Tree.com, Inc.
Form 10-Q/A
September 25, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

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

For the Quarterly Period Ended June 30, 2008

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 Registrant's 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 o No ý

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. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer ý (Do not check if a smaller reporting	Smaller reporting company o

company)

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

As of August 31, 2008, there were 9,357,449 shares of the Registrant's common stock, par value $.01 per share, outstanding.

EXPLANATORY NOTE

The Registrant inadvertently omitted "Item 4T Controls and Procedures" from the Original Form 10-Q. This Amendment incorporates that Item into the document.

This Amendment only reflects the changes discussed above. All other information included in the Original Form 10-Q has not been amended by this Form 10-Q/A to reflect any information or events subsequent to the filing of the Original Form 10-Q.

PART 1 FINANCIAL STATEMENTS

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

TREE.COM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
	(In thousands)			
Revenue				
Lending:				
Origination and sale of loans	$ 23,058	$ 47,077	$ 51,065	$ 93,967
Other lending	26,710	48,204	60,514	98,082
Total Lending	49,768	95,281	111,579	192,049
Real Estate	10,215	15,358	18,597	28,589
Total revenue	59,983	110,639	130,176	220,638
Cost of revenue				
Lending	11,405	13,332	24,201	27,644
Real Estate	5,970	7,610	10,940	13,794
Total cost of revenue (exclusive of depreciation shown separately below)	17,375	20,942	35,141	41,438
Gross margin	42,608	89,697	95,035	179,200
Operating expenses:				
Selling and marketing expense	31,283	56,852	64,480	113,330
General and administrative expense	15,109	27,514	35,873	57,560
Product development	1,443	3,896	3,552	8,166
Restructuring expense	1,761	4,598	2,163	4,598
Amortization and impairment of intangibles	37,038	6,013	40,706	10,287
Depreciation	1,771	2,580	3,546	5,419
Goodwill impairment	130,957		130,957	
Operating loss	(176,754)	(11,756)	(186,242)	(20,160)
Other income (expense):				
Interest income	2	207	11	277
Interest expense	(219)	(241)	(328)	(521)
Other (expense) income			(2)	1
Total other expense, net	(217)	(34)	(319)	(243)
Loss before income taxes	(176,971)	(11,790)	(186,561)	(20,403)
Income tax benefit	14,051	4,298	13,842	7,788
Net loss	$ (162,920)	$ (7,492)	$ (172,719)	$ (12,615)

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

TREE.COM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	June 30, 2008 (unaudited)	December 31, 2007 (audited)
	(In thousands)	
ASSETS		
Cash and cash equivalents	$ 53,301	$ 45,940
Restricted cash and cash equivalents	2,905	14,953
Accounts receivable, net of allowance of $520 and $322, respectively	11,327	12,433
Loans held for sale	87,310	86,754
Deferred income taxes	6,420	6,420
Prepaid and other current assets	7,075	6,011
Total current assets	168,338	172,511
Property and equipment, net	20,077	21,466
Goodwill	9,285	140,892
Intangible assets, net	67,884	108,440
Other non-current assets	184	278
TOTAL ASSETS	$ 265,768	$ 443,587
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Short-term borrowings	$ 75,433	$ 99,622
Accounts payable, trade	13,415	3,335
Deferred revenue	896	1,435
Income taxes payable	935	993
Accrued expenses and other current liabilities	61,422	83,613
Total current liabilities	152,101	188,998
Income taxes payable	819	730
Other long-term liabilities	2,071	2,529
Deferred income taxes	24,944	36,706
Commitments and contingencies		
SHAREHOLDERS' EQUITY:		
Invested capital	766,365	751,923
Payables to IAC and subsidiaries	46,454	20,067
Accumulated deficit	(726,986)	(557,366)
Total shareholders' equity	85,833	214,624
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 265,768	$ 443,587

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

TREE.COM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Unaudited)

	Total	Invested Capital	Payables to IAC and Subsidiaries	Accumulated Deficit
		(In thousands)		
Balance as of December 31, 2007	$ 214,624	$751,923	$ 20,067	$ (557,366)
Comprehensive loss:				
Net loss for the six months ended June 30, 2008	(172,719)			(172,719)
Comprehensive loss	(172,719)			
Cumulative effect of adoption of SFAS No. 157	3,099			3,099
Net transfers from IAC (principally funding of contingent consideration paid to former shareholders of Home Loan Center)	14,442	14,442		
Net change in payables to IAC and subsidiaries	26,387		26,387	
Balance as of June 30, 2008	$ 85,833	$766,365	$ 46,454	$ (726,986)

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

TREE.COM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
	(In thousands)	
Cash flows from operating activities:		
Net loss	$ (172,719)	$ (12,615)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Amortization and impairment of intangibles	40,706	10,287
Depreciation	3,546	5,419
Goodwill impairment	130,957	
Non-cash compensation expense	2,219	2,479
Non-cash restructuring expense	370	
Deferred income taxes	(13,869)	(10,120)
Gain on sales of loans held for sale	(47,416)	(95,704)
Provision for loans losses	1,193	3,521
Bad debt expense	432	1,425
Non-cash interest expense	76	465
Changes in current assets and liabilities:		
Accounts receivable	2,153	(3,095)
Origination of loans held for sale	(1,248,737)	(3,820,710)
Proceeds from sales of loans held for sale	1,293,040	4,040,954
Prepaid and other current assets	2,129	(594)
Accounts payable and other current liabilities	2,272	(7,540)
Income taxes payable	(508)	(730)
Deferred revenue	(718)	(266)
Other, net	(278)	(696)
Net cash (used in) provided by operating activities	(5,152)	112,480
Cash flows from investing activities:		
Contingent consideration paid to former shareholders of Home Loan Center	(14,487)	
Capital expenditures	(2,770)	(6,025)
Other, net	(146)	1
Net cash used in investing activities	(17,403)	(6,024)
Cash flows from financing activities:		
Borrowing under lines of credit	1,142,343	3,719,453
Repayments of lines of credit	(1,146,336)	(3,845,350)
Principal payments on long-term obligations	(20,045)	(10,879)
Transfers from (to) IAC	27,266	(3,678)
Capital contributions from IAC	14,487	
Excess tax benefits from stock-based awards	153	903
Decrease (increase) in restricted cash	12,048	(630)
Net cash provided by (used in) financing activities	29,916	(140,181)
Net increase (decrease) in cash and cash equivalents	7,361	(33,725)
Cash and cash equivalents at beginning of period	45,940	99,498
Cash and cash equivalents at end of period	$ 53,301	$ 65,773

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 November 5, 2007, IAC/InterActiveCorp ("IAC") announced that its Board of Directors approved a plan to separate IAC into five publicly traded companies, identifying Tree.com, Inc. ("Tree.com") as one of those five companies. In these consolidated financial statements, we refer to the separation transaction as the "spin-off." In connection with the spin-off, Tree.com was incorporated as a Delaware corporation in April 2008. Tree.com currently does not have any material assets or liabilities, nor does it engage in any business or other activities and, other than in connection with the spin-off, will not acquire or incur any material assets or liabilities, nor will it engage in any business or other activities. Upon completion of the spin-off, Tree.com will consist of the businesses that formerly comprised IAC's Lending and Real Estate segments. We refer herein to these businesses as the "Tree.com Businesses," which include LendingTree.com, RealEstate.com, GetSmart.com, LendingTree Loans and iNest.

Basis of Presentation

The historical consolidated financial statements of Tree.com and its subsidiaries reflect the contribution or other transfer to Tree.com of all of the subsidiaries and assets and the assumption by Tree.com of all of the liabilities relating to the Tree.com Businesses in connection with the spin-off and the allocation to Tree.com of certain IAC corporate expenses relating to the Tree.com Businesses. Accordingly, the historical consolidated financial statements of Tree.com reflect the historical financial position, results of operations and cash flows of the Tree.com Businesses since their respective dates of acquisition by IAC, based on the historical consolidated financial statements and accounting records of IAC and using the historical results of operations and historical bases of the assets and liabilities of the Tree.com Businesses with the exception of accounting for income taxes. For purposes of these financial statements, income taxes have been computed for Tree.com on an as if stand-alone, separate tax return basis. Intercompany transactions and accounts have been eliminated.

In the opinion of Tree.com's management, the assumptions underlying the historical consolidated financial statements of Tree.com are reasonable. However, this financial information does not necessarily reflect what the historical financial position, results of operations and cash flows of Tree.com would have been had Tree.com been a stand-alone company during the periods presented.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of Tree.com's management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Interim results are not necessarily indicative of the results that may be expected for a full year. The accompanying unaudited consolidated financial statements should be read in conjunction with Tree.com's audited consolidated financial statements and notes thereto for the year ended December 31, 2007.

Company Overview

Lending

Lending consists of online networks (principally LendingTree.com and GetSmart.com) and call centers that connect consumers and financial providers in the lending industry. Tree.com also

TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 ORGANIZATION (Continued)

originates, processes, approves and funds various residential real estate loans through Home Loan Center ("HLC"), which does business as LendingTree Loans in certain jurisdictions. The HLC and LendingTree Loans brand names are collectively referred to in these consolidated financial statements as "LendingTree Loans."

Real Estate

Real Estate consists of a proprietary full service real estate brokerage that operates in fourteen U.S. markets, *www.RealEstate.com*, an online network that connects consumers with real estate brokerages around the country and iNest, an online network that matches buyers and builders of new homes.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Accounting Estimates

Tree.com's management is required to make certain estimates and assumptions during the preparation of its consolidated financial statements in accordance with U.S. generally accepted accounting principles. These estimates and assumptions impact the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements. They also impact the reported amount of net earnings during any period. Actual results could differ from those estimates.

Significant estimates underlying the accompanying consolidated financial statements include: reserves for losses associated with loans held for sale and loans that have been previously sold; the fair value of loans held for sale and related derivatives; the recoverability of long-lived assets; the recovery of goodwill and intangible assets; the determination of income taxes payable and deferred income taxes, including related valuation allowances; various other allowances, reserves and accruals; and assumptions related to the determination of stock-based compensation.

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51" ("SFAS No. 160"). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. The Statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. SFAS No. 160 will be applied prospectively, except as it relates to disclosures, for which the effects will be applied retrospectively for all periods presented. Early adoption is not permitted. Tree.com is currently assessing the impact of SFAS No. 160 on its consolidated financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS No. 141R"), which replaces FASB Statement No. 141. SFAS No. 141R establishes principles

TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. The Statement also establishes disclosure requirements that will enable users to evaluate the nature and financial effects of the business combination. SFAS No. 141R applies prospectively to business combinations in fiscal years beginning after December 15, 2008. Early adoption is not permitted. Tree.com is currently assessing the impact of the adoption of SFAS No. 141R on its consolidated financial position, results of operations and cash flows.

NOTE 3 GOODWILL AND INTANGIBLE ASSETS

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 charges associated with Lending was $70.2 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 at Tree.com resulted from the Company's most recent reassessment of the likely future profitability of Lending and Real Estate in light of the persistent adverse mortgage and real estate market conditions and the operational strategies Tree.com has undertaken in response to these market realities. These adverse conditions include, among others, constrained liquidity, lender focus on low margin conforming loans, uncertainty as to the eventuality and timing of the return of higher margin mortgage 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 balance of goodwill and intangible assets, net is as follows (in thousands):

	June 30, 2008	December 31, 2007
Goodwill	$ 9,285	$ 140,892
Intangible assets with indefinite lives	55,229	88,607
Intangible assets with definite lives, net	12,655	19,833
Total goodwill and intangible assets, net	$ 77,169	$ 249,332

Intangible assets with indefinite lives relate principally to trade names and trademarks acquired in various acquisitions. At June 30, 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	$ (65,876)	$ 10,241	5.7
Technology	29,100	(28,925)	175	3.0
Customer lists	6,607	(6,607)		2.8
Other	9,078	(6,839)	2,239	4.8
Total	$ 120,902	$ (108,247)	$ 12,655	

TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 GOODWILL AND INTANGIBLE ASSETS (Continued)

At December 31, 2007, intangible assets with definite lives relate to the following (in thousands):

	Cost	Accumulated Amortization	Net	Weighted Average Amortization Life (Years)
Purchase agreements	$ 76,117	$ (59,212)	$16,905	5.7
Technology	29,100	(28,663)	437	3.0
Customer lists	6,607	(6,607)		2.8
Other	8,928	(6,437)	2,491	4.9
Total	$120,752	$ (100,919)	$19,833	

Amortization of intangible assets with definite lives is computed on a straight-line basis and, based on December 31, 2007 balances, such amortization for the next five years is estimated to be as follows (in thousands):

Years Ending December 31,	
2008	$10,883
2009	4,138
2010	2,768
2011	1,218
2012	826
	$19,833

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

	Balance as of January 1, 2008	Additions	(Deductions)	Impairments	Balance as of June 30, 2008
Lending	$ 70,766	$	$ (615)	$ (70,151)	$
Real Estate	70,126		(35)	(60,806)	9,285
Total	$ 140,892	$	$ (650)	$ (130,957)	$ 9,285

Deductions principally relate to the establishment of deferred tax assets related to acquired tax attributes and the income tax benefit realized pursuant to the exercise of stock options assumed in a business acquisition that were vested at the transaction date and are treated as a reduction in goodwill when the income tax deductions are realized. The impairments are described above.

