

Tree.com, Inc.
Form 10-Q
November 05, 2009

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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, 2009

or

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

For the transition period from _____ to
Commission File No. 001-34063

TREE.COM, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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

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

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

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Weighted average common shares outstanding	10,844	9,367	10,413	9,367
Weighted average diluted shares outstanding	10,844	9,367	10,413	9,367
Net loss per share available to common shareholders				
Basic	\$ (0.68)	\$ (2.41)	\$ (0.34)	\$ (20.85)
Diluted	\$ (0.68)	\$ (2.41)	\$ (0.34)	\$ (20.85)

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

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

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

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

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

(Unaudited)

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

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

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

(Unaudited)

Nine Months Ended
September 30,
2009 2008
(In thousands)

Cash flows from
operating activities: