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LENDINGTREE INC
Form S-1/A
June 14, 2001

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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JUNE 14, 2001
REGISTRATION NO. 333-60686

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1
TO

FORM S-1
REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933

LENDINGTREE, INC.
(Exact Name of Registrant as Specified in its Charter)

| | | |
|---|---|--|
| DELAWARE | 7370 | 13-3931821 |
| (State or Other Jurisdiction of Incorporation or Organization) | (Primary Standard Industrial Classification Code Number) | (I.R.S. Employer Identification Number) |

11115 RUSHMORE DRIVE
CHARLOTTE, NORTH CAROLINA 28277
(704) 541-5351
(Address, Including Zip Code, and Telephone Number,
Including Area Code, of Registrant's Principal Executive Offices)

MR. DOUGLAS R. LEBDA
CHIEF EXECUTIVE OFFICER
LENDINGTREE, INC.
11115 RUSHMORE DRIVE
CHARLOTTE, NORTH CAROLINA 28277
(704) 541-5351
(Name, Address, Including Zip Code, and Telephone Number,
Including Area Code, of Agent for Service)

Copies to:

DAVID J. GOLDSCHMIDT, ESQ.
SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP
FOUR TIMES SQUARE
NEW YORK, NEW YORK 10036
(212) 735-3000

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 APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. [X]

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. []

 CALCULATION OF REGISTRATION FEE

| TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED | AMOUNT TO BE REGISTERED | PROPOSED MAXI- MUM OFFERING PRICE PER SHARE | PROPOSED MAXIMUM AGGRE- GATE OFFERING PRICE | AMOUNT REGISTRATI |
|--|-------------------------------|--|--|----------------------|
| ----- | ----- | ----- | ----- | ----- |
| Common stock | Up to 25,000,000 (1) | (2) | \$24,000,000.00 (3) | \$6,000.00 |

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) of the Securities Act of 1933.

(2) The price per share will vary based on the volume-weighted average daily price of LendingTree's common stock during the drawdown periods described in this registration statement. The purchase price will be equal to 95% of the volume-weighted average daily price for each trading day within such drawdown pricing periods. The agreement allows for up to 24 draws over a period of 24 months for amounts up to the greater of (i) \$1,000,000, or (ii) 20% of the 22 day volume weighted average price multiplied by the 22 day trading volume, per draw.

(3) This represents the maximum purchase price that Paul Revere Capital Partners, Ltd. is obligated to pay LendingTree under the common stock purchase agreement. The maximum net proceeds LendingTree can receive is \$24,000,000 less a 4% cash placement fee payable to its placement agent, Ladenburg Thalmann & Co. Inc. and \$1,000 in escrow fees and expenses per drawdown.

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(4) Previously paid.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SECTION 8(A), MAY DETERMINE.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JUNE 14, 2001

LENDINGTREE, INC.

25,000,000 SHARES OF COMMON STOCK

This prospectus relates to the resale by Paul Revere Capital Partners, Inc., a British Virgin Islands Corporation, of up to 25,000,000 shares of common stock that may be issued through a common stock purchase agreement with Paul Revere, as further described in this prospectus. The total number of shares of common stock that may be issued through the common stock purchase agreement and sold by Paul Revere would constitute 133% of our issued and outstanding common stock as of March 31, 2001. However, the agreement provides that we may not sell more than 3,728,750 shares of common stock, or 19.9% of our issued and outstanding common stock as of March 7, 2001, the date of the common stock purchase agreement, unless and until we receive the prior approval of our stockholders as required pursuant to NASD Rule 4350(i)(1)(D). We will receive the net sale price of any common stock that we sell through the common stock purchase agreement and Paul Revere may resell those shares pursuant to this prospectus. The price at which we will sell the shares to Paul Revere will be equal to 95% of the average of the volume weighted average price of our common stock over the twenty-two trading days immediately prior to the date the shares are issued. The registration of shares of our common stock that may be offered pursuant to this prospectus does not necessarily mean that any of these shares will ultimately be offered and sold.

Paul Revere is an "underwriter" within the meaning of the Securities Act of 1933 in connection with its sales.

Our common stock is listed on the Nasdaq National Market System under the symbol "TREE." The last reported sales price for our common stock on the Nasdaq National Market on June 8, 2001 was \$6.31 per share.

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THE SECURITIES OFFERED HEREBY INVOLVE A HIGH DEGREE OF RISK.
SEE "RISK FACTORS" BEGINNING ON PAGE 11.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is , 2001.

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LENDINGTREE, INC.

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PROSPECTUS SUMMARY

This summary is not complete and does not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully, including the more detailed information regarding LendingTree, the risks of purchasing our common stock discussed under "Risk Factors," and our financial statements and the accompanying notes.

LENDINGTREE, INC.

OVERVIEW

We offer an Internet-based lending exchange for consumers and lenders. We attract consumer demand to the exchange through our proprietary website www.lendingtree.com, as well as through private-label and co-branded exchanges enabled by our technology platform, Lend-XSM. In addition, through our website, we provide access to other services related to owning, maintaining or buying and selling a home, including a network of real estate brokers.

We also license and host our Lend-X technology for use by other businesses, enabling them to create their own customized co-branded or private-label lending exchanges. Through these Lend-X partnerships, we can earn revenue both from technology fees related to customization, licensing and hosting the third-party exchange, as well as fees from network sources including transmission fees, closed-loan fees and brokerage fees.

Consumers begin the LendingTree process on www.lendingtree.com by completing a simple online information request, referred to as a qualification form. Data from the qualification form, along with a credit score calculated from credit reports retrieved by the system, is compared to the underwriting criteria of lenders in our lender network. We currently have more than 100 participating lenders in our network. Consumers can receive up to four loan offers in response to a single credit request and then compare, review and accept the offer that best suits their needs. We believe that our participating lenders can generate new business that meets their specific underwriting

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criteria at a substantially lower cost of acquisition than they can through traditional marketing channels. Our exchange encompasses most consumer credit categories, including mortgages, home equity loans, automobile loans, credit cards and personal loans.

We are not a lender. Rather, we are a lending exchange that seeks to drive efficiency and cost savings in the consumer credit markets for both consumers and lenders. We earn revenue from lenders that pay fees for every qualification form that meets their underwriting criteria and is transmitted to them, called transmission fees, and for loans that they close, called closed-loan fees. Our website is powered by our lending exchange technology platform, Lend-X.

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We were incorporated in the state of Delaware on June 7, 1996 and began serving consumers across the United States on July 1, 1998. Our principal executive offices are located at 11115 Rushmore Drive, Charlotte, North Carolina 28277, and our telephone number is (704) 541-5351.

RECENT DEVELOPMENTS

FIRST QUARTER RESULTS

During the first quarter of 2001, LendingTree recognized revenue of \$12.3 million, which was nearly \$3 million, or 28%, greater than the prior quarter and nearly 200% greater than the first quarter of 2000. Our net loss for the first quarter of 2001 was \$10.2 million, or \$0.52 per share, which is approximately \$5.0 million, or 32%, less than our net loss for the prior quarter. As of March 31, 2001, LendingTree had approximately \$16.5 million in cash, cash equivalents and restricted investments available.

MARCH 2001 FINANCING TRANSACTIONS

In March 2001, we consummated a series of debt and equity financing transactions which are summarized below.

Private Equity-Line. On March 7, 2001, we entered into a common stock purchase agreement with Paul Revere Capital Partners, Ltd. for the potential future issuance and sale of up to \$24.0 million of our common stock, subject to restrictions and other obligations that are described throughout this prospectus. Under this arrangement, we, at our sole discretion, may exercise up to 24 drawdowns, pursuant to which Paul Revere is obligated to purchase that number of shares of our common stock specified in the drawdown notice. We are limited with respect to how often we can exercise a drawdown and the amount of each drawdown.