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, 2008	December 31, 2007
Computer equipment and capitalized software	$ 37,405	$ 35,183
Leasehold improvements	3,404	3,076
Furniture and other equipment	4,339	3,737
Projects in progress	3,050	5,002
	48,198	46,998
Less: accumulated depreciation and amortization	(28,121)	(25,532)
Total property and equipment, net	$ 20,077	$ 21,466

NOTE 5 SEGMENT INFORMATION

The overall concept that Tree.com employs in determining its operating segments and related financial information is to present them in a manner consistent with how the chief operating decision maker and executive management view the businesses, how the businesses are organized as to segment management, and the focus of the businesses with regards to the types of products or services offered or the target market.

Tree.com's primary metric is Operating Income Before Amortization, which is defined as operating income excluding, if applicable: (1) non-cash compensation expense, (2) amortization and impairment of intangibles, (3) goodwill impairment, (4) pro forma adjustments for significant acquisitions, and (5) one-time items. Tree.com believes this measure is useful to investors because it represents the operating results from Tree.com's segments taking into account depreciation, which it believes is an ongoing cost of doing business, but excluding the effects of any other non-cash expenses. Operating Income Before Amortization has certain limitations in that it does not take into account the impact to Tree.com's statement of operations of certain expenses, including non-cash compensation, and acquisition related accounting.

The following tables reconcile Operating Income Before Amortization to operating loss for Tree.com's operating segments and to net loss in total (in thousands):

	For the Three Months Ended June 30, 2008:				
	Operating Income Before Amortization	Non-Cash Compensation Expense	Goodwill Impairment	Amortization and Impairment of Intangibles	Operating Loss
Lending	$ (3,499)	$ (1,111)	$ (70,151)	$ (35,950)	$ (110,711)
Real Estate	(3,597)	(552)	(60,806)	(1,088)	(66,043)
Total	$ (7,096)	$ (1,663)	$ (130,957)	$ (37,038)	(176,754)
Other expense, net					(217)
Loss before income taxes					(176,971)
Income tax benefit					14,051
Net loss					$ (162,920)

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TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5 SEGMENT INFORMATION (Continued)

	For the Three Months Ended June 30, 2007:				
	Operating Income Before Amortization	Non-Cash Compensation Expense	Goodwill Impairment	Amortization of Intangibles	Operating Loss
Lending	$ 1,245	$ (892)	$	$ (2,888)	$ (2,535)
Real Estate	(5,630)	(466)		(3,125)	(9,221)
Total	$ (4,385)	$ (1,358)	$	$ (6,013)	(11,756)
Other expense, net					(34)
Loss before income taxes					(11,790)
Income tax benefit					4,298
Net loss					$ (7,492)

	For the Six Months Ended June 30, 2008:				
	Operating Income Before Amortization	Non-Cash Compensation Expense	Goodwill Impairment	Amortization and Impairment of Intangibles	Operating Loss
Lending	$ (4,797)	$ (1,502)	$ (70,151)	$ (38,510)	$ (114,960)
Real Estate	(7,563)	(717)	(60,806)	(2,196)	(71,282)
Total	$ (12,360)	$ (2,219)	$ (130,957)	$ (40,706)	(186,242)
Other expense, net					(319)
Loss before income taxes					(186,561)
Income tax benefit					13,842
Net loss					$ (172,719)

For the Six Months Ended June 30, 2007:

	Operating Income Before Amortization	Non-Cash Compensation Expense	Goodwill Impairment	Amortization of Intangibles	Operating Loss
Lending	$ 4,484	$ (1,634)	$	$ (5,778)	$ (2,928)
Real Estate	(11,878)	(845)		(4,509)	(17,232)
Total	$ (7,394)	$ (2,479)	$	$ (10,287)	(20,160)
Other expense, net					(243)
Loss before income taxes					(20,403)
Income tax benefit					7,788
Net loss					$ (12,615)

TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5 SEGMENT INFORMATION (Continued)

Non-cash compensation expense in the tables above is included in the following line items in the accompanying consolidated statements of operations for the three and six months ended June 30, 2008 and 2007 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Cost of revenue	$ 125	$ 97	$ 162	$ 176
Selling and marketing expense	136	107	177	192
General and administrative expense	1,401	1,153	1,878	2,109
Product development	1	1	2	2
Non-cash compensation expense	$ 1,663	$ 1,358	$ 2,219	$ 2,479

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
		(In thousands)		
Revenue:				
Lending:				
Origination and sale of loans	$23,058	$ 47,077	$ 51,065	$ 93,967
Match fees	13,802	22,458	33,660	46,207
Closed loan fees	10,155	19,830	20,896	38,653
Other	2,753	5,916	5,958	13,222
Total Lending revenue	49,768	95,281	111,579	192,049
Real Estate revenue	10,215	15,358	18,597	28,589
Total	$59,983	$110,639	$130,176	$220,638

Tree.com maintains operations solely in the United States.

NOTE 6 FAIR VALUE MEASUREMENTS

Effective January 1, 2008, Tree.com adopted SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). In accordance with SFAS No. 157, Tree.com categorizes its assets and liabilities measured at 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.

TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6 FAIR VALUE MEASUREMENTS (Continued)

Level 3: Unobservable inputs for which there is little or no market data and require Tree.com to develop its own assumptions, based on the best information available in the circumstances, about the assumptions market participants would use in pricing the asset or liability.

The following table presents Tree.com's assets and liabilities that are measured at fair value on a recurring basis at June 30, 2008 (in thousands):

	Recurring Fair Value Measurements Using			
	Quoted Market Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value Measurements
Loans held for sale	$	$ 84,451	$	$ 84,451
Net derivatives related to loans held for sale and interest rate lock commitments			3,059	3,059
Total	$	$ 84,451	$ 3,059	$ 87,510

The following table presents the changes in Tree.com's assets and liabilities that are measured at fair value on a recurring basis using significant unobservable inputs (Level 3) (in thousands):

	Net Derivatives Related to Loans Held for Sale and Interest Rate Lock Commitments	
	For Three Months Ended June 30, 2008	For Six Months Ended June 30, 2008
Balance at beginning of period	$ 5,264	$ 3,465
Total net gains or losses (realized and unrealized) included in earnings	11,197	26,558
Transfers of IRLCs to closed loans	(12,779)	(25,873)
Transfers in and/or out of Level 3	(623)	(1,091)
Balance at June 30, 2008	$ 3,059	$ 3,059

The following table presents the gains included in earnings for the three and six months ended June 30, 2008 relating to Tree.com's assets and liabilities that are measured at fair value on a recurring basis using significant unobservable inputs (Level 3) (in thousands):

	Net Derivatives Related to Loans Held for Sale and Interest Rate Lock Commitments	
	For Three Months Ended June 30, 2008	For Six Months Ended June 30, 2008
Total gains included in earnings, which are included in revenue	$ 11,197	$ 26,558
Change in unrealized gains relating to assets and liabilities still held at June 30, 2008, which are included in revenue	$ 3,059	$ 3,059

TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6 FAIR VALUE MEASUREMENTS (Continued)

Net derivatives related to loans held for sale and interest rate lock commitments

LendingTree Loans hedges the changes in fair value of certain loans held for sale primarily by entering into mortgage forward delivery contracts. Although LendingTree Loans continues to enter into forward delivery contracts for risk management purposes, effective April 1, 2007 it no longer designates these derivatives as hedges for accounting purposes. When hedge accounting was discontinued, the affected loans held for sale were no longer adjusted for changes in fair value. However, the changes in fair value of the forward delivery contracts continued to be recognized in current earnings as a component of revenue. The fair value of the forward delivery contracts is recorded in "Prepaid and other current assets" and/or "Accrued expenses and other current liabilities" in the accompanying consolidated balance sheets. For the three and six months ended June 30, 2008, Tree.com recognized gains of $0.8 million and $0.7 million, respectively, related to the changes in fair value of forward delivery contracts related to loans held for sale.

