

Tree.com, Inc.
Form 424B3
August 10, 2010

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[TABLE OF CONTENTS](#)

Filed pursuant to Rule 424(b)(3)
Registration Number 333-152700

**Prospectus Supplement No. 1
to Prospectus dated May 14, 2010**

TREE.COM, INC.

3,678,664 Shares of Common Stock, Par Value \$0.01 Per Share

This prospectus supplement No. 1 supplements and amends information in the prospectus dated May 14, 2010 (the "Prospectus"). You should read the prospectus supplement in conjunction with the Prospectus, and this supplement is qualified by reference to the Prospectus, except to the extent that the information herein supersedes the information contained in the Prospectus.

This prospectus supplement includes our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010 as filed with the Securities and Exchange Commission on August 6, 2010.

As indicated under "Risk Factors" on page 2 of the Prospectus, in reviewing this prospectus supplement and the Prospectus, you should carefully consider the risks in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2009, as amended by Amendment No. 1 to our Annual Report on Form 10-K/A, and as set forth beginning on page 51 of our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement is truthful or complete. Any representation to the contrary is a criminal offense.

This supplement is part of the Prospectus and must accompany the Prospectus to satisfy prospectus delivery requirements under the Securities Act of 1933, as amended.

This date of this prospectus supplement is August 10, 2010.

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2010

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
(State or other jurisdiction of
incorporation or organization)

26-2414818
(I.R.S. Employer
Identification No.)

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

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

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period than 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 "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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(Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a
smaller reporting company)

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

As of August 3, 2010 there were 10,731,482 shares of the Registrant's common stock, par value \$.01 per share, outstanding.

Table of Contents

TABLE OF CONTENTS

	Page Number
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1.</u> <i><u>Financial Statements</u></i>	<u>1</u>
<u>Item 2.</u> <i><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></i>	<u>34</u>
<u>Item 3.</u> <i><u>Quantitative and Qualitative Disclosures About Market Risk</u></i>	<u>50</u>
<u>Item 4T.</u> <i><u>Controls and Procedures</u></i>	<u>51</u>
<u>PART II OTHER INFORMATION</u>	
<u>Item 1.</u> <i><u>Legal Proceedings</u></i>	<u>51</u>
<u>Item 1A.</u> <i><u>Risk Factors</u></i>	<u>51</u>
<u>Item 2.</u> <i><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></i>	<u>53</u>
<u>Item 6.</u> <i><u>Exhibits</u></i>	<u>54</u>

Table of Contents**PART 1 FINANCIAL INFORMATION****Item 1. Financial Statements****TREE.COM, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands, except per share amounts)			
Revenue				
LendingTree Loans	\$ 26,649	\$ 36,257	\$ 52,387	\$ 70,629
Exchanges and other	14,435	16,923	32,809	34,052
Real Estate	4,713	7,793	8,612	13,552
Total revenue	45,797	60,973	93,808	118,233
Cost of revenue				
LendingTree Loans	9,348	14,003	19,502	25,859
Exchanges and other	1,057	2,531	2,509	4,998
Real Estate	2,783	4,792	5,238	8,656
Total cost of revenue (exclusive of depreciation shown separately below)	13,188	21,326	27,249	39,513
Gross margin	32,609	39,647	66,559	78,720
Operating expenses				
Selling and marketing expense	17,059	13,892	37,205	27,714
General and administrative expense	12,526	17,115	25,228	33,414
Product development	585	1,561	1,951	3,169
Litigation settlements and contingencies	26	(3)	42	392
Restructuring expense	432	(1,078)	3,042	(236)
Amortization of intangibles	943	1,318	1,886	2,581
Depreciation	1,507	1,687	3,016	3,351
Asset impairments		3,903		3,903
Total operating expenses	33,078	38,395	72,370	74,288
Operating (loss) income	(469)	1,252	(5,811)	4,432
Other income (expense)				
Interest income		27	7	75
Interest expense	(167)	(151)	(333)	(302)
Total other (expense), net	(167)	(124)	(326)	(227)
(Loss) income before income taxes				
	(636)	1,128	(6,137)	4,205
Income tax provision	(163)	(386)	(808)	(303)

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Net (loss) income	\$	(799)	\$	742	\$	(6,945)	\$	3,902
Weighted average common shares outstanding		11,240		10,706		11,039		10,194
Weighted average diluted shares outstanding		11,240		11,034		11,039		10,354
Net (loss) income per share available to common shareholders								
Basic	\$	(0.07)	\$	0.07	\$	(0.63)	\$	0.38
Diluted	\$	(0.07)	\$	0.07	\$	(0.63)	\$	0.38