Exercise of Specialty Finance Partners Equity Rights Certificate

On September 29, 2000, Capital Z Partners, our largest stockholder, through its affiliate, Specialty Finance Partners, purchased an equity rights certificate from us for \$10 million. Pursuant to its terms, this equity rights certificate was converted into 2,857,143 shares of our 8% convertible preferred stock in conjunction with the March 2001 closing of the 8% convertible preferred stock financing described below. Specialty Finance Partners also received a commitment fee warrant to purchase 135,000 shares of our common stock with an initial exercise price of \$7.975 per share, which was reduced to \$3.762 per share in conjunction with the closing of the 8% convertible preferred stock

financing.

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8% Convertible Preferred Stock. On March 7, 2001, we entered into a preferred stock purchase agreement with various investors, pursuant to which we issued and sold, on March 20, 2001, 3,700,001 shares of series A 8% convertible preferred stock for \$12.95 million, or \$3.50 per share, in cash. In addition, we also sold 200,000 shares of 8% convertible preferred stock to our Chief Executive Officer for \$700,000 through a loan he obtained from us. In connection with this transaction, we received commitments from two other investors, including our Chief Financial Officer, to purchase an additional 128,751 shares on April 30, 2001 for a total consideration of \$450,000 plus accumulated but unpaid dividends to the date of such closing. We completed the sale of the additional 128,751 shares on April 30, 2001. In conjunction with the closing of the 8% convertible preferred stock transaction, Specialty Finance Partners's equity rights certificate, which is described above, was converted into 2,857,143 shares of 8% convertible preferred stock at an effective conversion rate equal to \$3.50 per share.

ULLICO Revolving Line of Credit. On March 7, 2001, we entered into a two-year \$5.0 million revolving credit agreement with ULLICO. Borrowings under the revolving credit agreement are secured by substantially all of our assets. Interest on borrowings accrues at 6% per annum in cash and additional interest in the form of 5-year warrants to purchase our common stock with an exercise price of \$.01 per share. The number of interest warrants ULLICO will be entitled to receive is based on the average loan amount outstanding multiplied by 14% per annum and divided by \$3.99. In addition, as a commitment fee, we issued ULLICO warrants to purchase 40,000 shares of our common stock with an exercise price of \$.01 per share.

Freddie Mac Revolving Loan. On March 7, 2001, we entered into a two-year \$2.5 million revolving loan agreement with Freddie Mac and amended the terms of our existing software licensing arrangement with Freddie Mac. Interest on borrowings accrues at 10% per annum in cash and additional interest at the rate of 10% per annum payable in the form of 5-year warrants to purchase our common stock with an exercise price of \$.01 per share. The number of interest warrants Freddie Mac will be entitled to receive is based on an average amount outstanding on the revolving line of credit multiplied by 10% per annum divided by \$3.99. In addition, as a commitment fee, we issued Freddie Mac warrants to purchase 12,500 shares of our common stock with an exercise price of \$.01 per share.

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THE OFFERING

This prospectus covers up to 25,000,000 shares of LendingTree common stock which may be sold by the selling stockholder, Paul Revere Capital Partners, Ltd, a British Virgin Islands Corporation. The number of shares subject to this prospectus represents 133% of our issued and outstanding common stock as of March 31, 2000. To our knowledge, Paul Revere does not own any of our securities and has had no material relationship with us during the past three years, other than as set forth in the following paragraph. In accordance with the common stock purchase agreement and NASD Rule 4350(i)(1)(D), we will

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not be able to sell more than approximately 3,728,750 shares, or 19.9% of our issued and outstanding shares on March 7, 2001, unless and until we receive the prior approval of our stockholders. If we are able to issue additional shares pursuant to the common stock purchase agreement after all of the shares registered under this prospectus are issued, we may choose to file another registration statement registering additional shares for resale issued pursuant to the common stock purchase agreement based on our need to raise money at that time.

On March 7, 2001, we entered into a common stock purchase agreement with Paul Revere for the future issuance and sale of shares of our common stock. This common stock purchase agreement establishes what is sometimes termed an equity line of credit or an equity drawdown facility. Under this arrangement, we, at our sole discretion, may make up to 24 drawdown requests over a two year period, pursuant to which Paul Revere is obligated to purchase up to \$24 million of our common stock, at prices that will vary based on the market price of our common stock, but will be below the market price of our common stock. Because there is no way to determine how many shares, if any, we will eventually issue and sell to Paul Revere and because the rules of the Nasdaq National Market require that we obtain stockholder approval prior to issuing 20% or more of the shares of common stock outstanding on March 7, 2001, we are seeking the approval of our stockholders at our annual meeting to enable us, should the need arise, to issue shares in such amount or above. If we do not receive stockholder approval, we may nonetheless issue shares up to such 20% amount under the equity line agreement.

In general, if we elect to sell shares or draw down on the equity facility, the minimum amount we can draw down at any one time is \$100,000 and the maximum amount will be the greater of \$1,000,000 or 20% of the weighted average price of our common stock for the 22 days prior to the date we request a drawdown multiplied by the total trading volume of our common stock for such 22 day period. We can make one drawdown request every 22 trading days, up to a maximum of 24 drawdowns during the two-year period of the agreement, provided that we cannot sell more than \$24 million worth of shares in total under the facility and may in practice only be able to sell a much lower amount.

The total number of shares that may be issued under the facility will depend on a number of factors, including the market price and trading volume of our common stock during each drawdown period. The purchase price for any shares

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issued under the facility will be equal to 95% of the volume-weighted average price of our common stock over the 22 day period following our drawdown request. The proceeds we receive from each drawdown will also be reduced by a 4% fee payable to Ladenburg Thalmann & Co., the placement agent that introduced Paul Revere to us, and a \$1,000 escrow fee. If, after we make a drawdown request, the price of our common stock drops below the minimum threshold price that we specify in the drawdown request, we will not be obligated to sell shares to Paul Revere below such minimum threshold price. The threshold price will be established by our pricing committee at the time of each drawdown request and will never be less than \$0.75 per share.

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SUMMARY FINANCIAL DATA

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The following table sets forth summary financial and balance sheet data for our business. The statement of operations data for the quarters ended March 31, 2000 and 2001 and the balance sheet data as of March 31, 2001 are unaudited. The statement of operations data for the years ended December 31, 1998, 1999 and 2000, and the balance sheet data as of December 31, 1999 and 2000, are derived from, and are qualified by reference to, our financial statements which have been audited by PricewaterhouseCoopers LLP and are included in this prospectus. Historical results are not necessarily indicative of the results to be expected in the future.

