Tree.com, Inc.
Form 424B3
November 23, 2010

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

Prospectus Supplement No. 3
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. 3 supplements and amends information in the prospectus dated May 14, 2010, as supplemented and amended by prospectus supplement no. 1 dated August 10, 2010 and prospectus supplement no. 2 dated September 8, 2010 (together, the "Prospectus"). You should read this 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 September 30, 2010 as filed with the Securities and Exchange Commission on November 12, 2010 and our Current Reports on Form 8-K as filed with the Securities and Exchange Commission on November 16, 2010 and November 23, 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 and on page 55 of our Quarterly Report for the quarterly period ended September 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 November 23, 2010.

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

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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.

(Check one):

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

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

As of November 2, 2010 there were 11,083,129 shares of the Registrant's common stock, par value $.01 per share, outstanding.

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PART 1 FINANCIAL INFORMATION

Item 1. ***Financial Statements***

TREE.COM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(In thousands, except per share amounts)			
Revenue				
LendingTree Loans	$ 34,760	$ 24,109	$ 87,147	$ 94,738
Exchanges and other	15,204	18,610	48,013	52,662
Real Estate	3,213	7,997	11,825	21,549
Total revenue	53,177	50,716	146,985	168,949
Cost of revenue				
LendingTree Loans	11,049	11,685	30,752	38,437
Exchanges and other	1,346	1,949	3,654	6,054
Real Estate	2,074	5,056	7,312	13,712
Total cost of revenue (exclusive of depreciation shown separately below)	14,469	18,690	41,718	58,203
Gross margin	38,708	32,026	105,267	110,746
Operating expenses				
Selling and marketing expense	17,830	17,435	55,035	45,149
General and administrative expense	14,035	17,515	39,263	50,929
Product development	1,013	1,673	2,964	4,842
Litigation settlements and contingencies	1,546	14	1,588	406
Restructuring expense	321	78	3,363	(158)
Amortization of intangibles	519	1,055	2,405	3,636
Depreciation	1,523	1,698	4,539	5,049
Asset impairments				3,903
Total operating expenses	36,787	39,468	109,157	113,756
Operating income/(loss)	1,921	(7,442)	(3,890)	(3,010)
Other income (expense)				
Interest income		9	7	84
Interest expense	(60)	(149)	(393)	(451)
Total other (expense), net	(60)	(140)	(386)	(367)
Income/(loss) before income taxes	1,861	(7,582)	(4,276)	(3,377)
Income tax (provision) benefit	(42)	182	(850)	(121)
Net income/(loss)	$ 1,819	$ (7,400)	$ (5,126)	$ (3,498)

Weighted average common shares outstanding		11,023		10,844		10,993		10,413
Weighted average diluted shares outstanding		11,163		10,844		10,993		10,413
Net income/(loss) per share available to common shareholders								
Basic	$	0.16	$	(0.68)	$	(0.47)	$	(0.34)
Diluted	$	0.16	$	(0.68)	$	(0.47)	$	(0.34)

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

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TREE.COM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

		September 30, 2010 (unaudited)		December 31, 2009
		(In thousands, except par value and share amounts)		
ASSETS:				
Cash and cash equivalents	$	57,294	$	86,093
Restricted cash and cash equivalents		11,104		12,019
Accounts receivable, net of allowance of $511 and $518, respectively		7,799		6,835
Loans held for sale ($163,319 and $92,236 measured at fair value, respectively)		164,460		93,596
Prepaid and other current assets		14,663		10,758
Total current assets		255,320		209,301
Property and equipment, net		12,543		12,257
Goodwill		12,917		12,152
Intangible assets, net		55,221		57,626
Other non-current assets		706		496
Total assets	$	336,707	$	291,832
LIABILITIES:				
Warehouse lines of credit	$	140,112	$	78,481
Accounts payable, trade		5,810		5,905
Deferred revenue		1,982		1,731
Deferred income taxes		2,033		2,211
Accrued expenses and other current liabilities		39,806		54,694
Total current liabilities		189,743		143,022
Income taxes payable		94		510
Other long-term liabilities		12,987		12,010
Deferred income taxes		16,581		15,380
Total liabilities		219,405		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 11,881,606 and 10,904,330 shares, respectively, and outstanding 11,211,581 and 10,904,330 shares, respectively		119		109
Additional paid-in capital		908,031		901,818
Accumulated deficit		(786,143)		(781,017)
Treasury stock 670,025 and -0- shares, respectively		(4,705)		
Total shareholders' equity		117,302		120,910
Total liabilities and shareholders' equity	$	336,707	$	291,832