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

Table of Contents**TREE.COM, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	June 30, 2010		December 31, 2009
	(unaudited)		
	(In thousands, except par value and share amounts)		
ASSETS:			
Cash and cash equivalents	\$ 62,877	\$	86,093
Restricted cash and cash equivalents	10,202		12,019
Accounts receivable, net of allowance of \$528 and \$518, respectively	7,073		6,835
Loans held for sale (\$110,427 and \$92,236 measured at fair value, respectively)	111,910		93,596
Prepaid and other current assets	14,117		10,758
Total current assets	206,179		209,301
Property and equipment, net	12,721		12,257
Goodwill	12,152		12,152
Intangible assets, net	55,740		57,626
Other non-current assets	654		496
Total assets	287,446	\$	291,832
LIABILITIES:			
Warehouse lines of credit	\$ 91,067	\$	78,481
Accounts payable, trade	8,534		5,905
Deferred revenue	1,714		1,731
Deferred income taxes	2,033		2,211
Accrued expenses and other current liabilities	38,852		54,694
Total current liabilities	142,200		143,022
Income taxes payable	561		510
Other long-term liabilities	16,254		12,010
Deferred income taxes	16,216		15,380
Total liabilities	175,231		170,922
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 11,321,775 and 10,904,330 shares, respectively, and outstanding 10,834,417 and 10,904,330 shares, respectively	113		109
Additional paid-in capital	903,495		901,818
Accumulated deficit	(787,962)		(781,017)
Treasury stock 487,358 and -0- shares, respectively	(3,431)		
Total shareholders' equity	112,215		120,910
Total liabilities and shareholders' equity	\$ 287,446	\$	291,832

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

Table of Contents

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

(Unaudited)

	Total	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Treasury Stock		
		Number of Shares	Amount			Number of Shares	Amount	
(In thousands)								
Balance as of December 31, 2009	\$ 120,910	10,904	\$ 109	\$ 901,818	\$ (781,017)		\$	
Comprehensive loss:								
Net loss for the six months ended June 30, 2010	(6,945)				(6,945)			
Comprehensive loss	(6,945)							
Non-cash compensation	2,062			2,062				
Issuance of common stock upon exercise of stock options and vesting of restricted stock units, net of withholding taxes	(381)	268	3	(384)				
Issuance of restricted stock		150	1	(1)				
Purchase of treasury stock	(3,431)					(487)	(3,431)	
Balance as of June 30, 2010	\$ 112,215	11,322	\$ 113	\$ 903,495	\$ (787,962)	(487)	\$ (3,431)	

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

Table of Contents

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

(Unaudited)

	Six Months Ended June 30,	
	2010	2009
	(In thousands)	
Cash flows from operating activities:		
Net (loss) income	\$ (6,945)	\$ 3,902
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Loss on disposal of fixed assets	9	949
Amortization of intangibles	1,886	2,581
Depreciation	3,016	3,351
Intangible impairment		3,903
Non-cash compensation expense	2,062	1,993
Non-cash restructuring expense	181	161
Deferred income taxes	658	
Gain on origination and sale of loans	(47,441)	(67,206)
Loss on impaired loans not sold		290
Loss on sale of real estate acquired in satisfaction of loans	377	77
Bad debt expense	92	243
Changes in current assets and liabilities:		
Accounts receivable	(331)	864
Origination of loans	(1,218,901)	(1,612,556)
Proceeds from sales of loans	1,252,103	1,658,128
Principal payments received on loans	530	627
Payments to investors for loan repurchases and early payoff obligations	(4,685)	(4,141)
Prepaid and other current assets	82	(623)
Accounts payable and other current liabilities	(17,276)	(1,888)
Income taxes payable	84	123
Deferred revenue	(134)	236
Other, net	4,360	1,003
Net cash used in operating activities	(30,273)	(7,983)
Cash flows from investing activities:		
Acquisitions		(1,000)
Capital expenditures	(3,534)	(1,404)
Other, net	1,667	581
Net cash used in investing activities	(1,867)	(1,823)
Cash flows from financing activities:		
Borrowing under warehouse lines of credit	950,007	1,402,823
Repayments of warehouse lines of credit	(937,421)	(1,385,887)
Issuance of common stock, net of withholding taxes	(381)	3,807
Purchase of treasury stock	(3,431)	
Increase in restricted cash	150	(875)
Net cash provided by financing activities	8,924	19,868
Net (decrease) increase in cash and cash equivalents	(23,216)	10,062
Cash and cash equivalents at beginning of period	86,093	73,643

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Cash and cash equivalents at end of period	\$	62,877	\$	83,705
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The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Table of Contents

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.

