million of cash and cash equivalents and restricted cash and cash equivalents.

Net cash provided by operating activities was $24.4 million in the nine months ended September 30, 2009, compared to net cash used of $11.8 million in the same period in 2008. The increase in cash provided of $36.2 million is primarily due to $13.4 million of Adjusted EBITDA, $14.9 million of net cash proceeds in loans held for sale, and a net decrease in working capital.

Net cash used in investing activities in the nine months ended September 30, 2009 of $4.7 million primarily resulted from business acquisitions of $5.7 million and capital expenditures of $2.2 million. Net cash used in investing activities in the same period in 2008 of $18.0 million primarily resulted from the payment of contingent consideration associated with the Home Loan Center, Inc. acquisition of $14.5 million and capital expenditures of $3.3 million.

Net cash used in financing activities in 2009 of $6.6 million was primarily due to net borrowings under warehouse lines of credit of $9.1 million, offset by proceeds from the sale of common stock of $3.4 million. Net cash provided by financing activities in 2008 of $66.3 million was primarily due to capital contributions and other transfers from IAC of $109.4 million in connection with the spin-off, offset by net repayments under warehouse lines of credit of $22.6 million, and payments on notes payable and capital lease obligations of $20.0 million. The net borrowings and repayments under warehouse lines of credit are related to the change in loans held for sale at LendingTree Loans and are included within cash flow from operations.

As of September 30, 2009, LendingTree Loans had two committed lines of credit ("warehouse lines") totaling $100 million of borrowing capacity. In addition, LendingTree Loans obtained a third warehouse line for $75 million on October 30, 2009, bringing the total borrowing capacity to $175 million. Borrowings under these lines are limited for funding, and are secured by, consumer residential loans that are held for sale. Loans under these warehouse lines are repaid directly from proceeds from the sales of loans by LendingTree Loans.

The $50 million first line is scheduled to expire on December 29, 2009; however, that lender has indicated it is exiting the warehouse lending business and will honor the existing contract only through the stated term. The interest rate under this line is 30-day LIBOR plus 125 basis points.

The $50 million second line is scheduled to expire on April 30, 2010, but can be cancelled at the option of the lender without default upon sixty days notice. This second line includes an additional uncommitted credit facility of $75 million and is guaranteed by Tree.com, Inc., LendingTree, LLC and LendingTree Holdings Corp. The interest rate under the second line is 225 basis points plus the greater of (a) the 30-day LIBOR or (b) 200 basis points. The interest rate under the $75 million uncommitted line is 30-day LIBOR plus 150 basis points. LendingTree Loans is also required to sell at least 50% of the loans it originates to an affiliate of the lender under this line or pay a "pair-off fee" of 37.5 basis points on the difference between the required and actual volume of loans sold.

The $75 million third line is scheduled to expire on October 29, 2010. The interest rate under this line is 30-day LIBOR or 2.0% (whichever is greater) plus 250 basis points for loans being sold to the lender and 30-day LIBOR or 2.0% (whichever is greater) plus 275 basis points for loans not being purchased by the lender.

Under the terms of these warehouse lines, LendingTree Loans is required to maintain various financial and other covenants. These financial covenants include, but are not limited to, maintaining (i) minimum tangible net worth of $44.0 million, (ii) minimum liquidity, (iii) a minimum current ratio, (iv) a maximum ratio of total liabilities to net worth, (v) a maximum leverage ratio and (vi) pre-tax net income requirements. During the quarter ended September 30, 2009, LendingTree Loans was in compliance with the covenants under the lines. At September 30, 2009, there was $67.1 million outstanding under the committed lines of credit.

The LendingTree Loans business is highly dependent on the availability of these warehouse lines. Although we believe that our existing lines of credit are adequate for our current operations, reductions in our available credit, or the inability to renew or replace these lines, would have a material adverse effect on our business, financial condition and results of operations. Management has determined that it could continue to operate the LendingTree Loans business, at a reduced capacity, if two but not all of the warehouse lines were lost.

Tree.com anticipates that it will need to make capital and other expenditures in connection with the development and expansion of its overall operations.

In connection with the completion of the spin-off, intercompany payable balances with IAC were extinguished and IAC transferred to Tree.com an amount of cash that was sufficient for its initial capitalization. Tree.com has considered its anticipated operating cash flows in 2009, cash and cash equivalents, current capacity under its warehouse lines of credit and access to capital markets, subject to restrictions in the tax sharing agreement, 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.

## CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

| Contractual Obligations as of September 30, 2009 | Payments Due by Period Total | Less Than 1 Year | 1-3 Years | 3-5 Years | More Than 5 Years |
|---|---|---|---|---|---|
| | (In thousands) | | | | |
| Short-term borrowings | $ 67,129 | $ 67,129 | $ — | $ — | $ — |
| Purchase obligations(a) | 1,471 | 1,471 | — | — | — |
| Operating leases | 23,340 | 5,002 | 8,608 | 7,300 | 2,430 |
| Total contractual cash obligations | $ 91,940 | $ 73,602 | $ 8,608 | $ 7,300 | $ 2,430 |

(a) The purchase obligations primarily relate to marketing contracts in 2009.

### Seasonality

Tree.com revenue is subject to the cyclical and seasonal trends of the U.S. housing market. Home sales typically rise during the spring and summer months and decline during the fall and winter months. Refinancing and home equity activity is principally driven by mortgage interest rates as well as real estate values. The broader cyclical trends in the mortgage and real estate markets have upset the usual seasonal trends.

### Recent Accounting Pronouncements

Refer to Note 2 to the consolidated financial statements for a description of recent accounting pronouncements.

## TREE.COM'S PRINCIPLES OF FINANCIAL REPORTING

Tree.com reports Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"), and adjusted for certain items discussed below ("Adjusted EBITDA"), as supplemental measures to GAAP. These measures are two 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. These non-GAAP measures 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 Measures**

Adjusted EBITDA is defined as EBITDA excluding (1) non-cash compensation expense, (2) non-cash intangible asset impairment charges, (3) gain/loss on disposal of assets, (4) restructuring expenses, (5) proceeds from litigation settlements, (6) pro forma adjustments for significant acquisitions, and (7) one-time items. Tree.com believes this measure is useful to investors because it represents the operating results from Tree.com's segments, but excludes the effects of any other non-cash expenses. Adjusted EBITDA has certain limitations in that it does not take into account the impact to Tree.com's statement of operations of certain expenses, including depreciation, 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 EBITDA and Adjusted EBITDA 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**

EBITDA and Adjusted EBITDA are 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 Measures**

Non-cash compensation expense consists principally of expense associated with the grants of 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 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 and impairment of intangibles are non-cash expenses 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.

## RECONCILIATION OF EBITDA AND ADJUSTED EBITDA

For a reconciliation of EBITDA and Adjusted EBITDA to operating loss for Tree.com's operating segments for the three and nine months ended September 30, 2009 and 2008, see Note 7 to the consolidated financial statements.

## OTHER

REALTORS®—a registered collective membership mark that identifies a real estate professional who is a member of the National Association of REALTORS® and subscribes to its strict Code of Ethics.

## Item 3. *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 LendingTree Loans' loans held for sale, interest rate lock commitments and lines of credit.

### Loans Held for Sale and Interest Rate Lock Commitments

LendingTree Loans' mortgage banking operations expose the Company 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. The changes in fair value of the derivative instruments are recognized in current earnings as a component of revenue.

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, the Company uses derivative instruments, including mortgage forward delivery contracts.

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 September 30, 2009 and 2008 resulted in gains of $19.0 million and $14.3 million, respectively, which have been recognized as a component of revenue in the accompanying consolidated statements of operations. 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 nine months ended September 30, 2009 and 2008 resulted in gains of $74.3 million and $42.1 million, respectively, 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 September 30, 2009, 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. As of September 30, 2009, 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.

**Item 4T.** ***Controls and Procedures***

We monitor and evaluate on an ongoing basis our disclosure controls and procedures and our internal control over financial reporting in order to improve our overall effectiveness. In the course of this evaluation, we modify and refine our internal processes as conditions warrant.

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined by Rule 13a-15(e) and 15d-15(e) under the Exchange Act). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective in providing reasonable assurance that information we are required to disclose in our filings with the Securities and Exchange Commission under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and Forms, and include controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

As required by Rule 13a-15(d) of the Exchange Act, we, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, also evaluated whether any changes occurred to our internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, such control. Based on that evaluation, there has been no such change during the quarter ended September 30, 2009.

# PART II
# OTHER INFORMATION

## Item 1. *Legal Proceedings*

In the ordinary course of business, the Company and its subsidiaries are parties to litigation involving property, personal injury, contract, intellectual property and other claims. We included a discussion of certain legal proceedings in Part I, Item 3, of our Annual Report on Form 10-K for the year ended December 31, 2008 (the "2008 Form 10-K"), and an update in Part II, Item 1, of our Periodic Reports on Form 10-Q for the quarters ended March 31, 2009 (the "2009 1st Quarter 10-Q") and June 30, 2009 (the "2009 2nd Quarter 10-Q"). During the quarter ended September 30, 2009, there were no material developments to the proceedings disclosed in the 2008 Form 10-K and 2009 1st and 2nd Quarter 10-Qs and no new material legal proceedings, except as set forth below:

**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.).** The court vacated the trial date and a new trial date has not been set.