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

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TREE.COM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Unaudited)

		Common Stock				Treasury Stock	
	Total	Number of Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	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 nine months ended September 30, 2010	(5,126)				(5,126)		
Comprehensive loss	(5,126)						
Non-cash compensation	2,840			2,840			
Issuance of common stock upon exercise of stock options and vesting of restricted stock units, net of withholding taxes	(575)	293	4	(579)			
Issuance of restricted stock		150	1	(1)			
Purchase of treasury stock	(4,705)					670	(4,705)
Exchange of preferred stock issued by a subsidiary to common stock issued by the parent	3,958	535	5	3,953			
Balance as of September 30, 2010	$ 117,302	11,882	$ 119	$ 908,031	$ (786,143)	670	$ (4,705)

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

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TREE.COM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30, 2010	2009
	(In thousands)	
Cash flows from operating activities:		
Net loss	$ (5,126)	$ (3,498)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Loss on disposal of fixed assets	9	949
Amortization of intangibles	2,405	3,636
Depreciation	4,539	5,049
Intangible impairment		3,903
Non-cash compensation expense	2,840	3,060
Non-cash restructuring expense	301	161
Deferred income taxes	1,023	393
Gain on origination and sale of loans	(79,301)	(89,701)
Loss on impaired loans not sold		564
Loss on sale of real estate acquired in satisfaction of loans	377	51
Bad debt expense	45	325
Changes in current assets and liabilities:		
Accounts receivable	(1,010)	(1,208)
Origination of loans	(1,940,925)	(2,232,380)
Proceeds from sales of loans	1,953,564	2,335,100
Principal payments received on loans	1,200	781
Payments to investors for loan repurchases and early payoff obligations	(9,114)	(5,641)
Prepaid and other current assets	(996)	(1,149)
Accounts payable and other current liabilities	(14,931)	3,580
Income taxes payable	(388)	(551)
Deferred revenue	109	(130)
Other, net	4,363	1,154
Net cash (used in) provided by operating activities	(81,016)	24,448
Cash flows from investing activities:		
Acquisitions	(50)	(5,726)
Capital expenditures	(4,999)	(2,200)
Other, net	765	3,253
Net cash used in investing activities	(4,284)	(4,673)
Cash flows from financing activities:		
Borrowing under warehouse lines of credit	1,374,460	1,964,237
Repayments of warehouse lines of credit	(1,312,829)	(1,973,294)
Issuance of common stock, net of withholding taxes	(575)	3,373
Purchase of treasury stock	(4,705)	
Decrease (increase) in restricted cash	150	(875)
Net cash provided by (used in) financing activities	56,501	(6,559)
Net (decrease) increase in cash and cash equivalents	(28,799)	13,216
Cash and cash equivalents at beginning of period	86,093	73,643

Cash and cash equivalents at end of period	$	57,294	$	86,859

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

TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION

Spin-Off

On August 20, 2008, Tree.com, Inc. ("Tree.com" or the "Company") was spun off from its parent company, IAC/InterActiveCorp ("IAC") into a separate publicly traded company. In these consolidated financial statements, we refer to the separation transaction as the "spin-off." In connection with the spin-off, Tree.com was incorporated as a Delaware corporation in April 2008.

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.com℠, HealthTree.com℠, LendingTreeAutos.com, DoneRight.com®, and InsuranceTree.com℠. 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. dba LendingTree Loans ("HLC"). 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.