LendingTree Loans enters into commitments with consumers to originate loans at a locked in interest rate (interest rate lock commitments "IRLCs"). Tree.com reports IRLCs as derivative instruments at fair value in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). Accordingly, LendingTree Loans determines the fair value of IRLCs using current secondary market prices for underlying loans with similar coupons, maturity and credit quality, subject to the anticipated loan funding probability, or fallout factor. The fair value of IRLCs is subject to change primarily due to changes in interest rates and fallout factors. Under LendingTree Loans' risk management policy, LendingTree Loans hedges the changes in fair value of IRLCs primarily by entering into mortgage forward delivery contracts which can reduce the volatility of economic outcomes. Neither the IRLCs nor the related hedging instrument qualify for hedge accounting and both are recorded at fair value with changes in fair value being recorded in current earnings as a component of revenue in the statement of operations.

Prior to the adoption of SFAS No. 157 the recognition of gains and losses at the inception of a derivative contract were prohibited unless the fair value of the contract was evidenced by a quoted price in an active market. As no active market exists for IRLCs, such day one gains and losses were not recognized until the related loan was sold. Prior to January 1, 2008, guidance also prohibited including the value of servicing the loan in calculating the fair value of an IRLC. Such guidance was rescinded by Staff Accounting Bulletin No. 109, "Written Loan Commitments Recorded at Fair Value Through Earnings" ("SAB 109"). Accordingly, with the adoption of SFAS No. 157 and SAB 109 on January 1, 2008, the day one gains and servicing value, adjusted by the loan funding probability, are included in the value of IRLCs.

The net change in fair value of the IRLCs and related forward delivery contracts for the three and six months ended June 30, 2008 resulted in gains of $12.3 million and $27.0 million, respectively, which have been recognized in the accompanying consolidated statements of operations. The net change in fair value of the IRLCs and related forward delivery contracts for the three and six months ended June 30, 2007 resulted in gains of $0.4 million and $0.1 million, respectively, which have been recognized in the accompanying consolidated statements of operations. The significant change year over year is due principally to the inclusion of day one gains and the value of servicing the loans in 2008 associated with the adoption of SFAS No. 157 and SAB 109. Prior to the adoption of SFAS No. 157 and SAB 109, the recognition of such day one gains and servicing value were proscribed and these gains were not recognized until realized through the sale of the related loans. This change in treatment,

TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6 FAIR VALUE MEASUREMENTS (Continued)

therefore, is only related to the timing of revenue recognition. The IRLCs are recorded in "Prepaid and other current assets" and/or "Accrued expenses and other current liabilities" in the accompanying consolidated balance sheets. At June 30, 2008, there was $161.2 million of IRLCs notional value outstanding.

Effective January 1, 2008 Tree.com adopted SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115" ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure certain financial instruments at fair value with the objective of reducing both the complexity in the accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. Upon adoption, Tree.com elected to account for loans held for sale issued after January 1, 2008 at fair value. Electing the fair value option allows a better offset of the changes in fair values of the loans and the forward delivery contracts used to economically hedge them without the burden of complying with the requirements for hedge accounting under SFAS No. 133.

Tree.com did not elect the fair value option on loans held for sale of $3.7 million originated prior to January 1, 2008. These loans are carried at the lower of cost or market value determined on an aggregate basis except for loans that are impaired, which are assessed on an individual basis. The fair value of impaired loans at June 30, 2008, measured based on significant unobservable inputs (Level 3) was $2.9 million. The fair value of impaired loans is measured on a non-recurring basis and is based on management's best estimate of the market value of such loans and considers reprice bids received from the investors prior to repurchase, if applicable, or current bids in the secondary market for similar loans and represent management's best estimate of the market value of such loans.

During the three and six months ended June 30, 2008, the change in fair value of loans held for sale for which the fair value option has been elected were losses of $1.6 million and $1.7 million, respectively, and are included as a component of revenue in the accompanying consolidated statement of operations.

The following table presents the difference between the aggregate fair value and the aggregate unpaid principal balance of loans held for sale at June 30, 2008 for which the fair value option has been elected (in thousands):

	Aggregate Fair Value	Aggregate Unpaid Principal Balance	Difference
Loans held for sale	$ 84,451	$ 82,424	$ 2,027

For the six months ended June 30, 2008 and 2007, LendingTree Loans sold approximately 6,339 and 24,850 loans, respectively, with initial loan values of $1.2 billion and $3.9 billion, respectively. From loans sold during the six months ended June 30, 2008, LendingTree Loans has not yet experienced any repurchase or indemnification losses. From loans sold during the six months ended June 30, 2007, LendingTree Loans has experienced losses of $1.9 million.

NOTE 7 INCOME TAXES

Tree.com calculates its interim income tax provision in accordance with Accounting Principles Board Opinion No. 28 and FASB Interpretation No. 18. At the end of each interim period, Tree.com makes its best estimate of the annual expected effective tax rate and applies that rate to its ordinary

TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 INCOME TAXES (Continued)

year-to-date earnings or loss. The tax or benefit related to significant, unusual, or extraordinary items that will be separately reported or reported net of their related tax effect are individually computed and recognized in the interim period in which those items occur. In addition, the effect of changes in enacted tax laws or rates, tax status, or judgment on the realizability of a beginning-of-the-year deferred tax asset in future years is recognized in the interim period in which the change occurs.

The computation of the annual expected effective tax rate at each interim period requires certain estimates and assumptions including, but not limited to, the expected operating income for the year, permanent and temporary differences, and the likelihood of recovering deferred tax assets generated in the current year. The accounting estimates used to compute the provision for income taxes may change as new events occur, more experience is acquired, additional information is obtained or our tax environment changes. To the extent that the estimated annual effective tax rate changes during a quarter, the effect of the change on prior quarters is included in tax expense for the current quarter.