**Employment (Wage/Hour) Litigation**

***Artzi v. LendingTree, LLC, IAC/InterActiveCorp, and Home Loan Center, Inc., No. 00180037 (Cal. Super. Ct., Orange Cty.).*** On November 5, 2009, the parties reached an agreement in principle to settle this matter for a nominal sum.

**Wisconsin Mortgage Broker Litigation**

***Lavette Love v. LendingTree, et al, No. 09cv009598 (Milwaukee County Circuit Court, Milwaukee, WI).*** This putative class action was filed June 24, 2009 by Lavette Love, individually and on behalf of all similarly-situated Wisconsin residents, against LendingTree and Home Loan Center. The complaint alleges that LendingTree failed to provide certain disclosures required by the Wisconsin Mortgage Broker Act. The complaint requests an award of statutory penalties, forfeiture of all fees paid and recovery of actual costs, including attorneys' fees. This matter is currently in discovery.

**Other Litigation**

***Schnee v. LendingTree, LLC and Home Loan Center, Inc., No. 06CC00211 (Cal. Super. Ct., Orange Cty.).*** On September 25, 2009, plaintiffs' motion for class certification was denied in its entirety.

## Item 1A. *Risk Factors*

***Cautionary Statement Regarding Forward-Looking Information***

This Quarterly Report on Form 10-Q contains "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The use of words such as "anticipates," "estimates," "expects," "projects," "intends," "plans" and "believes," among others, generally identify forward-looking statements. These forward-looking statements include, among others, statements relating to: the adequacy of our current warehouse lines for our current operations and our ability to operate our LendingTree Loans business at a reduced capacity if we were to lose two of these lines; our belief that an unfavorable resolution of legal claims against us will not have a material impact on the liquidity, results of operations or financial condition of Tree.com; our belief that we will not incur significant additional costs related to our restructuring activities; our belief that we will continue to adjust selling and marketing expenditures generally in relation to revenue producing opportunities and that our selling and marketing efforts will continue to represent a high percentage of our revenues; our Compensation Committee's belief that placing a greater emphasis on incentive arrangements and equity compensation will result in the Company's executives and employees being paid for performance and will better align their incentives with the Company's strategic goals; our belief that we will need to make capital and other expenditures in connection with the development and expansion of our overall operations; and our belief that our sources of liquidity are sufficient to fund our operating needs, including debt requirements, commitments and contingencies and capital and investing commitments for the foreseeable future. These forward-looking statements also include statements related to: Tree.com's anticipated financial performance; Tree.com's business prospects and strategy; anticipated trends and prospects in the various industries in which Tree.com businesses operate; new products, services and related strategies; and other similar matters. These forward looking statements are based on management's current expectations and assumptions about future events, which are inherently subject to uncertainties, risks and changes in circumstances that are difficult to predict.

Actual results could differ materially from those contained in the forward looking statements included in this report for a variety of reasons, including, among others, the risk factors set forth below and those described in our 2008 Form 10-K and 2009 1st and 2nd Quarter 10-Qs. Other unknown or unpredictable factors that could also adversely affect Tree.com's business, financial condition and results of operations may arise from time to time. In light of these risks and uncertainties, the forward looking statements discussed in this report may not prove to be accurate. Accordingly, you should not place undue reliance on these forward looking statements, which only reflect the views of Tree.com management as of the date of this report. Tree.com does not undertake to update these forward-looking statements.

Except as set forth below, there have been no material changes to the risk factors included in Part I, Item 1A, of the 2008 Form 10-K and Part II, Item IA of the 2009 1st and 2nd Quarter 10-Qs.

***Adverse Events and Trends—Adverse conditions in the credit markets could materially and adversely affect our business, financial condition and results of operations.***

The credit markets, in particular those financial institutions that provide warehouse financing and similar arrangements to mortgage lenders, have been experiencing unprecedented and continued disruptions resulting from instability in the mortgage and housing markets. Our Lending Business originates, processes, approves and funds various consumer mortgage loans through HLC, 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 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.

As of September 30, 2009, LendingTree Loans had two committed lines of credit ("warehouse lines") totaling $100 million of borrowing capacity. In addition, LendingTree Loans obtained a third warehouse line for $75 million on October 30, 2009, bringing the total borrowing capacity to $175 million. Borrowings under these lines are limited for funding, and are secured by, consumer residential loans that are held for sale. Loans under these warehouse lines are repaid directly from proceeds from the sales of loans by LendingTree Loans.

The $50 million first line is scheduled to expire on December 29, 2009; however, that lender has indicated it is exiting the warehouse lending business and will honor the existing contract only through the stated term. The interest rate under this line is 30-day LIBOR plus 125 basis points.