| | YEAR ENDED DECEMBER 31, | | |
|---|--|-------------|-------------|
| | 1998 | 1999 | 2000 |
| | (IN THOUSANDS, EXCEPT WHERE SHOWN OTHERWISE) | | |
| STATEMENT OF OPERATIONS DATA: | | | |
| Revenue: | | | |
| Network | \$ 273 | \$ 6,112 | \$ 27,312 |
| Lend-X technology | 136 | 852 | 3,125 |
| | 409 | 6,964 | 30,437 |
| Cost of revenue: | | | |
| Network | 235 | 2,209 | 7,125 |
| Lend-X technology | 149 | 312 | 1,125 |
| | 384 | 2,521 | 8,250 |
| Gross profit | 25 | 4,443 | 22,187 |
| Operating Expenses: | | | |
| Product development | 1,051 | 1,109 | 2,125 |
| Marketing and advertising | 2,494 | 18,528 | 56,125 |
| Sales, general and administrative | 2,955 | 10,056 | 28,125 |
| | 6,500 | 29,693 | 86,375 |
| Loss from operations | (6,475) | (25,250) | (64,188) |
| Interest income, net | 41 | 505 | 2,125 |
| Loss on impaired investment | -- | -- | (1,125) |
| Miscellaneous expense, net | -- | -- | -- |
| Accretion and dividends related to preferred stock | (24) | (2,816) | (2,125) |
| Net loss attributable to common stockholders | \$ (6,485) | \$ (27,561) | \$ (68,125) |
| Basic and diluted net loss per common share | \$ (1.88) | \$ (7.74) | \$ (16.88) |
| Weighted average shares used in computing basic and diluted net loss per common share | 3,435 | 3,560 | 16,062 |

| | AS OF DECEMBER 31, | |
|--|--------------------|-----------|
| | 1999 | 2000 |
| | | (IN THOU) |
| BALANCE SHEET DATA: | | |
| Cash and cash equivalents, restricted and short term investments | \$ 29,472 | \$ 12,71 |
| Working capital | 26,474 | 7,93 |
| Total assets | 33,767 | 37,95 |
| Long-term capital lease obligations | -- | 84 |
| Mandatorily redeemable preferred stock | -- | -- |
| Convertible preferred stock | 59,118 | -- |
| Total stockholders' equity (deficit) | 27,737 | 23,69 |

RISK FACTORS

Any investment in our common stock involves a high degree of risk. You should consider carefully the following information about these risks, together with the other information contained in this prospectus, before you decide to buy our common stock. If any of the following risks actually occur, our business, financial condition or results of operations would likely suffer. In this case, the market price of our common stock could decline, and you may lose all or part of the money you paid to buy our common stock.

RISKS RELATED TO OUR FINANCIAL CONDITION

IF WE ARE UNABLE TO OBTAIN ADDITIONAL FUNDS FROM OTHER FINANCINGS WE MAY HAVE TO SIGNIFICANTLY CURTAIL THE SCOPE OF OUR OPERATIONS AND ALTER OUR BUSINESS MODEL.

We must achieve profitability for our business model to succeed. Prior to accomplishing this goal, we may need to raise additional funds, from equity or debt sources. Our cash requirements are substantial, and, despite the fact that we have raised approximately \$13.4 million in a recent preferred stock transaction and have \$7.5 million available under our revolving credit facilities, amounts available under the equity line may still not be sufficient to meet our cash needs in the future. In addition, business and economic conditions may make it unfeasible or undesirable to draw down under the common stock purchase agreement at every opportunity, and drawdowns are available only once every 22 trading days. If additional financing is not available when required or is not available on acceptable terms, we may be unable to continue our operations at current levels. In addition, any failure to raise additional funds in the future may result in our inability to successfully promote our brand name, develop or enhance our Lend-X technology or other services, take advantage of business opportunities or respond to competitive pressures, any of which could have a material adverse effect on our financial condition and

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results of operations.

OUR BUSINESS MODEL IS UNPROVEN AND COULD FAIL.

Our business model and profit potential are unproven and we cannot assure you that we will be able to become profitable. To achieve profitability in our exchange segment, our revenue per consumer must consistently exceed not only the costs of attracting a consumer to our website, but also the costs of inducing the consumer to use our services. Historically, this has not been the case. Our revenue model depends heavily on revenue generated from lenders participating in our network who pay us fees based upon their receipt of credit requests, and fees based upon loan closings. We also license our Lend-X technology to other companies, who can create single and multi-lender online exchanges. To become profitable, we must achieve and maintain broad market acceptance of our service by both lenders and consumers who have traditionally used other means to lend and borrow money. In

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addition, we must attract a sufficient number of consumers with credit profiles that our lenders target. Our online lending exchange model may not gain or maintain the widespread acceptance necessary to support our business, in which case we may find it necessary to alter our business model. We cannot accurately predict what, if any, changes we would make to our business model in response to the uncertainties in the online lending market. These changes might include shifting all or a portion of our fees to consumers or reducing fees currently charged to lenders to expand volume more quickly. Shifting fees to consumers may not be feasible, as other companies may be able to offer comparable services with no fees. If we are not able to anticipate and adapt to changes in the industry or if our business model is not successful, we may be unable to expand our business and the value of your investment could be significantly reduced.

WE HAVE A HISTORY OF LOSSES AND EXPECT LOSSES FOR 2001.

We have never been profitable. We incurred losses from operations of approximately \$66.1 million in 2000. As of December 31, 2000, we had an accumulated net deficit of approximately \$98.1 million. We anticipate that our future expense levels will continue to exceed future revenue based on our operating plans for 2001. We may find it necessary to accelerate expenditures relating to our sales and marketing efforts or otherwise increase our financial commitment to creating and maintaining brand awareness among consumers and lenders. If our revenue grows at a slower rate than we anticipate, or if our spending levels exceed our expectations or cannot be adjusted to reflect slower revenue growth, we may not achieve or sustain profitability.

OUR LIMITED OPERATING HISTORY MAKES OUR BUSINESS AND PROSPECTS DIFFICULT TO EVALUATE.

We have a limited operating history. We were formed in 1996 and began serving consumers across the United States in July 1998. There is no significant historical basis to assess how we will respond to competitive, economic or technological challenges. Our business and prospects must be considered in light of the risks and uncertainties frequently encountered by companies in the early stages of development, particularly companies like ours, that operate in new and rapidly developing online exchanges. Our failure to address these risks and uncertainties could materially impact our results of operations and financial condition.

OUR OPERATING RESULTS MAY BE NEGATIVELY IMPACTED BY FLUCTUATIONS IN INTEREST RATES.

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During the fiscal year ended December 31, 2000, revenue earned from mortgage lenders, traditionally a market segment that is greatly impacted by changes in interest rates, represented approximately 38% of our total revenue. While interest rates were rising from January 2000 through July 2000 and relatively steady from

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July 2000 through December 2000, our business continued to show increases in website traffic, transmitted qualification forms for mortgages and revenue from closed-loan fees for mortgages over the corresponding periods of 1999. However, during future periods of rising interest rates we may experience a decline in consumer traffic to our website and during periods of robust credit demand, typically associated with falling interest rates, lenders may have less incentive to use our exchange. Either of these events could reduce our revenue and we cannot assess the effects of interest rates on our business over a broad range of interest rate environments.

SUBSTANTIALLY ALL OF OUR ASSETS ARE PLEDGED UNDER AN EXISTING REVOLVING CREDIT ARRANGEMENT AND CAPITAL LEASE OBLIGATIONS, AND WE MAY BE REQUIRED TO COLLATERALIZE THE BALANCE OF ONE OF OUR CAPITAL LEASES WITH CASH.

Substantially all of our assets are pledged under the ULLICO revolving credit arrangement and existing capital lease obligations. A covenant in one of our capital lease agreements requires that we maintain a cash balance of not less than \$5 million throughout the term of the lease. If our cash balance falls below \$5 million at the end of a period, we will be required to collateralize the balance of the lease with cash.

In addition, important components of our intellectual property are subject to an amended software customization, license and services agreement by and between LendingTree and the Federal Home Loan Mortgage Corporation, pursuant to which our code software will be released to Freddie Mac from escrow if we fail to meet specified repayment obligations, financial covenants or reporting requirements.

RISKS RELATED TO OUR MARKETS AND STRATEGY

OUR FUTURE SUCCESS IS DEPENDENT UPON INCREASED ACCEPTANCE OF THE INTERNET BY CONSUMERS AND LENDERS AS A MEDIUM FOR LENDING.

If consumer and lender acceptance of our online exchange does not increase, our business will not succeed and the value of your investment may be adversely affected. The online lending market is new and rapidly developing. The adoption of online lending in general, and our exchange in particular, requires the acceptance of a new way of conducting business, exchanging information and applying for credit by consumers, as well as acceptance by lenders that have historically relied upon traditional lending methods. As a result, we cannot be sure that we will be able to compete effectively with traditional borrowing and lending methods.