Business Combinations

In September 2010, Tree.com purchased certain assets of a company with an aggregate purchase price of $0.8 million in cash and contingent consideration. The purchase is part of our strategic initiative to diversify our revenue streams outside of the mortgage and real estate industries.

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TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 ORGANIZATION (Continued)

This asset purchase is being accounted for under the acquisition method of accounting. Accordingly, the purchase price is allocated to the acquired assets and liabilities based on their estimated fair values at the acquisition date. The purchase price has been allocated resulting in $0.8 million to be accounted for as goodwill. The pro forma effect of this purchase was not material to our results of operations.

Basis of Presentation

The accompanying unaudited interim consolidated financial statements as of September 30, 2010 and 2009 and for the three and nine months then ended have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for annual financial statements. In the opinion of the Company's management, the unaudited interim consolidated financial statements have been prepared on the same basis as the audited financial statements, and include all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of the Company's financial position for the periods presented. The results for the three and nine months ended September 30, 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.

Reclassifications

Certain prior period amounts have been reclassified to conform with the current presentation with no effect on net income/(loss) or accumulated deficit. Specifically, compensation and other-employee related costs within the Exchanges segment totaling $0.2 million for the nine months ended

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TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

September 30, 2010, and $0.4 million and $1.3 million for the three and nine months ending September 30, 2009, respectively, were reclassified from the Exchanges segment to the LendingTree Loans segment, both within cost of revenue. There was no impact on the consolidated financial results.

Restricted Cash and Cash Equivalents

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

	September 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
Mortgage lending escrow funds	2,922	1,292
Other	627	831
Total restricted cash and cash equivalents	$ 11,104	$ 12,019

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.

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TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 GOODWILL AND INTANGIBLE ASSETS

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

	September 30, 2010	December 31, 2009
Goodwill	$ 12,917	$ 12,152
Intangible assets with indefinite lives	52,733	52,733
Intangible assets with definite lives, net	2,488	4,893
Total goodwill and intangible assets, net	$ 68,138	$ 69,778

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

At September 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	$ (76,175)	$ 177	5.7
Technology	30,491	(29,728)	763	3.0
Customer lists	7,388	(6,677)	711	3.9
Other	9,813	(8,976)	837	4.1
Total	$ 124,044	$ (121,556)	$ 2,488	

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 September 30, 2010 balances, such amortization for the next five years is estimated to be as follows (in thousands):

	Amount
Three months ending December 31, 2010	$ 307
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	$ 2,488

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TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 GOODWILL AND INTANGIBLE ASSETS (Continued)

The following table presents the balance of goodwill by segment (in thousands):

	LendingTree Loans	Exchanges	Real Estate	Total
Balance as of December 31, 2009				
Goodwill	$ 46,526	$ 485,955	$ 70,091	$ 602,572
Accumulated impairment losses	(46,526)	(483,088)	(60,806)	(590,420)
		2,867	9,285	12,152
Goodwill acquired during the year		765		765
Impairment losses				
Other deductions				
Balance as of September 30, 2010				
Goodwill	46,526	486,720	70,091	603,337
Accumulated impairment losses	(46,526)	(483,088)	(60,806)	(590,420)
	$	$ 3,632	$ 9,285	$ 12,917

NOTE 4 PROPERTY AND EQUIPMENT

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

	September 30, 2010	December 31, 2009
Computer equipment and capitalized software	$ 39,367	$ 35,881
Leasehold improvements	2,503	2,888
Furniture and other equipment	3,834	4,096
Projects in progress	2,629	1,532
	48,333	44,397
Less: accumulated depreciation and amortization	(35,790)	(32,140)
Total property and equipment, net	$ 12,543	$ 12,257

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TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5 ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