Company Overview

Tree.com is the parent of LendingTree, LLC and the owner of several brands and businesses that provide information, tools, advice, products and services for critical transactions in our customers' lives. Our family of brands includes: LendingTree.com®, GetSmart.com®, RealEstate.com®, DegreeTree.comSM, HealthTree.comSM, LendingTreeAutos.com, DoneRight.com®, and InsuranceTree.comSM. Together, these brands serve as an ally for consumers who are looking to comparison shop for loans, real estate and other services from multiple businesses and professionals who will compete for their business.

These businesses and brands are operated under the segments known as LendingTree Loans, the Exchanges and Real Estate.

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, Tree.com, DegreeTree.com, LendingTreeAutos and GetSmart.com) that connect consumers and service providers principally in the lending, higher education and automobile 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 third party real estate brokerages around the country.

The Corporate segment consists of unallocated expenses and consolidation transactions.

Tree.com maintains operations solely in the United States.

Basis of Presentation

The accompanying unaudited interim consolidated financial statements as of June 30, 2010 and 2009 and for the three and six 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

Table of Contents**TREE.COM, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 1 ORGANIZATION (Continued)**

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 six months ended June 30, 2010 are not necessarily indicative of the results to be expected for the year ending December 31, 2010, 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, 2009, as amended by Amendment No. 1 to the Company's annual report on Form 10-K/A.

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 ("GAAP"). These estimates and assumptions impact the reported amount of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements. They also impact the reported amount of net earnings during any period. Actual results could differ from those estimates.

Significant estimates underlying the accompanying consolidated financial statements include: valuation allowance for impaired loans held for sale; loan loss obligations; 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; restructuring reserves; contingent consideration related to business combinations; various other allowances, reserves and accruals; and assumptions related to the determination of stock-based compensation.

Restricted Cash and Cash Equivalents

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

	June 30, 2010	December 31, 2009
Cash in escrow for future operating lease commitments	\$	\$ 788
Cash in escrow for surety bonds	5,030	5,030
Cash in escrow for corporate purchasing card program	800	2,203
Minimum required balances for warehouse lines of credit	1,725	1,875
Other	2,647	2,123
 Total restricted cash and cash equivalents	 \$ 10,202	 \$ 12,019

Table of Contents**TREE.COM, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)****Recent Accounting Pronouncements**

On June 12, 2009, the Financial Accounting Standards Board ("FASB") issued the accounting standard for transfers and servicing of financial assets. 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. Tree.com adopted this standard on January 1, 2010 and determined there was no material impact to the financial statements.

On January 21, 2010, the FASB amended and Tree.com adopted the accounting standard for fair value measurements and disclosures, which added new requirements for disclosures about transfers into and out of Level 1 and 2 and separate disclosures about purchases, sales, issuances and settlements relating to Level 3 measurements. The amendment also clarifies existing fair value disclosures about the level of disaggregation and the inputs and valuation techniques used to measure fair value. This amendment is effective for the first reporting period (including interim periods) beginning after December 15, 2009, except for the requirement to provide the Level 3 activity of purchases, sales, issuances and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Early adoption is permitted. See Note 9 for further information.

NOTE 3 GOODWILL AND INTANGIBLE ASSETS

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

	June 30, 2010	December 31, 2009
Goodwill	\$ 12,152	\$ 12,152
Intangible assets with indefinite lives	52,733	52,733
Intangible assets with definite lives, net	3,007	4,893
 Total goodwill and intangible assets, net	 \$ 67,892	 \$ 69,778

Intangible assets with indefinite lives relate principally to trade names and trademarks acquired in various acquisitions.

At June 30, 2010, intangible assets with definite lives relate to the following (in thousands):

	Cost	Accumulated Amortization	Net	Weighted Average Amortization Life (Years)
Purchase agreements	\$ 76,352	\$ (75,952)	\$ 400	5.7
Technology	30,491	(29,617)	874	3.0
Customer lists	7,388	(6,661)	727	3.9
Other	9,813	(8,807)	1,006	4.1
 Total	 \$ 124,044	 \$ (121,037)	 \$ 3,007	

Table of Contents

TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 GOODWILL AND INTANGIBLE ASSETS (Continued)

At December 31, 2009, intangible assets with definite lives relate to the following (in thousands):

	Cost	Accumulated Amortization	Net	Weighted Average Amortization Life (Years)
Purchase agreements	\$ 76,352	\$ (74,657)	\$ 1,695	5.7
Technology	30,491	(29,396)	1,095	3.0
Customer lists	7,388	(6,631)	757	3.9
Other	9,813	(8,467)	1,346	4.1
Total	\$ 124,044	\$ (119,151)	\$ 4,893	

Amortization of intangible assets with definite lives is computed on a straight-line basis and, based on June 30, 2010 balances, such amortization for the next five years is estimated to be as follows (in thousands):

	Amount
Six months ending December 31, 2010	\$ 826
Year ending December 31, 2011	1,086
Year ending December 31, 2012	411
Year ending December 31, 2013	144
Year ending December 31, 2014	84
Thereafter	456
Total	\$ 3,007

In the second quarter of 2009, Tree.com recorded impairment charges of \$3.9 million related to definite-lived intangible assets within 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.