LENDERS IN OUR NETWORK ARE NOT PRECLUDED FROM OFFERING CONSUMER CREDIT PRODUCTS OUTSIDE OUR EXCHANGE.

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If a significant number of our potential consumers are able to obtain

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loans from our participating lenders without utilizing our service, our ability to generate revenue may be limited. Because we do not have exclusive relationships with the lenders whose loan products are offered on our online exchange, consumers may obtain offers and loans from these lenders without using our service. Our lenders can offer their products directly to consumers through brokers, mass marketing campaigns, or through other traditional methods of credit distribution. These lenders can also offer their products over the Internet without using our Lend-X technology, either directly to prospective borrowers, through one or more of our online competitors, or both.

IF OUR PARTICIPATING LENDERS DO NOT PROVIDE COMPETITIVE LEVELS OF SERVICE TO CONSUMERS, OUR BRAND WILL BE HARMED AND OUR ABILITY TO ATTRACT CONSUMERS TO OUR WEBSITE WILL BE LIMITED.

Our ability to provide a high-quality borrowing experience depends in part on consumers receiving competitive levels of convenience, customer service, pricing terms and responsiveness from our participating lenders. If our participating lenders do not provide consumers with competitive levels of convenience, customer service, price and responsiveness, the value of our brand may be harmed, our ability to attract consumers to our website may be limited and the number of consumers using our service may decline.

WE MAY NOT BE ABLE TO MANAGE OUR EXPANDING OPERATIONS EFFECTIVELY.

We have recently experienced a period of rapid expansion. In order to execute our business plan, we must continue to expand significantly. Our inability to expand our operations in an efficient manner could cause our expenses to grow disproportionately to our revenue, or revenue to decline or grow more slowly than expected, or could otherwise have a material adverse effect on our business and the value of your investment. Our anticipated future growth, combined with the requirements we now face as a public company, will continue to place a significant strain on our management, systems and resources. We will need to continue to expand and maintain close coordination among our technical, accounting, finance and sales and marketing departments. We may not succeed in these efforts.

OUR QUARTERLY OPERATING RESULTS ARE NOT AN INDICATION OF OUR FUTURE RESULTS.

Our quarterly operating results may fluctuate significantly in the future as a result of a variety of factors that affect our revenue or expenses in any particular quarter. Our quarterly results will fluctuate in part based on the demand for and supply of consumer loans which are a function of seasonal and other fluctuations in interest rates and related economic factors, all of which are outside of our control. These temporary fluctuations could adversely affect our business.

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In addition, we expect that as our business matures we will experience seasonal fluctuations in our operating results as a result of fluctuations in consumer credit markets during the year. For example, home buying behavior is seasonal. Typically there are a greater number of mortgage closings during the second and third quarters of a year as compared to the first and fourth quarters. Because of our limited operating history, it has not been possible for us to assess the impact of seasonal effects on our business.

IF WE ARE UNABLE TO MAINTAIN OUR BRAND RECOGNITION, CONSUMER AND LENDER DEMAND FOR OUR SERVICE MAY DWINDLE.

If we fail to promote and maintain our brand successfully, or incur

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significant expenses in promoting our brand and fail to generate a corresponding increase in revenue as a result of its branding efforts, our business could be materially adversely affected. We believe we have successfully built a recognizable brand. We believe that continuing to build and maintain brand awareness of the LendingTree exchange and Lend-X is critical to achieving increased demand for our service. Brand recognition is a key differentiating factor among providers of online lending services, and we believe it will be increasingly important as competition intensifies. In order to increase our brand awareness, we must succeed in our marketing efforts, provide high-quality services and increase the number of consumers using our exchange. If visitors to our website do not perceive our existing service to be of high quality or if we alter or modify our existing service, introduce new services or enter into new business ventures that are not favorably received, the value of our brand could be diluted, which could decrease the attractiveness of our service to consumers and lenders.

WE CANNOT ASSURE YOU THAT ANY ACQUISITIONS WE MAY ELECT TO MAKE WILL BE SUCCESSFUL.

Our future results of operations may be dependent, in part, upon the ability of our management to assimilate the operations of any acquisitions and to oversee these expanded operations. Our ability to manage any acquisitions will depend upon a number of factors, including our capital resources, our ability to retain key employees and our ability to control operating and production costs. We cannot assure you that we will be successful in these efforts or that these efforts may not, in certain circumstances, adversely affect our operating results.

OUR BUSINESS COULD SUFFER IF WE LOSE THE SERVICES OF MR. LEBDA.

If we lose the services of Douglas Lebda, our founder, Chief Executive Officer, and a director, our ability to expand our business may be seriously compromised. Mr. Lebda has been instrumental in determining our strategic direction and

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focus and in promoting the concept of an Internet-based lending exchange for consumers and lenders. We do not maintain key person insurance on Mr. Lebda.

RISKS RELATED TO THE INTERNET AND OUR TECHNOLOGY INFRASTRUCTURE

WE MAY EXPERIENCE REDUCED VISITOR TRAFFIC, REDUCED REVENUE AND HARM TO OUR REPUTATION IN THE EVENT OF UNEXPECTED NETWORK INTERRUPTIONS CAUSED BY SYSTEM FAILURES.

Any significant failure to maintain the satisfactory performance, reliability, security and availability of our website, filtering systems or network infrastructure may cause significant harm to our reputation, our ability to attract and maintain a high volume of visitors to our website, and to attract and retain participating consumers and lenders. Our revenue depends in large part on the number of credit requests submitted by consumers. Any system interruptions that result in the inability of consumers to submit these credit requests, or more generally the unavailability of our service offerings, could have an adverse impact on our revenue. In addition, we believe that consumers who have a negative experience with our website may be reluctant to return to our website or recommend LendingTree to other potential consumers.

In the past, our website has experienced outages and decreased performance. In the worst such instance to date, in 1999 we experienced a

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service outage for a period of approximately nine hours due to a database software failure. If similar outages occur in the future, they may severely harm our reputation and our ability to offer our service. Our computer hardware is located in leased facilities in Beltsville, Maryland. A backup system is located in Cupertino, California. If both of these locations experienced a system failure, the performance of our website would be harmed. These systems are also vulnerable to damage from fire, floods, power loss, telecommunications failures, break-ins and similar events. Our insurance policies may not compensate us for any losses that may occur as a result of any failures or interruptions in our systems. Any extended period of disruptions could materially adversely affect our business, results of operations and financial condition.

BREACHES OF OUR NETWORK SECURITY COULD SUBJECT US TO INCREASED OPERATING COSTS AS WELL AS LITIGATION AND OTHER LIABILITIES.

Any penetration of our network security or other misappropriation of our users' personal information could cause interruptions in our operations and subject us to liability. Claims against us could also be based on other misuses of personal information, such as for unauthorized marketing purposes. These claims could result in litigation and financial liability. Security breaches could also damage our reputation. We rely on licensed encryption and authentication technology to effect secure

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transmission of confidential information. It is possible that advances in computer capabilities, new discoveries or other developments could result in a compromise or breach of the technology that we use to protect consumer transaction data. We cannot guarantee that our security measures will prevent security breaches. We may be required to expend significant capital and other resources to protect against and remedy any potential or existing security breaches and their consequences.

FAILURE TO PROTECT OUR INTELLECTUAL PROPERTY RIGHTS COULD IMPAIR OUR ABILITY TO COMPETE EFFECTIVELY.