For the three and six months ended June 30, 2008 Tree.com recorded a tax benefit of $14.1 million and $13.8 million, respectively, which represents effective tax rates of 8% and 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 valuation allowance on deferred tax assets. For the three and six months ended June 30, 2007 Tree.com recorded a tax benefit of $4.3 million and $7.8 million, respectively, which represents an effective tax rates of 36% and 38%, respectively. These tax benefits are higher than the federal statutory rate of 35% due principally to state taxes.

As of December 31, 2007 and June 30, 2008, Tree.com had unrecognized tax benefits of approximately $4.4 million and $4.0 million, respectively. Included in unrecognized tax benefits at June 30, 2008 is approximately $3.3 million for tax positions included in IAC's consolidated tax return filings that will remain a liability of IAC after the spin-off. Tree.com recognizes interest and, if applicable, penalties related to unrecognized tax benefits in income tax expense. There were no material accruals for interest for the six months ended June 30, 2008. At June 30, 2008 Tree.com has accrued $1.5 million for the payment of interest. There are no material accruals for penalties.

By virtue of previously filed separate company and consolidated tax returns with IAC, Tree.com is routinely under audit by federal, state and local foreign authorities in the area of income tax. These audits include questioning the timing and the amount of deductions and the allocation of income among various tax jurisdictions. Income taxes payable include amounts considered sufficient to pay assessments that may result from examination of prior year returns; however, the amount paid upon resolution of issues raised may differ from the amount provided. Differences between the reserves for tax contingencies and the amounts owed by Tree.com are recorded in the period they become known.

The Internal Revenue Service is currently examining the IAC consolidated tax returns for the years ended December 31, 2001 through 2003, which includes the operations of Tree.com from August 8, 2003, the date which Tree.com joined the IAC consolidated tax return. The statute of limitations for these years has been extended to December 31, 2009. Various IAC consolidated state, local and foreign jurisdictions are currently under examination, the most significant of which are California, Florida, New York state and New York City, for various tax years after December 31, 2001, and these examinations are expected to be completed by late 2008.

Tree.com believes that it is reasonably possible that its unrecognized tax benefits could decrease by approximately $1.6 million within twelve months of the current reporting date due to the reversal of

TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 INCOME TAXES (Continued)

deductible temporary differences which will result in a corresponding increase in net deferred tax liabilities. An estimate of other changes in unrecognized tax benefits cannot be made, but are not expected to be significant.

NOTE 8 CONTINGENCIES

On November 24, 2003, IMX, Inc. ("IMX") filed suit against Tree.com alleging infringement of a patent held by IMX and seeking damages related to the alleged infringement. In January 2006 after trial, a jury returned a verdict finding infringement by Tree.com and awarding IMX $5.8 million in damages. Tree.com accordingly established a reserve of $5.8 million in its 2005 financial statements. The court later enhanced the damages award, and Tree.com accordingly increased the reserve by $6.3 million to $12.1 million at December 31, 2006. In 2007, the court awarded IMX supplemental damages and pre-judgment and post-judgment interest and entered a final judgment, which Tree.com appealed to the U.S. Court of Appeals for the Federal Circuit. Tree.com increased the reserve by $0.7 million to $12.8 million at December 31, 2007 to reflect the running of post-judgment interest. Tree.com decreased the reserve by $1.1 million in the second quarter of 2008 to $11.75 million at June 30, 2008 to reflect the terms of a settlement in principle with IMX which then resulted in dismissal of the appeal and the underlying lawsuit in August 2008. Tree.com paid IMX $11.75 million in August 2008 in exchange for a perpetual license under the IMX patents.

HLC is party to various employment related lawsuits. During 2006, Tree.com established a reserve of $0.4 million for certain of these actions. During 2007, an additional reserve of $2.1 million was recorded. The balance of the related liability was $2.5 million at June 30, 2008 and December 31, 2007, respectively.

In the ordinary course of business, Tree.com is a party to various lawsuits. Tree.com establishes reserves for specific legal matters when it determines that the likelihood of an unfavorable outcome is probable and the loss is reasonably estimable. Management has also identified certain other legal matters where it believes an unfavorable outcome is not probable and, therefore, no reserve is established. Although management currently believes that an unfavorable resolution of claims against Tree.com, including claims where an unfavorable outcome is reasonably possible, will not have a material impact on the liquidity, results of operations, or financial condition of Tree.com, these matters are subject to inherent uncertainties and management's view of these matters may change in the future. It is possible that an unfavorable outcome of one or more of these lawsuits could have a material impact on the liquidity, results of operations, or financial condition of Tree.com. Tree.com also evaluates other contingent matters, including tax contingencies, to assess the probability and estimated extent of potential loss. See Note 7 for discussion related to income tax contingencies.

NOTE 9 RELATED PARTY TRANSACTIONS

Tree.com's expenses include allocations from IAC of costs associated with IAC's accounting, treasury, legal, tax, corporate support, human resources and internal audit functions. These expenses were allocated based on the ratio of Tree.com's revenue as a percentage of IAC's total revenue. Allocated costs were $0.1 million and $0.3 million for the three months ended June 30, 2008 and 2007, respectively, and $0.3 million and $0.6 million for the six months ended June 30, 2008 and 2007, respectively, and are included in "General and administrative expense" in the accompanying consolidated statements of operations. It is not practicable to determine the amounts of these expenses

TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9 RELATED PARTY TRANSACTIONS (Continued)

that would have been incurred had Tree.com operated as an unaffiliated entity. In the opinion of management, the allocation method is reasonable.

An analysis of Tree.com's payables to IAC and subsidiaries is as follows (in thousands):

	June 30, 2008
Payables to IAC and subsidiaries at December 31, 2007	$ 20,067
Cash transfers from IAC related to its centrally managed U.S. treasury function	18,146
Interest expense	246
Employee equity instruments and associated tax withholdings	(354)
Taxes (excludes tax withholdings associated with employee equity instruments)	(2,920)
Allocation of non-cash compensation expense	2,049
Administrative expenses and other	9,220
Payables to IAC and subsidiaries at June 30, 2008	$ 46,454

Relationship Between IAC and Tree.com after the Spin-Off

For purposes of governing certain of the ongoing relationships between Tree.com and IAC at and after the spin-off, and to provide for an orderly transition, Tree.com and IAC 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 10 RESTRUCTURING CHARGES

The restructuring charges primarily relate to Tree.com's significant reduction in its mortgage origination operations in response to the persistent adverse mortgage market conditions. Costs that relate to ongoing operations are not part of restructuring charges. Restructuring charges by segment and type are as follows:

	For The Three Months Ended June 30, 2008				
	Employee Termination Costs	Continuing Lease Obligations	Asset Write-offs	Other	Total
		(In thousands)			
Lending	$ 1,259	$	$ 1	$ (12)	$ 1,248
Real Estate	367		34	112	513
Total	$ 1,626	$	$ 35	$ 100	$ 1,761

TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10 RESTRUCTURING CHARGES (Continued)