	September 30, 2010	December 31, 2009
Accrued loan loss liability related to loans previously sold	$ 6,609	$ 6,115
Loan loss settlement liability related to loans previously sold	1,350	4,500
Litigation accruals	1,500	12,750
Accrued advertising expense	8,027	8,095
Accrued compensation and benefits	6,701	7,525
Accrued professional fees	1,026	1,528
Accrued restructuring costs	910	1,848
Derivative liabilities	832	356
Customer deposits and escrows	4,088	3,387
Deferred rent	486	793
Other	8,277	7,797
Total accrued expenses and other current liabilities	$ 39,806	$ 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 $8.3 million and $6.4 million of accrued loan loss liability related to loans previously sold are classified in other long term liabilities at September 30, 2010 and December 31, 2009, respectively.

NOTE 6 WAREHOUSE LINES OF CREDIT

Borrowings on warehouse lines of credit were $140.1 million and $78.5 million at September 30, 2010 and December 31, 2009, respectively.

As of September 30, 2010, LendingTree Loans had two committed lines of credit totaling $125.0 million of borrowing capacity. The total borrowing capacity under these lines was increased to $150.0 million effective October 29, 2010 upon renewal of the second line. LendingTree Loans also has a $25.0 million uncommitted line with one of these lenders. Borrowings under these lines of credit are used to fund, and are secured by, consumer residential loans that are held for sale. Loans under these lines of credit are repaid using proceeds from the sales of loans held for sale by LendingTree Loans.

The $50.0 million first line is scheduled to expire 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., LendingTree, LLC and LendingTree Holdings Corp. The interest rate under the first line is 2.25% plus the greater of (a) 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.

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TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6 WAREHOUSE LINES OF CREDIT (Continued)

The borrowing capacity of the second line was increased from $75.0 million to $100.0 million upon renewal of the line effective October 29, 2010. The expiration date of this line is October 28, 2011. This second line is also guaranteed by Tree.com, Inc., LendingTree, LLC and LendingTree Holdings Corp. The interest rate under this line was decreased from 30-day Adjusted LIBOR or 2.0% (whichever is greater) plus 2.50% to 3.0% prior to renewal, to 30-day Adjusted LIBOR or 2.0% (whichever is greater) plus 2.25% to 2.5% after renewal, for loans being sold to the lender. Additionally, the interest rate for loans not being sold to the lender was decreased from 30-day Adjusted LIBOR or 2.0% (whichever is greater) plus 2.75% prior to renewal, to 30-day Adjusted LIBOR or 2.0% (whichever is greater) plus 2.25% after renewal.

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 $25.0 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 September 30, 2010, LendingTree Loans was in compliance with the covenants under the lines.

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

NOTE 7 SEGMENT INFORMATION

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

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

Tree.com's primary performance metrics are EBITDA and Adjusted EBITDA. EBITDA is defined as earnings before interest, taxes, depreciation and amortization. Adjusted EBITDA is defined as EBITDA excluding (1) non-cash compensation expense, (2) non-cash intangible asset impairment charges, (3) gain/loss on disposal of assets, (4) restructuring expenses, (5) 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

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TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 SEGMENT INFORMATION (Continued)

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.

During the third quarter of 2010, the Company changed its accounting policy for inter-segment revenue and inter-segment marketing expense between the LendingTree Loans and Exchanges segments. This change only impacts the segment results, and does not impact the consolidated financial results of Tree.com.

Marketing expense for the Exchanges is primarily the building and maintaining of the Company's core brands, using both online and offline spending, and generates leads not only for the Exchanges but for other segments as well. Previously, marketing expense for LendingTree Loans was primarily comprised of inter-segment purchases of leads from the Exchanges, leveraging the LendingTree and GetSmart brands. The Exchanges received inter-segment revenue for the sale of these leads, and that revenue and the related marketing expense at LendingTree Loans would then be eliminated in consolidation of the total Company results.