Failure to protect our intellectual property could harm our brand and our reputation, devalue our content in the eyes of our customers and adversely affect our ability to compete effectively. Further, enforcing or defending LendingTree's intellectual property rights, including our service marks, patent applications, copyrights and trade secrets, could result in the expenditure of significant financial and managerial resources. We regard our intellectual property as critical to LendingTree's success. To protect the rights to LendingTree's intellectual property, we rely on a combination of patent, trademark and copyright law, trade secret protection, confidentiality agreements, and other contractual arrangements with our employees, affiliates, clients and others. The protective steps we have taken may be inadequate to deter misappropriation of our proprietary information. We may be unable to detect the unauthorized use of, or take appropriate steps to enforce, our intellectual property rights. We have applied for a U.S. patent and filed a Patent Cooperation Treaty international patent application on our Lend-X technology and its online loan market process. While the number of software and business method patents issued by the U.S. Patent and Trademark Office has been growing substantially in recent years, there is still a significant degree of uncertainty associated with these patents. It is possible that our patent applications will be denied or granted in a very limited manner such that they offer little or no basis for us to deter competitors from employing similar technology or processes or allow us to defend against third party claims of patent infringement.

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RISKS RELATED TO LEGAL AND REGULATORY UNCERTAINTY

As an online lending exchange we may be liable as a result of information retrieved from our website or the websites of businesses with which we maintain relationships.

We may be subject to legal claims relating to information that is published or made available on our website and the other websites linked to it. Our service may subject us to potential liabilities or claims resulting from:

- Lost or misdirected messages from our network lenders, consumers or vendors;

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- Illegal or fraudulent use of e-mail; or
- Interruptions or delays in transmission of qualification forms or lenders' offers.

In addition, we could incur significant costs in investigating and defending such claims, even if LendingTree ultimately is not found liable. If any of these events occur, our business could be materially adversely affected.

FAILURE TO COMPLY WITH LAWS GOVERNING LENDINGTREE'S SERVICE OR MATERIAL CHANGES IN THE REGULATORY ENVIRONMENT RELATING TO THE INTERNET COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS.

The loan products and services available through our website and the real estate agent referral and other business relationships in which we operate essentially as a non-processing mortgage broker, are subject to extensive regulation by various federal and state governmental authorities. Because of uncertainties as to the applicability of some of these laws and regulations to the Internet and, more specifically, to our business, and considering our business has evolved and expanded in a relatively short period of time, we may not always have been, and may not always be, in compliance with applicable federal and state laws and regulations. Failure to comply with the laws and regulatory requirements of federal and state regulatory authorities may result in, among other things, revocation of required licenses or registrations, loss of approved status, termination of contracts without compensation, loss of exempt status, indemnification liability to lenders and others doing business with us, administrative enforcement actions and fines, class action lawsuits, cease and desist orders, and civil and criminal liability. The occurrence of one or more of these events could materially affect our business and results of operations.

MANY STATES REQUIRE US TO OBTAIN LICENSES TO OFFER MANY OF OUR PRODUCTS AND WE HAVE NOT OBTAINED THOSE LICENSES IN EVERY STATE.

Many, but not all, states require licenses to solicit or broker to residents of those states, loans secured by residential mortgages and other consumer loans, including credit card, automobile and personal loans. We are currently neither licensed nor able to accept credit requests for all loan products in every state. We are not currently accepting credit requests for loan products from residents of states in which we are not licensed to provide those products. In many of the states in which we are licensed, we are subject to examination by regulators.

In addition, we are required to obtain real estate broker licenses, additional mortgage broker licenses and individual call center personnel

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licenses in numerous states. Failure to obtain these licenses and approvals could prevent us from receiving fees from the real estate agent referral and mortgage services programs we offer and may subject us to the types of fines, forfeitures and litigation discussed above.

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As a computer loan origination system or mortgage broker conducting business through the Internet, we face an additional level of regulatory risk given that most of the laws governing lending transactions have not been substantially revised or updated to fully accommodate electronic commerce. Until these laws, rules and regulations are revised to clarify their applicability to transactions conducted through electronic commerce, any company providing loan-related services through the Internet or other means of electronic commerce will face compliance uncertainty. Federal law, for example, generally prohibits the payment or receipt of referral fees in connection with residential mortgage loan transactions. The applicability of referral fee prohibitions to the compensation provisions of fee advertising, marketing, distribution and cyberspace rental arrangements used by online companies like us may have the effect of reducing the types and amounts of fees that we may charge or pay in connection with real estate-secured products.

BECAUSE SOME STATE REGULATIONS IMPOSE FILING OBLIGATIONS ON SOME OF OUR LARGEST STOCKHOLDERS AND CUSTOMERS, IF ANY OF THESE PARTIES FAIL TO COMPLY WITH THESE FILING OBLIGATIONS, WE MAY BE UNABLE TO OBTAIN OR MAINTAIN NECESSARY LICENSES IN THESE STATES FOR REASONS BEYOND OUR CONTROL.

Regulations promulgated by some states may impose compliance obligations on any person who acquires 10% or more of our common stock, including requiring that person to periodically file financial and other personal and business information. If any person acquires 10% or more of LendingTree's common stock and refuses or fails to comply with these requirements, we may not be able to obtain a license and existing licensing arrangements in particular states may be jeopardized. The inability to obtain, or the loss of, required licenses could have a material adverse effect on our operations or financial condition.

The parties conducting business with us, such as lenders and other website operators, similarly may be subject to federal and state regulation. These parties act as independent contractors and not as our agents in their solicitations and transactions with consumers. Consequently, we cannot ensure that these entities will comply with applicable laws and regulations at all times. Failure on the part of a lender or other website operator to comply with these laws or regulations could result in, among other things, claims of vicarious liability or a negative impact on our reputation. The occurrence of one or more of these events could materially adversely affect our business, results of operation and financial condition.

REGULATION OF THE INTERNET IS UNSETTLED, AND FUTURE REGULATIONS COULD INHIBIT THE GROWTH OF THE INTERNET, DECREASE THE NUMBER OF VISITORS TO LENDINGTREE'S WEBSITE OR OTHERWISE MATERIALLY ADVERSELY AFFECT OUR BUSINESS.

Existing laws and regulations specifically regulate communications and commerce on the Internet. Additional laws and regulations that address issues such as user privacy, pricing, online content regulation, online real estate referral services,

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taxation, and the characteristics and quality of online products and services are under consideration by federal, state and local governments and agencies. Several telecommunications companies have petitioned the Federal Communications Commission to regulate Internet service providers and online service providers in a manner similar to the regulation of long distance telephone carriers and to impose access fees on such companies. This regulation, if imposed, could increase the cost of transmitting data over the Internet.

Moreover, it may take years to determine the extent to which existing laws relating to issues such as intellectual property ownership and infringement and personal privacy are applicable to the Internet. Many of these laws were adopted prior to the advent of the Internet and related technologies and, as a result, do not contemplate or address the unique issues of the Internet and related technologies. The Federal Trade Commission and government agencies in certain states have been investigating Internet companies regarding their use of personal information. We could incur additional expenses if any new regulations regarding the use of personal information are introduced or if these agencies choose to investigate our privacy practices. Any new laws or regulations relating to the Internet, or new application or interpretation of existing laws, could inhibit the growth of the Internet as a medium for commerce or credit procurement which could, in turn, decrease the demand for our service or otherwise materially adversely affect our business, results of operation and financial condition.

WE MAY BE LIMITED OR RESTRICTED IN THE WAY WE ESTABLISH AND MAINTAIN OUR ONLINE RELATIONSHIPS BY LAWS GENERALLY APPLICABLE TO OUR BUSINESS.