	For The Six Months Ended June 30, 2008				
	Employee Termination Costs	Continuing Lease Obligations	Asset Write-offs	Other	Total
			(In thousands)		
Lending	$ 1,259	$ 65	$ 338	$ (12)	$ 1,650
Real Estate	367		34	112	513
Total	$ 1,626	$ 65	$ 372	$ 100	$ 2,163

	For The Three and Six Months Ended June 30, 2007				
	Employee Termination Costs	Continuing Lease Obligations	Asset Write-offs	Other	Total
			(In thousands)		
Lending	$ 2,674	$ 1,089	$	$	$ 3,763
Real Estate	200		635		835
Total	$ 2,874	$ 1,089	$ 635	$	$ 4,598

Restructuring charges and spending against liabilities are as follows:

	For The Six Months Ended June 30, 2008				
	Employee Termination Costs	Continuing Lease Obligations	Asset Write-offs	Other	Total
			(In thousands)		
Balance, beginning of period	$ 2,064	$ 3,885	$	$ 554	$ 6,503
Restructuring charges	1,626	65	372	100	2,163
Payments	(1,929)	(1,369)		(291)	(3,589)
Write-offs		(49)	(372)		(421)
Balance, end of period	$ 1,761	$ 2,532	$	$ 363	$ 4,656

At June 30, 2008, restructuring liabilities of $4.1 million are included in "Accrued expenses and other current liabilities" and $0.5 million are included in "Other long-term liabilities" in the accompanying consolidated balance sheet. At December 31, 2007, restructuring liabilities of $5.6 million are included in "Accrued expenses and other current liabilities" and $0.9 million are included in "Other long-term liabilities" in the accompanying consolidated balance sheet. Tree.com does not expect to incur significant additional costs related to these restructurings.

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

GENERAL

Management Overview

On November 5, 2007, IAC/InterActiveCorp ("IAC") announced that its Board of Directors approved a plan to separate IAC into five publicly traded companies, identifying Tree.com, Inc. ("Tree.com") as one of those five companies. We refer to the separation transaction herein as the "spin-off." In connection with the spin-off, Tree.com was incorporated as a Delaware corporation in April 2008. Tree.com currently does not have any material assets or liabilities, nor does it engage in any business or other activities and, other than in connection with the spin-off, will not acquire or incur any material assets or liabilities, nor will it engage in any business or other activities. Upon completion of the spin-off, Tree.com will consist of the businesses that formerly comprised IAC's Lending and Real Estate segments. We refer herein to these businesses as the "Tree.com Businesses," which include LendingTree.com, RealEstate.com, GetSmart.com, LendingTree Loans and iNest.

Tree.com's Lending segment consists of online networks (principally LendingTree.com and GetSmart.com) and call centers that connect consumers and financial providers in the lending industry (the "lending networks"). Tree.com also originates, processes, approves and funds various residential real estate loans through Home Loan Center, which does business as LendingTree Loans in certain jurisdictions. The Home Loan Center and LendingTree Loans brand names are collectively referred to in this report as "LendingTree Loans."

Tree.com's Real Estate segment primarily consists of a proprietary full-service real estate brokerage that operates in 14 U.S. markets, *www.RealEstate.com*, an online network that connects consumers with real estate brokerages around the country and iNest, an online network that matches buyers and builders of new homes (the "real estate networks").

Results of operations for the three and six months ended June 30, 2008 compared to the three and six months ended June 30, 2007:

Revenue

For the three months ended June 30, 2008 compared to the three months ended June 30, 2007

	Three Months Ended June 30,		
	2008	% Change	2007
	(Dollars in thousands)		
Lending:			
Origination and sale of loans	$23,058	(51)%	$ 47,077
Other lending	26,710	(45)%	48,204
Total Lending	49,768	(48)%	95,281
Real Estate	10,215	(33)%	15,358
Total revenue	$59,983	(46)%	$110,639

Lending revenue in 2008 decreased $45.5 million, or 48%, from the same period in 2007. Revenue generated from the origination and sale of loans in the secondary market declined $24.0 million, or 51%, primarily due to a decrease in consumer demand resulting in fewer loans being originated and sold into the secondary market as well as a market driven shift to lower margin conforming loans as compared to the prior year. Revenue from other lending services declined $21.5 million, or 45%, due primarily to fewer Qualification Forms transmitted to and loans closed on the lending networks.

The dollar value of loans closed by network lenders and directly by LendingTree Loans in 2008 decreased 44% to $4.3 billion. This includes refinance mortgages of $2.5 billion, purchase mortgages of $1.2 billion and home equity loans of $0.5 billion. The dollar value of loans closed by network lenders and directly by LendingTree Loans in 2007 was $7.7 billion, including refinance mortgages of $4.0 billion, purchase mortgages of $2.2 billion and home equity loans of $1.2 billion. Revenue from all home loan offerings declined with home equity loans, purchase mortgage revenue and refinance mortgage revenue declining 75%, 44% and 44%, respectively.

Lending Tree Loans originates mortgage loans on property located throughout the United States, with no one location representing more than 10% of Tree.com's consolidated revenue for any periods presented. Revenue from loans originated for property in California and Florida in the aggregate totaled approximately 8% and 11% of Tree.com's consolidated revenue for the three months ended June 30, 2008 and 2007, respectively.

Real Estate revenue decreased $5.1 million, or 33%, principally due to a $4.2 million decrease related to the Real Estate builder and broker networks, which experienced decreased closings year over year, as well as a decrease of $2.1 million due to the absence of revenue from the agent network business which ceased operations in December 2007. Partially offsetting the revenue decrease was an increase of $1.2 million in revenue from Tree.com's company-owned real estate brokerage business, which increased closings by 35%. The company-owned brokerage business began closing transactions in the first quarter of 2006 and now operates in fourteen markets.

For the six months ended June 30, 2008 compared to the six months ended June 30, 2007

	Six Months Ended June 30,		
	2008	% Change	2007
	(Dollars in thousands)		
Lending:			
Origination and sale of loans	$ 51,065	(46)%	$ 93,967
Other lending	60,514	(38)%	98,082
Total Lending	111,579	(42)%	192,049
Real Estate	18,597	(35)%	28,589
Total revenue	$ 130,176	(41)%	$ 220,638

Lending revenue in 2008 decreased $80.5 million, or 42%, from the same period in 2007. Revenue generated from the origination and sale of loans in the secondary market declined $42.9 million, or 46%, primarily due to a decrease in consumer demand resulting in fewer loans being originated and sold into the secondary market as well as a market driven shift to lower margin conforming loans as compared to the prior year. Revenue from other lending services declined $37.6 million, or 38%, due primarily to fewer Qualification Forms transmitted to and loans closed on the lending networks.