The following table presents the balance of goodwill by segment at June 30, 2010 and December 31, 2009 (in thousands):

	LendingTree		Real Estate	Total
	Loans	Exchanges		
Goodwill	\$ 46,526	\$ 485,955	\$ 70,091	\$ 602,572
Accumulated impairment losses	(46,526)	(483,088)	(60,806)	(590,420)
Goodwill, net	\$	\$ 2,867	\$ 9,285	\$ 12,152

There was no activity in goodwill during the six months ended June 30, 2010.

Table of Contents**TREE.COM, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 4 PROPERTY AND EQUIPMENT**

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

	June 30, 2010	December 31, 2009
Computer equipment and capitalized software	\$ 38,473	\$ 35,881
Leasehold improvements	2,544	2,888
Furniture and other equipment	4,009	4,096
Projects in progress	2,093	1,532
	47,119	44,397
Less: accumulated depreciation and amortization	(34,398)	(32,140)
Total property and equipment, net	\$ 12,721	\$ 12,257

NOTE 5 ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

	June 30, 2010	December 31, 2009
Accrued loan loss liability related to loans previously sold	\$ 6,918	\$ 6,115
Loan loss settlement liability related to loans previously sold	2,400	4,500
Litigation accruals		12,750
Accrued advertising expense	6,581	8,095
Accrued compensation and benefits	3,851	7,525
Accrued professional fees	871	1,528
Accrued restructuring costs	1,034	1,848
Derivative liabilities	4,141	356
Customer deposits and escrows	3,953	3,387
Deferred rent	532	793
Other	8,571	7,797
Total accrued expenses and other current liabilities	\$ 38,852	\$ 54,694

The other category above reflects an earnout payable related to an acquisition, franchise taxes, self-insured health claims and other miscellaneous accrued expenses.

An additional \$7.8 million and \$6.4 million of accrued loan loss liability related to loans previously sold are classified in other long term liabilities at June 30, 2010 and December 31, 2009, respectively.

NOTE 6 WAREHOUSE LINES OF CREDIT

Borrowings on warehouse lines of credit were \$91.1 million and \$78.5 million at June 30, 2010 and December 31, 2009, respectively.

As of June 30, 2010, LendingTree Loans had two committed lines of credit totaling \$125.0 million of borrowing capacity. Borrowings under these lines of credit are used to fund, and are secured by,

Table of Contents

TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6 WAREHOUSE LINES OF CREDIT (Continued)

consumer residential loans that are held for sale. Loans under these lines of credit are repaid using proceeds from the sales of loans held for sale by LendingTree Loans.

The \$50.0 million first line was scheduled to expire on June 29, 2010, but the Company has renewed this line with a new expiration date of June 29, 2011. This line can be cancelled at the option of the lender without default upon sixty days notice. This first line includes an additional uncommitted credit facility of \$25.0 million. This first line is also guaranteed by Tree.com, Inc., Lending Tree, LLC and Lending Tree Holdings Corp. The interest rate under the first line is 2.25% plus the greater of (a) the 30-day LIBOR or (b) 2.00%. The interest rate under the \$25.0 million uncommitted line is 30-day LIBOR plus 1.50%. LendingTree Loans is also required to sell at least 25% of the loans it originates to the lender under this line or pay a "pair-off fee" of 0.25% on the difference between the required and actual volume of loans sold.

The \$75.0 million second line is scheduled to expire on October 29, 2010. This second line is also guaranteed by Tree.com, Inc., LendingTree, LLC and LendingTree Holdings Corp. The interest rate under this line is 30-day LIBOR or 2.0% (whichever is greater) plus 2.50% to 3.0% for loans being sold to the lender and 30-day LIBOR or 2.0% (whichever is greater) plus 2.75% for loans not being sold to the lender.

The Company also had a \$40.0 million line with a lender that exited the warehouse lending business. This line expired on June 30, 2010 and was not renewed. The Company had anticipated that decision and had factored it into its future liquidity needs.

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, (vi) pre-tax net income requirements and (vii) a maximum warehouse capacity ratio. During the quarter ended June 30, 2010, LendingTree Loans was in compliance with the covenants under the lines. Effective July 22, 2010, both warehouse lines have been amended reducing the tangible net worth covenant to \$25.0 million.

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 one, but not both, of the warehouse lines were lost. We expect to renew the line that is expiring on October 29, 2010.