The Real Estate Settlement Procedures Act, or RESPA, and related regulations generally prohibit the payment or receipt of fees or any other item of value for the referral of a real estate-secured loan to a loan broker or lender. RESPA and the related regulations also prohibit fee shares or splits or unearned fees in connection with the provision of residential real estate settlement services, including mortgage brokerage and lending services. Notwithstanding these prohibitions, RESPA permits payments for goods or facilities furnished or for services actually performed, so long as those payments bear a reasonable relationship to the market value of the goods, facilities or services provided. Failure to comply with RESPA may result in, among other things, administrative enforcement actions, class action lawsuits, cease and desist orders and civil and criminal liability.

The mortgage and home equity products offered through LendingTree's exchange are residential real estate secured loans subject to these provisions of RESPA. Consequently, our online relationships with lenders, other companies and websites on which we offer services are subject to RESPA's prohibitions on payment or receipt of referral fees for referrals and for unearned fees or fee splits. We believe that we have structured these relationships to comply with RESPA. The applicability of RESPA's referral fee and fee splitting prohibitions to these types of Internet-based

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relationships, however, is unclear and the appropriate regulatory agency has provided limited guidance to date on the subject.

RISKS RELATED TO THIS OFFERING, OUR STOCK PRICE AND CORPORATE CONTROL

OUR COMMON STOCK PURCHASE AGREEMENT WITH PAUL REVERE AND THE ISSUANCE OF SHARES TO PAUL REVERE THEREUNDER MAY CAUSE SIGNIFICANT DILUTION TO OUR STOCKHOLDERS AND, TOGETHER WITH GUIDANCE WE ISSUE TO ANALYSTS AND THE FINANCIAL COMMUNITY,

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MAY HAVE AN ADVERSE IMPACT ON THE MARKET PRICE OF OUR COMMON STOCK.

The resale by Paul Revere of the common stock that it purchases from us will increase the number of our publicly traded shares, which could depress the market price of our common stock. Moreover, as all the shares we sell to Paul Revere will be available for immediate resale, the mere prospect of our sales to it could depress the market price for our common stock. The shares of our common stock issuable to Paul Revere under the equity line facility will be sold at a 5% discount to the volume-weighted average daily price of our common stock during the applicable drawdown period and the proceeds paid to us upon each drawdown will be net of a 4% placement fee to our placement agent, Ladenburg Thalmann, and an escrow agent fee of \$1,000. If we were to require Paul Revere to purchase our common stock at a time when our stock price is low, our existing common stockholders will experience substantial dilution. The issuance of shares to Paul Revere will therefore dilute the equity interest of existing stockholders and could have an adverse effect on the market price of our common stock.

The perceived risk of dilution may cause our stockholders to sell their shares, which would contribute to a downward movement in the stock price of our common stock. Moreover, the perceived risk of dilution and the resulting downward pressure on our stock price could encourage investors to engage in short sales of our common stock. By increasing the number of shares offered for sale, material amounts of short selling could further contribute to progressive price declines in our common stock.

In addition, from time to time, we issue guidance to analysts and the financial community regarding our projected results for future periods and revisions to guidance previously issued. The dissemination of guidance or revisions to guidance previously issued may increase the volatility of our stock price.

SALES OF SUBSTANTIAL AMOUNTS OF OUR COMMON STOCK IN THE PUBLIC MARKET, INCLUDING SHARES ISSUABLE UPON THE CONVERSION OF SHARES OF 8% CONVERTIBLE PREFERRED STOCK, COULD REDUCE THE VALUE OF YOUR INVESTMENT.

Sales of a substantial number of shares of our common stock in the public market could cause a reduction in the market price of our common stock. A substantial

number of our outstanding shares of common stock will become eligible for resale in the public market within one year. As of March 31, 2001, we had 18,737,441 common shares issued and outstanding. We also had shares of 8% convertible preferred stock, convertible into 6,757,144 shares of common stock, outstanding at March 31, 2001. Because the 8% convertible preferred stock accrues dividends at 8% per annum, the accrued dividends will result in additional shares of common stock being issued upon conversion of shares of 8% convertible preferred stock. In addition, the price protection provisions of the 8% convertible preferred stock may result in an upward adjustment to the number of shares of common stock issuable upon conversion of the 8% convertible preferred stock, which would result in further dilution to our common stockholders. The shares of 8% convertible preferred stock are not convertible unless and until we receive the approval of our stockholders, which we anticipate will occur at our annual meeting of stockholders in May 2001.

At March 31, 2001, we also had outstanding 5,009,944 stock options to purchase shares and 1,045,385 warrants to purchase shares. Moreover, we may issue additional shares in acquisitions and may grant additional stock options

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to our employees, officers, directors and consultants under our stock option plan. Any substantial sales of such shares, including shares to be registered for resale in connection with our March 2001 financing transactions or shares held by our principal investors, officers, directors, HomeSpace Services, Inc. or other affiliates, may cause our stock price to decline.

HOLDERS OF OUR RECENTLY ISSUED 8% CONVERTIBLE PREFERRED STOCK HAVE SIGNIFICANTLY GREATER RIGHTS AND PREFERENCES THAN OUR COMMON STOCKHOLDERS.

The holders of our 8% convertible preferred stock have rights and preferences that are senior to those of our common stockholders in many significant respects. The existence of these rights and preferences may, in a given situation, result in a diminution in the value of your investment in our common stock. Among the preferential rights afforded to the holders of our 8% convertible preferred stock are the following:

- Dividends and Distributions. Dividends must be paid to the holders of the 8% convertible preferred stock prior to and in preference to the common stock.
- Redemption Premium. We are required to redeem all shares of 8% convertible preferred stock that remain outstanding on March 20, 2006 at a 5% premium to the then current "stated value" per share, which equals \$3.50 per share, plus accrued dividends. If a significant portion of the 8% convertible preferred stock remains outstanding on March 20, 2006, all or substantially all of our assets may be necessary to fund this redemption.

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- Price Protection. In certain circumstances, the economic value of the investment in our 8% convertible preferred stock is protected against future sales of common stock by us at prices below \$3.50 per share. If we sell additional securities at a price below \$3.50 per share, the price at which the 8% convertible preferred stock converts into common stock may be adjusted downward, which would automatically entitle these holders to receive additional shares of common stock upon conversion. No such protection exists with respect to our common stock.
- Protective Provisions. So long as more than 1,377,143 shares of our 8% convertible preferred stock are outstanding, we are restricted from engaging in a variety of corporate actions without the consent of 68.5% of the shares of 8% convertible preferred stock then outstanding. These provisions may impede management's ability to conclude transactions that it believes to be in the best interests of all stockholders.
- Liquidation Preference. In the event LendingTree is liquidated or dissolves, the holders of our 8% convertible preferred stock will be entitled to receive a liquidation preference equal to 105% of the then current stated value per share, before any distributions may be made to holders of our common stock.
- Change in Control. Upon a merger or change in control, holders of our 8% convertible preferred stock may have the right to receive the greater of the liquidation preference described

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above or the consideration that they would have received if they had converted their shares of 8% convertible preferred stock into common stock immediately prior to the consummation of the merger or change in control event. In a non-cash transaction, the holders of 8% convertible preferred stock may effectively require that the counterparty to such transaction redeem the convertible preferred stock for a cash amount equal to the liquidation preference. These provisions may inhibit our ability to consummate a merger or change in control transaction and will likely reduce the proceeds of any such transaction to our common stockholders.

Any of the foregoing rights and preferences may, in a given situation, disadvantage the holders of our common stock and may reduce the market price of our common stock.

IF OUR COMMON STOCK PRICE DROPS SIGNIFICANTLY, WE MAY BE DELISTED FROM THE

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NASDAQ NATIONAL MARKET, WHICH COULD ELIMINATE THE TRADING MARKET FOR OUR COMMON STOCK.