The dollar value of loans closed by network lenders and directly by LendingTree Loans in 2008 decreased 43% to $8.6 billion. This includes refinance mortgages of $5.2 billion, purchase mortgages of $2.2 billion and home equity loans of $1.0 billion. The dollar value of loans closed by network lenders and directly by LendingTree Loans in 2007 was $15.0 billion, including refinance mortgages of $8.1 billion, purchase mortgages of $4.0 billion and home equity loans of $2.5 billion. Revenue from all home loan offerings declined with home equity loans, purchase mortgage revenue and refinance mortgage revenue declining 75%, 41% and 33%, respectively.

Lending Tree Loans originates mortgage loans on property located throughout the United States, with no one location representing more than 10% of Tree.com's consolidated revenue for any periods presented. Revenue from loans originated for property in California and Florida in the aggregate totaled approximately 8% and 11% of Tree.com's consolidated revenue for the six months ended June 30, 2008 and 2007, respectively.

Real Estate revenue decreased $10.0 million, or 35%, principally due to a decrease of $8.1 million related to the Real Estate builder and broker networks, which experienced decreased closings year over year, as well as a decrease of $4.3 million due to the absence of revenue from the agent network business which ceased operations in December 2007. Partially offsetting the revenue decrease was an increase of $2.4 million in revenue from Tree.com's company-owned real estate brokerage business, which increased closings by 38%.

Cost of revenue

For the three months ended June 30, 2008 compared to the three months ended June 30, 2007

	Three Months Ended June 30,		
	2008	**% Change**	**2007**
	(Dollars in thousands)		
Lending	$11,405	(14)%	$13,332
Real Estate	5,970	(22)%	7,610
Cost of revenue	$17,375	(17)%	$20,942
As a percentage of total revenue	29%	1,004 bp	19%
Gross margin	71%	(1,004) bp	81%

	Three Months Ended June 30,		
	2008	**% Change**	**2007**
	(Dollars in thousands)		
Cost of revenue Lending	$11,405	(14)%	$13,332
As a percentage of Lending revenue	23%	892 bp	14%
Lending gross margin	77%	(892) bp	86%
Cost of revenue Real Estate	$ 5,970	(22)%	$ 7,610
As a percentage of Real Estate revenue	58%	889 bp	50%
Real Estate gross margin	42%	(889) bp	50%

bp = basis points

Cost of revenue consists primarily of costs associated with loan originations, compensation and other employee-related costs (including stock-based compensation) related to customer call centers, real estate network support staff and loan officers, as well as credit scoring fees, consumer incentive costs, real estate agent commissions and website network hosting and server fees.

Cost of revenue in 2008 decreased $3.6 million from 2007 primarily due to decreases of $2.1 million in consumer incentive rebates related to decreased closings at the Lending network and the Real Estate builder and broker network businesses, $1.9 million in compensation and other employee-related costs, $0.9 million in credit scoring and network hosting fees and $0.8 million in direct costs associated with the settlement services business. Offsetting these decreases in cost of revenue was an increase of $2.0 million in costs associated with loan originations. The decrease in compensation and other employee-related costs is primarily due to reduced personnel costs associated with Tree.com's customer call center, settlement services operation and portions of its loan processing department.

Included in cost of revenue in 2008 is the impact of Tree.com's adoption of Statement of Financial Accounting Standards ("SFAS") No. 159, "The Fair Value Option for Financial Assets and Financial

Liabilities Including an amendment of FASB Statement No. 115" ("SFAS 159"). Upon adoption of SFAS 159, Tree.com elected to account for all loans held for sale issued after January 1, 2008 at fair value. Electing the fair value option requires loan origination fees and costs to be recorded in earnings as incurred instead of being deferred until the loan is sold as in prior year periods. In 2008, all loan origination costs are recognized in cost of revenue. Prior to 2008, Tree.com applied the provisions of SFAS 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases", effectively deferring loan origination fees and costs until the underlying loan was sold. Upon sale of the loan, the origination fees and costs were recognized as a component of the gain on sale of the loan in revenue.

For the six months ended June 30, 2008 compared to the six months ended June 30, 2007

	Six Months Ended June 30,		
	2008	% Change	2007
	(Dollars in thousands)		
Lending	$24,201	(12)%	$27,644
Real Estate	10,940	(21)%	13,794
Cost of revenue	$35,141	(15)%	$41,438
As a percentage of total revenue	27%	821 bp	19%
Gross margin	73%	(821) bp	81%

	Six Months Ended June 30,		
	2008	% Change	2007
	(Dollars in thousands)		
Cost of revenue Lending	$ 24,201	(12)%	$ 27,644
As a percentage of Lending revenue	22%	730 bp	14%
Lending gross margin	78%	(730) bp	86%
Cost of revenue Real Estate	$ 10,940	(21)%	$ 13,794
As a percentage of Real Estate revenue	59%	1,058 bp	48%
Real Estate gross margin	41%	(1,058) bp	52%

Cost of revenue in 2008 decreased $6.3 million from 2007 primarily due to decreases of $3.4 million in consumer incentive rebates related to decreased closings at the Lending network and the Real Estate builder and broker network businesses, $3.1 million in compensation and other employee-related costs, $2.1 million in direct costs associated with the settlement services business, and $1.1 million in credit scoring and network hosting fees. Offsetting these decreases in cost of revenue were increases of $2.5 million in costs associated with loan originations and $0.9 million in commission expense primarily related to the increase in closings at company-owned brokerage business. The decrease in compensation and other employee-related costs is primarily due to the factors described above in the three month discussion.

Included in cost of revenue in 2008 is the impact of Tree.com's adoption of SFAS 159 as described above in the three month discussion.

Selling and marketing expense

For the three months ended June 30, 2008 compared to the three months ended June 30, 2007

	Three Months Ended June 30,		
	2008	% Change	2007
	(Dollars in thousands)		
Lending	$29,112	(43)%	$51,035
Real Estate	2,171	(63)%	5,817
Selling and marketing expense	$31,283	(45)%	$56,852
As a percentage of total revenue	52%	77 bp	51%

	Three Months Ended June 30,		
	2008	% Change	2007
	(Dollars in thousands)		
Selling and marketing expense Lending	$29,112	(43)%	$51,035
As a percentage of Lending revenue	58%	493 bp	54%
Selling and marketing expense Real Estate	$ 2,171	(63)%	$ 5,817
As a percentage of Real Estate revenue	21%	(1,661) bp	38%

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.

Selling and marketing expense in 2008 decreased $25.6 million from 2007 primarily due to a decrease of $25.9 million in advertising and promotional expenditures. In 2008, Tree.com experienced decreases in advertising of $16.1 million, $4.4 million and $2.4 million associated with online marketing, print and television advertising, respectively. Tree.com anticipates that selling and marketing expense will continue to represent a high percentage of revenue as it continues to promote its brands both online and offline.