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.

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

Table of Contents

TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 SEGMENT INFORMATION (Continued)

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) litigation loss contingencies and settlements, (6) pro forma adjustments for significant acquisitions, and (7) one-time items, which 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. 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. 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.

Table of Contents**TREE.COM, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 7 SEGMENT INFORMATION (Continued)**

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

	For the Three Months Ended June 30, 2010:				
	LendingTree Loans	Exchanges	Real Estate	Unallocated Corporate	Total
Revenue	\$ 26,649	\$ 21,906	\$ 4,713	\$ (7,471)	\$ 45,797
Cost of revenue (exclusive of depreciation shown separately below)	9,348	941	2,783	116	13,188
Gross margin	17,301	20,965	1,930	(7,587)	32,609
Operating expenses:					
Selling and marketing expense	7,974	16,116	394	(7,425)	17,059
General and administrative expense	4,916	1,471	1,557	4,582	12,526
Product development	(132)	674	34	9	585
Litigation loss contingencies and settlements	25			1	26
Restructuring expense		(58)	364	126	432
Amortization of intangibles		295	635	13	943
Depreciation	425	495	293	294	1,507
Total operating expenses	13,208	18,993	3,277	(2,400)	33,078
Operating income (loss)	4,093	1,972	(1,347)	(5,187)	(469)
Adjustments to reconcile to EBITDA and Adjusted EBITDA:					
Amortization of intangibles		295	635	13	943
Depreciation	425	495	293	294	1,507
EBITDA	4,518	2,762	(419)	(4,880)	1,981
Restructuring expense		(58)	364	126	432
Loss on disposal of assets			5		5
Non-cash compensation	74	297	35	562	968
Litigation loss contingencies and settlements	25			1	26
Adjusted EBITDA	\$ 4,617	\$ 3,001	\$ (15)	\$ (4,191)	\$ 3,412
Reconciliation to net loss in total:					
Operating loss per above					\$ (469)
Other expense, net					(167)
Loss before income taxes					(636)
Income tax provision					(163)
Net loss					\$ (799)

Table of Contents

TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 SEGMENT INFORMATION (Continued)

	For the Three Months Ended June 30, 2009:					Total
	LendingTree Loans	Exchanges	Real Estate	Unallocated Corporate		
Revenue	\$ 36,257	\$ 20,630	\$ 7,793	\$ (3,707)	\$	\$ 60,973
Cost of revenue (exclusive of depreciation shown separately below)	14,003	2,020	4,792	511		21,326
Gross margin	22,254	18,610	3,001	(4,218)		39,647
Operating expenses:						
Selling and marketing expense	4,098	12,474	1,020	(3,700)		13,892
General and administrative expense	5,914	2,665	2,331	6,205		17,115
Product development	97	807	347	310		1,561
Litigation loss contingencies and settlements	(3)					(3)
Restructuring expense	(1,084)		6			(1,078)
Amortization of intangibles	70	106	1,142			1,318
Depreciation	759	198	287	443		1,687
Asset impairments			3,903			3,903
Total operating expenses	9,851	16,250	9,036	3,258		38,395
Operating income (loss)	12,403	2,360	(6,035)	(7,476)		1,252
Adjustments to reconcile to EBITDA and Adjusted EBITDA:						
Amortization of intangibles	70	106	1,142			1,318
Depreciation	759	198	287	443		1,687
EBITDA	13,232	2,664	(4,606)	(7,033)		4,257
Restructuring expense	(1,084)		6			(1,078)
Asset impairments			3,903			3,903
Loss on disposal of assets		311				311
Non-cash compensation	67	306	33	410		816
Litigation loss contingencies and settlements	(3)					(3)
Adjusted EBITDA	\$ 12,212	\$ 3,281	\$ (664)	\$ (6,623)	\$	\$ 8,206
Reconciliation to net income in total:						
Operating income per above					\$	\$ 1,252
Other expense, net						(124)
Income before income taxes						1,128
Income tax provision						(386)
Net income					\$	\$ 742

Table of Contents

TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 SEGMENT INFORMATION (Continued)