Our common stock is quoted on the Nasdaq National Market. In order to continue to be included in the Nasdaq National Market, a company must meet Nasdaq's maintenance criteria. The maintenance criteria most applicable to us requires a minimum bid price of \$1.00 per share, \$4,000,000 in net tangible assets and \$5,000,000 market value of the public float. The public float excludes shares held directly or indirectly by any of our officers, directors and holders of 10% or more of our outstanding common stock. As of December 31, 2000, we had approximately \$17.5 million of net tangible assets, the market value of our public float, excluding these persons, was approximately \$9.2 million and the lowest bid price of our common stock since February 16, 2000 was \$1.781. We cannot assure you that we will continue to meet these listing criteria. The issuance by us of shares of common stock to Paul Revere, or the subsequent resale by Paul Revere of those shares, in either case at a discount to the market price, may reduce the trading price of our common stock to a level below the Nasdaq minimum bid price requirement. Failure to meet these maintenance criteria may result in the delisting of our common stock from The Nasdaq National Market. If our common stock is delisted and in order to have our common stock relisted on The Nasdaq National Market, we would be required to meet the criteria for initial listing, which are more stringent than the maintenance criteria. Accordingly, we cannot assure you that if we were delisted we would be able to have our common stock relisted on The Nasdaq National Market.

If our common stock were delisted from the Nasdaq National Market, we would not be able to draw down any additional funds on the equity line. Finally, if our common stock is removed from listing on the Nasdaq National Market, it may become more difficult for us to raise funds through the sale of our common stock or securities convertible into our common stock.

WE MAY BE UNABLE TO ACCESS ALL OR PART OF OUR EQUITY LINE FACILITY.

If our stock price and trading volume fall below established levels, then we will not be able to drawdown all \$24 million pursuant to the proposed equity line facility with Paul Revere. In addition, business and economic conditions may not make it feasible to drawdown pursuant to this facility. Furthermore, if we are unable to keep a registration statement effective for those shares of common stock subject to the equity line, or if our common stock

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is delisted from The Nasdaq National Market, or if we experience a material adverse change to our business that is not cured within 45 days, the common stock purchase agreement may terminate, or we may not be able to drawdown any funds.

WE MAY USE THE PROCEEDS OF THIS OFFERING IN WAYS WITH WHICH YOU MAY NOT AGREE.

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Net proceeds to us from any sales to Paul Revere will be used principally for the continued development and implementation of our Lend-X technology, advertising and marketing and for general corporate purposes. We have not allocated any specific amount of our net proceeds for any particular purpose. Consequently, our management will have broad discretion with respect to the expenditure of the net proceeds of any sales to Paul Revere, including discretion to use the proceeds in ways with which you may not agree.

IT MAY BE DIFFICULT FOR A THIRD PARTY TO ACQUIRE LENDINGTREE, WHICH COULD DEPRESS OUR STOCK PRICE.

Delaware corporate law and our amended and restated certificate of incorporation and by-laws contain provisions that could have the effect of delaying, deferring, or preventing a change in control of LendingTree or our management and stockholders may consider favorable or beneficial. These provisions could discourage proxy contests and make it more difficult for you and other stockholders to elect directors and take other corporate actions. These provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock. These provisions include:

- Authorization to issue blank check preferred stock, which is preferred stock that can be created and issued by the board of directors without prior stockholder approval, with rights senior to our common stockholders;
- A staggered board of directors, so that it would take three successive annual meetings to replace all directors;
- A requirement that business combinations either be approved by 80% of our stockholders or a majority of our continuing directors, or provide consideration to our stockholders in excess of established amounts;
- Prohibition of stockholder action by written consent; and
- Advance notice requirements for the submission by stockholders of nominations for election to the board of directors and for proposing matters that can be acted upon by stockholders at a meeting.

In addition, we have entered into a stockholder rights agreement which makes it more difficult for a third party to acquire us without the support of our board of directors and principal stockholders.

OUR EXECUTIVE OFFICERS AND DIRECTORS AND ENTITIES AFFILIATED WITH THEM, WHOSE

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INTERESTS MAY DIFFER FROM OTHER STOCKHOLDERS, HAVE THE ABILITY TO EXERCISE

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SIGNIFICANT CONTROL OVER US.

Our executive officers, directors and entities affiliated with them, as a group, beneficially own approximately 59% of our common stock. These stockholders are able to exercise significant influence over all matters requiring approval by our stockholders, including the election of directors and the approval of significant corporate transactions, including a change of control of LendingTree. The interests of these stockholders may differ from the interests of our other stockholders.

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FORWARD-LOOKING STATEMENTS

Many statements made in this prospectus under the captions "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and elsewhere are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that are not based on historical facts. The words "expects," "anticipates," "estimates," "intends," "believes," "plans" and similar expressions are intended to identify forward-looking statements. We believe that based on information available to us on the date of this prospectus, but we cannot assure you, that these assumptions and expectations will prove to have been correct or that we will take any action that we may presently be planning. We disclosed several important factors that could cause our actual results to differ materially from our current expectations under "Risk Factors" and elsewhere in this prospectus. You should understand that forward-looking statements made in connection with this offering are necessarily qualified by these factors. We are not undertaking to publicly update or revise any forward-looking statement if we obtain new information or upon the occurrence of future events or otherwise.

MARKET DATA

This prospectus contains market data related to our business and the Internet. This market data includes projections that are based on a number of assumptions. The assumptions include the following:

- no catastrophic failure of the Internet will occur;
- the number of people online and the total number of hours spent online will increase significantly over the next five years; and
- Internet security and privacy concerns will be adequately addressed.

If any one or more of these assumptions turns out to be incorrect, actual results may differ from the projections based on these assumptions. The Internet-related markets may not grow over the next three to four years at the rates projected by these market data, or at all. The failure of these markets to grow at these projected rates may have a material adverse effect on our business and the market price of our common stock.

USE OF PROCEEDS

We will not receive any of the proceeds from the sale of shares by Paul Revere that it has obtained under the common stock purchase agreement. However, we will receive the net sale price of any common stock we sell to Paul Revere under

the terms of the common stock purchase agreement described in this prospectus. We intend to use the net proceeds from any sales to Paul Revere primarily for the continued development and implementation of our Lend-X technology, advertising and marketing, and general corporate purposes. Management will have significant flexibility and discretion in applying the net proceeds of any common stock sold to Paul Revere. Pending any use, we will invest the net proceeds of any common stock sold to Paul Revere in short-term, investment grade, interest-bearing securities.

DIVIDEND POLICY

We have not declared or paid any cash dividends on our common stock since inception and do not expect to pay any cash dividends for the foreseeable future. We currently intend to retain future earnings, if any, to finance the expansion of our business. The payment of dividends will be subject to the preferences of our 8% convertible preferred stock and will depend upon factors such as future earnings, capital requirements, our financial condition and general business condition.

The holders of the 8% convertible preferred stock are entitled to receive, whether or not declared by our board of directors, dividends on the 8% convertible preferred stock equal to 8% of the stated value per share, as defined in the preferred stock purchase agreement, payable at our option:

- in cash on each quarterly dividend date, or
- by an upward adjustment to the stated value per share on each quarterly dividend payment date.

Dividends on the 8% convertible preferred stock are cumulative and accrue daily from the date of original issuance.