The $50 million second line is scheduled to expire on April 30, 2010, but can be cancelled at the option of the lender without default upon sixty days notice. This second line includes an additional uncommitted credit facility of $75 million and is guaranteed by Tree.com, Inc., LendingTree, LLC and LendingTree Holdings Corp. The interest rate under the second line is 225 basis points plus the greater of (a) the 30-day LIBOR or (b) 200 basis points. The interest rate under the $75 million uncommitted line is 30-day LIBOR plus 150 basis points. LendingTree Loans is also required to sell at least 50% of the loans it originates to an affiliate of the lender under this line or pay a "pair-off fee" of 37.5 basis points on the difference between the required and actual volume of loans sold.

The $75 million third line is scheduled to expire on October 29, 2010. The interest rate under this line is 30-day LIBOR or 2.0% (whichever is greater) plus 250 basis points for loans being sold to the lender and 30-day LIBOR or 2.0% (whichever is greater) plus 275 basis points for loans not being purchased by the lender.

Under the terms of these warehouse lines, LendingTree Loans is required to maintain various financial and other covenants. These financial covenants include, but are not limited to, maintaining (i) minimum tangible net worth of $44.0 million, (ii) minimum liquidity, (iii) a minimum current ratio, (iv) a maximum ratio of total liabilities to net worth, (v) a maximum leverage ratio and (vi) pre-tax net income requirements. During the quarter ended September 30, 2009, LendingTree Loans was in compliance with the covenants under the lines. At September 30, 2009, there was $67.1 million outstanding under the committed lines of credit.

The LendingTree Loans business is highly dependent on the availability of these warehouse lines. Although we believe that our existing lines of credit are adequate for our current operations, reductions in our available credit, or the inability to renew or replace these lines, would have a material adverse effect on our business, financial condition and results of operations. Management has determined that it could continue to operate the LendingTree Loans business, at a reduced capacity, if two but not all of the warehouse lines were lost.

## Item 6. *Exhibits*

| Exhibit | Description | Location |
|---|---|---|
| 10.1 | Master Repurchase Agreement, dated as of October 30, 2009, between Home Loan Center, Inc. and JPMorgan Chase Bank, N.A. | Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed October 30, 2009. |
| 10.2 | Side Letter, dated as of October 30, 2009, between Home Loan Center, Inc. and JPMorgan Chase Bank, N.A. | Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed October 30, 2009. |
| 31.1 | Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | † |
| 31.2 | Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | † |
| 32.1 | Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | †† |
| 32.2 | Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | †† |

† Filed herewith

†† Furnished herewith

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 5, 2009

TREE.COM, INC.

By: /s/ MATTHEW PACKEY

Matthew Packey
*Senior Vice President and*
*Chief Financial Officer*

**EXHIBIT INDEX**

| Exhibit | Description | Location |
|---|---|---|
| 10.1 | Master Repurchase Agreement, dated as of October 30, 2009, between Home Loan Center, Inc. and JPMorgan Chase Bank, N.A. | Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed October 30, 2009. |
| 10.2 | Side Letter, dated as of October 30, 2009, between Home Loan Center, Inc. and JPMorgan Chase Bank, N.A. | Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed October 30, 2009. |
| 31.1 | Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | † |
| 31.2 | Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | † |
| 32.1 | Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | †† |
| 32.2 | Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | †† |

† Filed herewith

†† Furnished herewith

QuickLinks -- Click here to rapidly navigate through this document

**Exhibit 31.1**

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO RULE 13a-14(a) OR RULE 15d-14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Douglas R. Lebda, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2009 of Tree.com, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 5, 2009

/s/ DOUGLAS R. LEBDA

Douglas R. Lebda
*Chairman and Chief Executive Officer*

QuickLinks

Exhibit 31.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13a-14(a) OR RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

**Exhibit 31.2**

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13a-14(a) OR RULE 15d-14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Matthew A. Packey, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2009 of Tree.com, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 5, 2009

/s/ MATTHEW A. PACKEY

Matthew A. Packey
*Senior Vice President and*
*Chief Financial Officer*

QuickLinks

**Exhibit 32.1**

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

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

(1) the Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2009 of Tree.com, Inc. (the "Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Tree.com, Inc.

Dated: November 5, 2009

/s/ DOUGLAS R. LEBDA

Douglas R. Lebda
*Chairman and Chief Executive Officer*

QuickLinks

QuickLinks -- Click here to rapidly navigate through this document

**Exhibit 32.2**

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

I, Matthew A. Packey, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

(1) the Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2009 of Tree.com, Inc. (the "Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Tree.com, Inc.

Dated: November 5, 2009

/s/ MATTHEW A. PACKEY

Matthew A. Packey
*Senior Vice President and*
*Chief Financial Officer*

QuickLinks