The Company now uses a cost sharing approach for these marketing expenses, whereby LendingTree Loans and the Exchanges now share the marketing expense on a pro rata basis, based on the quantity of leads received by each segment. There is no longer inter-segment revenue or inter-segment marketing expense related to these leads. Management believes that this cost sharing approach is preferable because it more closely aligns the overall goals of the Company with the goals of segment management, and will ultimately drive the Company to better performance. Segment reporting results for prior periods have been restated to conform to the new presentation.

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TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 SEGMENT INFORMATION (Continued)

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

	For the Three Months Ended September 30, 2010:				
	LendingTree Loans	Exchanges	Real Estate	Unallocated Corporate	Total
Revenue	$ 34,760	$ 15,307	$ 3,213	$ (103)	$ 53,177
Cost of revenue (exclusive of depreciation shown separately below)	11,049	1,312	2,074	34	14,469
Gross margin	23,711	13,995	1,139	(137)	38,708
Operating expenses:					
Selling and marketing expense	4,432	12,944	454		17,830
General and administrative expense	6,714	669	951	5,701	14,035
Product development	135	804	74		1,013
Litigation settlements and contingencies	1,510		36		1,546
Restructuring expense	(14)	44	288	3	321
Amortization of intangibles		294	212	13	519
Depreciation	395	559	306	263	1,523
Total operating expenses	13,172	15,314	2,321	5,980	36,787
Operating income (loss)	10,539	(1,319)	(1,182)	(6,117)	1,921
Adjustments to reconcile to EBITDA and Adjusted EBITDA:					
Amortization of intangibles		294	212	13	519
Depreciation	395	559	306	263	1,523
EBITDA	10,934	(466)	(664)	(5,841)	3,963
Restructuring expense	(14)	44	288	3	321
Non-cash compensation	94	73	28	583	778
Litigation settlements and contingencies	1,510		36		1,546
Post acquisition adjustments		(849)	(221)		(1,070)
Adjusted EBITDA	$ 12,524	$ (1,198)	$ (533)	$ (5,255)	$ 5,538
Reconciliation to net income in total:					
Operating income per above					$ 1,921
Other expense, net					(60)
Income before income taxes					1,861
Income tax provision					(42)
Net income					$ 1,819

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TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 SEGMENT INFORMATION (Continued)

	For the Three Months Ended September 30, 2009:				
	LendingTree Loans	Exchanges	Real Estate	Unallocated Corporate	Total
Revenue	$ 24,109	$ 18,610	$ 7,997	$	$ 50,716
Cost of revenue (exclusive of depreciation shown separately below)	11,685	1,409	5,056	540	18,690
Gross margin	12,424	17,201	2,941	(540)	32,026
Operating expenses:					
Selling and marketing expense	3,235	12,978	1,221	1	17,435
General and administrative expense	5,270	1,934	2,067	8,244	17,515
Product development	165	762	363	383	1,673
Litigation settlements and contingencies	6		8		14
Restructuring expense	(54)	50	53	29	78
Amortization of intangibles	70	337	641	7	1,055
Depreciation	741	246	302	409	1,698
Total operating expenses	9,433	16,307	4,655	9,073	39,468
Operating income (loss)	2,991	894	(1,714)	(9,613)	(7,442)
Adjustments to reconcile to EBITDA and Adjusted EBITDA:					
Amortization of intangibles	70	337	641	7	1,055
Depreciation	741	246	302	409	1,698
EBITDA	3,802	1,477	(771)	(9,197)	(4,689)
Restructuring expense	(54)	50	53	29	78
Non-cash compensation	63	48	79	877	1,067
Litigation settlements and contingencies	6		8		14
Adjusted EBITDA	$ 3,817	$ 1,575	$ (631)	$ (8,291)	$ (3,530)
Reconciliation to net loss in total:					
Operating loss per above					$ (7,442)
Other expense, net					(140)
Income before income taxes					(7,582)
Income tax benefit					182
Net loss					$ (7,400)

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TREE.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 SEGMENT INFORMATION (Continued)

	For the Nine Months Ended September 30, 2010:				
	LendingTree Loans	Exchanges	Real Estate	Unallocated Corporate	Total
Revenue					