	For the Six Months Ended June 30, 2010:					Total
	LendingTree Loans	Exchanges	Real Estate	Unallocated Corporate		
Revenue	\$ 52,387	\$ 47,957	\$ 8,612	\$ (15,148)	\$	\$ 93,808
Cost of revenue (exclusive of depreciation shown separately below)	19,502	2,069	5,238	440		27,249
Gross margin	32,885	45,888	3,374	(15,588)		66,559
Operating expenses:						
Selling and marketing expense	15,972	35,201	1,083	(15,051)		37,205
General and administrative expense	9,732	3,064	3,098	9,334		25,228
Product development	(1)	1,556	202	194		1,951
Litigation loss contingencies and settlements	41			1		42
Restructuring expense	7	82	364	2,589		3,042
Amortization of intangibles		590	1,271	25		1,886
Depreciation	915	814	627	660		3,016
Total operating expenses	26,666	41,307	6,645	(2,248)		72,370
Operating income (loss)	6,219	4,581	(3,271)	(13,340)		(5,811)
Adjustments to reconcile to EBITDA and Adjusted EBITDA:						
Amortization of intangibles		590	1,271	25		1,886
Depreciation	915	814	627	660		3,016
EBITDA	7,134	5,985	(1,373)	(12,655)		(909)
Restructuring expense	7	82	364	2,589		3,042
Loss on disposal of assets			6	3		9
Non-cash compensation	205	630	90	1,137		2,062
Litigation loss contingencies and settlements	41			1		42
Adjusted EBITDA	\$ 7,387	\$ 6,697	\$ (913)	\$ (8,925)	\$	\$ 4,246
Reconciliation to net loss in total:						
Operating loss per above						\$ (5,811)
Other expense, net						(326)
Loss before income taxes						(6,137)
Income tax provision						(808)
Net loss						\$ (6,945)

Table of Contents

TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 SEGMENT INFORMATION (Continued)

	For the Six Months Ended June 30, 2009:					Total
	LendingTree Loans	Exchanges	Real Estate	Unallocated Corporate		
Revenue	\$ 70,629	\$ 39,697	\$ 13,552	\$ (5,645)	\$	118,233
Cost of revenue (exclusive of depreciation shown separately below)	25,859	3,911	8,656	1,087		39,513
Gross margin	44,770	35,786	4,896	(6,732)		78,720
Operating expenses:						
Selling and marketing expense	6,212	24,442	2,698	(5,638)		27,714
General and administrative expense	10,888	5,449	5,030	12,047		33,414
Product development	247	1,439	881	602		3,169
Litigation loss contingencies and settlements	360	7	25			392
Restructuring expense	(1,192)	58	739	159		(236)
Amortization of intangibles	140	156	2,285			2,581
Depreciation	1,546	397	547	861		3,351
Asset impairments			3,903			3,903
Total operating expenses	18,201	31,948	16,108	8,031		74,288
Operating income (loss)	26,569	3,838	(11,212)	(14,763)		4,432
Adjustments to reconcile to EBITDA and Adjusted EBITDA:						
Amortization of intangibles	140	156	2,285			2,581
Depreciation	1,546	397	547	861		3,351
EBITDA	28,255	4,391	(8,380)	(13,902)		10,364
Restructuring expense	(1,192)	58	739	159		(236)
Asset impairments			3,903			3,903
Loss on disposal of assets		949				949
Non-cash compensation	136	419	131	1,307		1,993
Litigation loss contingencies and settlements	360	7	25			392
Adjusted EBITDA	\$ 27,559	\$ 5,824	\$ (3,582)	\$ (12,436)	\$	17,365
Reconciliation to net loss in total:						
Operating income per above					\$	4,432
Other expense, net						(227)
Income before income taxes						4,205
Income tax provision						(303)
Net income					\$	3,902

Table of Contents

TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 SEGMENT INFORMATION (Continued)

Significant components of revenue for the three and six months ended June 30, 2010 and 2009 are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
LendingTree Loans:				
Origination and sale of loans	\$ 24,041	\$ 34,442	\$ 47,441	\$ 67,206
Other	2,608	1,815	4,946	3,423
Total LendingTree Loans revenue	26,649	36,257	52,387	70,629
Exchanges:				
Match fees	11,659	9,903	25,825	19,869
Closed loan fees	2,025	6,432	5,352	12,862
Other	751	588	1,632	1,321
Inter-segment	7,471	3,707	15,148	5,645
Total Exchanges	21,906	20,630	47,957	39,697
Real Estate revenue	4,713	7,793	8,612	13,552
Inter-segment elimination	(7,471)	(3,707)	(15,148)	(5,645)
Total revenue	\$ 45,797	\$ 60,973	\$ 93,808	\$ 118,233

Total assets by segment at June 30, 2010 and December 31, 2009 are as follows (in thousands):

	June 30, 2010	December 31, 2009
LendingTree Loans	\$ 182,828	\$ 167,976
Real Estate	26,375	28,031
Exchanges and Unallocated Corporate(a)	78,243	95,825
Total	\$ 287,446	\$ 291,832