For the six months ended June 30, 2008 compared to the six months ended June 30, 2007

	Six Months Ended June 30,		
	2008	% Change	2007
	(Dollars in thousands)		
Lending	$60,140	(41)%	$101,830
Real Estate	4,340	(62)%	11,500
Selling and marketing expense	$64,480	(43)%	$113,330
As a percentage of total revenue	50%	(183) bp	51%

	Six Months Ended June 30,		
	2008	% Change	2007
	(Dollars in thousands)		
Selling and marketing expense Lending	$60,140	(41)%	$101,830
As a percentage of Lending revenue	54%	88 bp	53%
Selling and marketing expense Real Estate	$ 4,340	(62)%	$ 11,500
As a percentage of Real Estate revenue	23%	(1,689) bp	40%

Selling and marketing expense in 2008 decreased $48.9 million from 2007 primarily due to a decrease of $49.7 million in advertising and promotional expenditures. In 2008, Tree.com experienced decreases in advertising of $28.4 million, $10.4 million and $6.5 million associated with online marketing, print and television advertising, respectively.

General and administrative expense

For the three months ended June 30, 2008 compared to the three months ended June 30, 2007

	Three Months Ended June 30,		
	2008	% Change	2007
	(Dollars in thousands)		
Lending	$10,471	(53)%	$22,103
Real Estate	4,638	(14)%	5,411
General and administrative expense	$15,109	(45)%	$27,514
As a percentage of total revenue	25%	32 bp	25%

	Three Months Ended June 30,		
	2008	% Change	2007
	(Dollars in thousands)		
General and administrative expense Lending	$10,471	(53)%	$22,103
As a percentage of Lending revenue	21%	(216) bp	23%
General and administrative expense Real Estate	$ 4,638	(14)%	$ 5,411
As a percentage of Real Estate revenue	45%	1,018 bp	35%

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, facilities and infrastructure costs and fees for professional services.

General and administrative expense in 2008 decreased $12.4 million from 2007 primarily due to a decrease of $6.0 million in compensation and other employee-related costs, due principally to reductions in workforce that occurred during and subsequent to the second quarter of 2007. Also contributing to the decrease in general and administrative expense are decreases of $1.6 million in litigation expense, $0.9 million in facilities costs and $0.6 million in bad debt expense. Tree.com expects to incur increased costs related to the additional financial and legal requirements associated with being a separate public company, as well as increased non-cash compensation associated with the modification of existing stock-based compensation awards in connection with the spin-off and the grant of new awards in connection with and subsequent to the spin-off.

General and administrative expense includes non-cash compensation expense of $1.4 million in 2008 and $1.2 million in 2007. As of June 30, 2008, there was approximately $9.3 million of unrecognized compensation cost, net of estimated forfeitures, related to all equity-based awards, which is currently expected to be recognized over a weighted average period of approximately 2.3 years (exclusive of the impact of the modification related to the spin-off, which consists of the accelerated vesting of certain restricted stock units and the modification of vested stock options).

For the six months ended June 30, 2008 compared to the six months ended June 30, 2007

	Six Months Ended June 30,		
	2008	% Change	2007
	(Dollars in thousands)		
Lending	$26,925	(41)%	$45,972
Real Estate	8,948	(23)%	11,588
General and administrative expense	$35,873	(38)%	$57,560
As a percentage of total revenue	28%	147 bp	26%

	Six Months Ended June 30,		
	2008	% Change	2007
	(Dollars in thousands)		
General and administrative expense Lending	$26,925	(41)%	$ 45,972
As a percentage of Lending revenue	24%	19 bp	24%
General and administrative expense Real Estate	$ 8,948	(23)%	$ 11,588
As a percentage of Real Estate revenue	48%	758 bp	41%

General and administrative expense in 2008 decreased $21.7 million from 2007 primarily due to a decrease of $13.5 million in compensation and other employee-related costs, due principally to reductions in workforce that occurred during and subsequent to the second quarter of 2007. Also contributing to the decrease in general and administrative expense are decreases of $1.9 million in facilities costs, $1.0 million in bad debt expense and $0.9 million in litigation expense, partially offset by a charge of $1.0 million associated with legal and regulatory costs.

General and administrative expense includes non-cash compensation expense of $1.9 million in 2008 compared with $2.1 million in 2007. The decrease in non-cash compensation expense is primarily due to reductions in workforce that occurred during and subsequent to the second quarter of 2007 and various equity grants fully vesting throughout 2007.

Product development

For the three months ended June 30, 2008 compared to the three months ended June 30, 2007

	Three Months Ended June 30,		
	2008	% Change	2007
	(Dollars in thousands)		
Lending	$ 832	(65)%	$2,409
Real Estate	611	(59)%	1,487
Product development	$1,443	(63)%	$3,896
As a percentage of total revenue	2%	(111) bp	4%

	Three Months Ended June 30,		
	2008	% Change	2007
	(Dollars in thousands)		
Product development Lending	$ 832	(65)%	$ 2,409
As a percentage of Lending revenue	2%	(86) bp	3%
Product development Real Estate	$ 611	(59)%	$ 1,487
As a percentage of Real Estate revenue	6%	(370) bp	10%

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

Product development expense in 2008 decreased $2.5 million from 2007, due to decreased compensation and other employee-related costs associated with reductions in workforce that occurred during and subsequent to the second quarter of 2007.

For the six months ended June 30, 2008 compared to the six months ended June 30, 2007

	Six Months Ended June 30,		
	2008	% Change	2007
	(Dollars in thousands)		
Lending	$2,286	(56)%	$5,175
Real Estate	1,266	(58)%	2,991
Product development	$3,552	(57)%	$8,166
As a percentage of total revenue	3%	(97) bp	4%

	Six Months Ended June 30,		
	2008	% Change	2007
	(Dollars in thousands)		
Product development Lending	$ 2,286	(56)%	$ 5,175
As a percentage of Lending revenue	2%	(65) bp	3%
Product development Real Estate	$ 1,266	(58)%	$ 2,991
As a percentage of Real Estate revenue	7%	(366) bp	10%

Product development expense in 2008 decreased $4.6 million from 2007, driven by the factors described above in the three month discussion.

Restructuring expense

For the three and six months ended June 30, 2008 compared to the three and six months ended June 30, 2007

	Three Months Ended June 30,			Six Months Ended June 30,		
	2008	% Change	2007	2008	% Change	2007
	(Dollars in thousands)					
Lending	$1,248	(67)%	$3,763	$1,650	(56)%	$3,763
Real Estate	513	(39)%	835	513	(39)%	835
Restructuring expense	$1,761	(62)%	$4,598	$2,163	(53)%	$4,598
As a percentage of total revenue	3%	(122) bp	4%	2%	(42) bp	2%

	Three Months Ended June 30,			Six Months Ended June 30,		
	2008	% Change	2007	2008	% Change	2007
	(Dollars in thousands)					
Restructuring expense Lending	$1,248	(67)%	$3,763	$1,650	(56)%	$3,763
As a percentage of Lending revenue	3%	(144) bp	4%	1%	(48) bp	2%
Restructuring expense Real Estate	$ 513	(39)%	$ 835			