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

Table of Contents

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 June 30,			
	2010		2009	
	Basic	Diluted	Basic	Diluted
	(In thousands, except per share data)			
Numerator:				
Net (loss) income available to common shareholders	\$ (799)	\$ (799)	\$ 742	\$ 742
Denominator:				
Weighted average common shares	11,240	11,240	10,706	11,034
Net (loss) income per common share	\$ (0.07)	\$ (0.07)	\$ 0.07	\$ 0.07

	Six Months Ended June 30,			
	2010		2009	
	Basic	Diluted	Basic	Diluted
	(In thousands, except per share data)			
Numerator:				
Net (loss) income available to common shareholders	\$ (6,945)	\$ (6,945)	\$ 3,902	\$ 3,902
Denominator:				
Weighted average common shares	11,039	11,039	10,194	10,354
Net (loss) income per common share	\$ (0.63)	\$ (0.63)	\$ 0.38	\$ 0.38

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 six months ended June 30, 2010 and 2009 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Cost of revenue	\$ 1	\$ 31	\$ 16	\$ 69
Selling and marketing expense	41	50	109	86
General and administrative expense	888	690	1,845	1,765
Product development	38	45	92	73
Non-cash compensation expense	\$ 968	\$ 816	\$ 2,062	\$ 1,993

Table of Contents**TREE.COM, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 8 EARNINGS PER SHARE AND STOCK-BASED COMPENSATION (Continued)**

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 pass before an award vests. Certain restricted stock awards also include performance-based vesting, where certain performance targets set at the time of grant must be achieved before an award vests. Tree.com recognizes expense for all 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. For performance-based awards, the expense is measured at the grant date as the fair value of Tree.com common stock and expensed as non-cash compensation over the vesting period if the performance targets are considered probable of being achieved.

The amount of stock-based compensation expense recognized in the consolidated statement of operations is reduced by estimated forfeitures, as the amount recorded is based on awards ultimately expected to vest. The forfeiture rate is estimated at the grant date based on historical experience and revised, if necessary, in subsequent periods if the actual forfeiture rate differs from the estimated rate.

A summary of changes in outstanding stock options for the six months ended June 30, 2010 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at January 1, 2010	1,177,319	\$ 9.34		
Granted				
Exercised	(42,037)	6.88		
Forfeited	(59,826)	7.46		
Expired	(59,780)	10.75		
Outstanding at June 30, 2010	1,015,676	\$ 9.48	6.7	\$ 52
Options exercisable at June 30, 2010	340,125	\$ 11.72	4.9	\$ 52

Table of Contents

TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The following table summarizes the information about stock options outstanding and exercisable as of June 30, 2010:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Outstanding at June 30, 2010	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Exercisable at June 30, 2010	Weighted Average Exercise Price
\$0.01 to \$4.99	15,078	1.88	\$ 3.00	15,078	\$ 3.00
\$5.00 to \$7.45	13,847	2.45	6.67	13,847	6.67
\$7.46 to \$9.99	797,360	7.42	8.25	121,809	7.67
\$10.00 to \$14.99	61,160	2.62	12.19	61,160	12.19
\$15.00 to \$19.99	81,568	4.90	15.03	81,568	15.03
\$20.00 to \$24.99	46,663	4.94	20.19	46,663	20.19
	1,015,676	6.67	\$ 9.48	340,125	\$ 11.72

Nonvested RSUs and restricted stock outstanding as of June 30, 2010 and changes during the six months ended June 30, 2010 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, 2010	704,938	\$ 8.03	350,000	\$ 5.42
Granted	434,436	8.25	150,000	9.15
Vested	(253,696)	10.63	(87,500)	5.42
Forfeited	(220,542)	7.27		
Nonvested at June 30, 2010	665,136	\$ 7.60	412,500	\$ 6.78

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.

Table of Contents

TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9 FAIR VALUE MEASUREMENTS (Continued)

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 with changes in fair value being recorded in current earnings as a component of revenue from the origination and sale of loans. IRLCs for loans to be sold to investors using a mandatory or assignment of trade ("AOT") method are hedged using "to be announced mortgage-backed securities" ("TBA MBS") and are valued using quantitative risk models. The IRLCs derive their base value from an underlying loan type with similar characteristics using the TBA MBS market which is actively quoted and easily validated through external sources. The most significant data inputs used in this valuation include, but are not limited to, loan type, underlying loan amount, note rate, loan program, and expected sale date of the loan. IRLCs for loans sold to investors on a best efforts basis are hedged using best efforts forward delivery commitments and are valued on an individual loan basis using a proprietary database program. These valuations are based on investor pricing tables stratified by product, note rate and term. The valuation is adjusted at the loan level to consider the servicing release premium and loan pricing adjustments specific to each loan. The Company applies an anticipated loan funding probability based on its own experience to value IRLCs, which results in the classification of these derivatives as Level 3. At June 30, 2010 and December 31, 2009, there were \$394.2 million and \$258.4 million, respectively, of IRLCs notional value outstanding.

Loans held for sale measured at fair value and sold to investors using a mandatory or AOT method are also hedged using TBA MBS and valued using quantitative risk models. The valuation is based on the loan amount, note rate, loan program, and expected sale date of the loan. Loans held for sale measured at fair value and sold to investors on a best efforts basis are hedged using best efforts forward delivery commitments and are valued using a proprietary database program. The best efforts valuations are based on daily investor pricing tables stratified by product, note rate and term. These valuations are adjusted at the loan level to consider the servicing release premium and loan pricing adjustments specific to each loan. Loans held for sale, excluding impaired loans, are classified as Level 2. Loans held for sale measured at fair value that become impaired are transferred from Level 2 to Level 3, as the estimate of fair value is based on the Company's experience considering lien position and current status of the loan. LendingTree Loans recognizes interest income separately from other changes in fair value.

Under LendingTree Loans' risk management policy, LendingTree Loans economically hedges the changes in fair value of IRLCs and loans held for sale caused by changes in interest rates by using TBA MBS and entering into best efforts forward delivery commitments. These hedging instruments are recorded at fair value with changes in fair value recorded in current earnings as a component of revenue from the origination and sale of loans. TBA MBS used to hedge both IRLCs and loans are valued using quantitative risk models based primarily on inputs related to characteristics of the MBS stratified by product, coupon, and settlement date. These derivatives are classified as Level 2. Best efforts forward delivery commitments are valued using a proprietary database program using investor pricing tables considering the current base loan price. An anticipated loan funding probability is applied to value best efforts commitments hedging IRLCs, which results in the classification of these contracts as Level 3. The best efforts forward delivery commitments hedging loans held for sale are classified as Level 2, so such contracts are transferred from Level 3 to Level 2 at the time the underlying loan is originated. For the purposes of the tables below, we refer to TBA MBS and best efforts forward delivery commitments collectively as "Forward Delivery Contracts".

Table of Contents

TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9 FAIR VALUE MEASUREMENTS (Continued)

The following presents Tree.com's assets and liabilities that are measured at fair value on a recurring basis at June 30, 2010 and December 31, 2009 (in thousands):

	As of June 30, 2010			
	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	\$	\$ 109,470	\$ 957	\$ 110,427
Interest rate lock commitments ("IRLCs")			10,848	10,848
Forward delivery contracts		(3,819)	(20)	(3,839)
Total	\$	\$ 105,651	\$ 11,785	\$ 117,436

	As of December 31, 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	\$	\$ 91,459	\$ 777	\$ 92,236
Interest rate lock commitments ("IRLCs")			3,680	3,680
Forward delivery contracts		2,737	487	3,224
Total	\$	\$ 94,196	\$ 4,944	\$ 99,140

Table of Contents

TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9 FAIR VALUE MEASUREMENTS (Continued)

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 six months ended June 30, 2010 and 2009 (in thousands):

	Three Months Ended June 30, 2010		
	Interest Rate Lock Commitments	Forward Delivery Contracts	Loans Held for Sale
Balance at April 1, 2010	\$ 5,508	\$ 153	\$ 776
Transfers into Level 3			262
Transfers out of Level 3		100	
Transfers of IRLCs to closed loans	(19,393)		
Total net gains (losses) included in earnings (realized and unrealized)	28,735	(273)	(78)
Purchases, sales, and settlements			
Purchases			
Sales			
Settlements	(4,002)		(3)
Balance at June 30, 2010	\$ 10,848	\$ (20)	\$ 957

	Six Months Ended June 30, 2010		
	Interest Rate Lock Commitments	Forward Delivery Contracts	Loans Held for Sale
Balance at January 1, 2010	\$ 3,680	\$ 487	\$ 777
Transfers into Level 3			262
Transfers out of Level 3		126	
Transfers of IRLCs to closed loans	(34,184)		
Total net gains (losses) included in earnings (realized and unrealized)	50,068	(633)	(77)
Purchases, sales, and settlements			
Purchases			
Sales			

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Settlements	(8,716)	(5)
Balance at June 30, 2010	\$ 10,848	\$ (20) \$ 957

Table of Contents

TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9 FAIR VALUE MEASUREMENTS (Continued)

	Three Months Ended June 30, 2009		
	Interest Rate Lock Commitments	Forward Delivery Contracts	Loans Held for Sale
Balance at April 1, 2009	\$ 8,780	\$ (25)	\$ 271
Transfers into Level 3			
Transfers out of Level 3		(639)	
Transfers of IRLCs to closed loans	(12,308)		
Total net gains (losses) included in earnings (realized and unrealized)	23,665	582	1