CAPITALIZATION

The following table sets forth our capitalization, as of December 31, 2000:

- on an actual basis;
- on a pro forma basis to give effect to:
 - the issuance and sale of 6,885,715 shares of 8% convertible preferred stock, which includes 3,700,001 shares of 8% convertible preferred stock that were issued on March 20, 2001, the conversion of the Specialty Finance Partners equity rights certificate into 2,857,143 shares of 8% convertible preferred stock and the issuance of 200,000 shares of 8% convertible preferred stock to our CEO funded by a \$700,000 loan from us, and 128,571 shares of

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8% convertible preferred stock that were issued on April 30, 2001, as if such shares of 8% convertible preferred stock were issued on December 31, 2000;

- on a pro forma as adjusted basis to give effect to:
 - the sale of an assumed 7,096,393 shares of common stock which may be offered by Paul Revere in this offering and the application of the net proceeds we may receive for our shares from Paul Revere under the common stock purchase agreement. The 7,096,393 shares assumes that \$24,000,000 is raised at a per common share price of \$3.38, the market price of the common stock as of March 30, 2001, \$3.56, less Paul Revere's 5% discount per the common stock purchase agreement. An additional placement fee of 4% of the gross proceeds of the draw will be payable to Ladenburg Thalmann. The actual change in common stock and additional paid in capital will depend on the actual amount raised and the market price of our common stock at that time; and

You should read this information in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," our financial statements and the accompanying notes, and the other financial information appearing elsewhere in this prospectus.

The table excludes:

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- 1,045,385 shares issuable at a weighted average exercise price of \$6.08 per share upon the exercise of warrants outstanding as of March 31, 2001;
- 3,316,228 shares reserved for future grants under our stock option plans as of March 31, 2001;
- 412,044 shares reserved for issuance under our employee stock purchase plan as of March 31, 2001;
- 5,009,944 shares issuable at a weighted average exercise price of \$5.00 per share upon exercise of stock options outstanding as of March 31, 2001; and
- warrants which may be issued in connection with payment of interest on the revolving debt facilities if we were to borrow funds under such facilities.

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DECEMBER

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| | ACTUAL ----- | PRO FO ----- (DOLLARS IN T |
|---|--------------------|----------------------------------|
| Series A 8% convertible preferred stock, \$.01 par value, 6,885,715 authorized, no shares issued actual, and 6,885,715 shares issued on a pro forma and an adjusted pro forma basis | -- | \$ 21, |
| Stockholders' equity: | | |
| Common stock, \$.01 par value, 100,000,000 shares authorized, 19,653,956 shares issued actual and on a pro forma basis, and 26,750,349 shares issued on an adjusted pro forma basis | \$ 197 | \$ |
| Deferred compensation | (3,056) | (3, |
| Treasury stock (916,515 shares at cost) | (5,774) | (5, |
| Notes receivable from officers for option exercises ... | (1,603) | (2, |
| Unrealized gain, available for-sale securities | 1 | |
| Additional paid-in capital | 132,080 | 122, |
| Accumulated deficit | (98,149) | (98, |
| | ----- | ----- |
| Total 8% convertible preferred stock and stockholders' equity | \$ 23,696 ===== | \$ 35, ===== |

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DILUTION

The issuance of further shares will dilute our common stock and may lower the price of our common stock. If you invest in our common stock, your interest will be diluted to the extent the price per share you pay for the common stock is greater than the pro forma net tangible book value per share of our common stock at the time of sale. Net tangible book value per share represents the amount of our total tangible assets reduced by the amount of our total liabilities and divided by the total number of shares of common stock outstanding. The net tangible book value of our common stock as of December 31, 2000 was \$17.5 million, or approximately \$.93 per share.

Pro forma net tangible book value per share represents the same calculation as stated above, but assumes that the tangible book value includes proceeds from the issuance and sale of 6,885,715 shares of 8% convertible preferred stock, which includes 3,700,001 shares of 8% convertible preferred stock that were issued on March 20, 2001 and the conversion of the Specialty Finance Partners equity rights certificate into 2,857,143 shares of 8% convertible preferred stock and the issuance of 200,000 shares of 8% convertible preferred stock to our CEO funded by a \$700,000 loan from us, and 128,571 shares of 8% convertible preferred stock that were issued on April 30,

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2001, as if such shares of 8% convertible preferred stock were issued on December 31, 2000.

Our pro forma net tangible book value as of December 31, 2000 would have been \$29.9 million, or \$1.60 per share.

Adjusted pro forma net tangible book value per share represents the same calculation as stated above for pro forma net tangible book value per share, but further assumes that the total number of shares of common stock outstanding on December 31, 2000 includes a total of approximately 7.1 million shares issued to Paul Revere under the common stock purchase agreement at \$3.38 per share, which is equal to the closing price for our common stock on March 30, 2001, as adjusted to reflect Paul Revere's 5% discount. The proceeds we would receive from such a sale to Paul Revere under the common stock purchase agreement would be net of a 4% placement fee to Ladenburg Thalmann and a \$1,000 escrow agent fee per drawdown. Our adjusted pro forma net tangible book value as of December 31, 2000 would have been \$52.7 million, or \$2.04 per share. This would represent an immediate increase in the pro forma net tangible book value of \$.44 per share to existing stockholders, and, assuming you purchased shares under this prospectus for \$3.56 per share on December 31, 2000, which is the closing price for our common stock on March 30, 2001, would represent dilution to you of approximately \$1.52 per share. The actual dilution to you may be greater or less than in this example, depending on the actual price you pay for shares, the actual prices at which we issue shares to Paul Revere under the common stock purchase agreement and how many of the vested options and warrants outstanding have been exercised at the time of your investment.

Furthermore, approximately 3.7 million stock options and warrants will vest within the next five years, we may issue additional shares, options and warrants and we may grant

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additional stock options to our employees, officers, directors and consultants under our stock option plans, all of which may further dilute our net tangible book value.

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PRICE RANGE OF OUR COMMON STOCK

Our common stock has been listed on The Nasdaq National Market System under the symbol TREE since February 16, 2000. The following table sets forth the high and low sale prices for the common stock for the periods indicated as reported by Nasdaq. Such prices represent prices between dealers without adjustment for retail mark-ups, mark-downs or commissions and may not necessarily represent actual transactions.

| | HIGH | LOW |
|--------------|-------|-------|
| | ----- | ----- |
| COMMON STOCK | | |
| 2000 | | |

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| | | | |
|------|-------------------|---------|---------|
| | February 16, 2000 | | |
| | to March 31, 2000 | \$21.00 | \$10.75 |
| | Second Quarter | 14.88 | 4.75 |
| | Third Quarter | 9.56 | 4.22 |
| | Fourth Quarter | 5.25 | 1.93 |
| 2001 | | | |
| | First Quarter | \$ 4.41 | \$ 1.88 |

On March 30, 2001, the closing price of the common stock as reported on Nasdaq was \$3.56 and there were approximately 150 holders of record of our common stock. The number of record holders does not reflect the number of beneficial owners of our common stock for whom shares are held by brokerage firms and other institutions. We have not paid any dividends on our common stock since our inception and do not contemplate paying dividends on our common stock in the foreseeable future.

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SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with our financial statements and accompanying notes, along with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus. The statement of operations data for the quarters ended March 31, 2000 and 2001 and the balance sheet date as of March 31, 2001 are unaudited. The statement of operations data for the years ended December 31, 1997, 1998, 1999 and 2000, and the balance sheet data as of December 31, 1999 and 2000, are derived from, and are qualified by reference to, our financial statements which have been audited by PricewaterhouseCoopers LLP and are included in this prospectus. The balance sheet data as of December 31, 1997 and 1998 are derived from our financial statements which have been audited by PricewaterhouseCoopers LLP but are not included in this prospectus. The statement of operations data for the period from inception through December 31, 1996 and the balance sheet data as of December 31, 1996 are unaudited. Historical results are not necessarily indicative of the results to be expected in the future.

| PERIOD FROM INCEPTION THROUGH DECEMBER 31, 1996 ----- (UNAUDITED) | YEAR ENDED DECEMBER 31, ----- | | | |
|---|----------------------------------|-------|-------|-------|
| | 1997 | 1998 | 1999 | 2000 |
| | ----- | ----- | ----- | ----- |

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE)

STATEMENT OF OPERATIONS DATA:

| | | | | | |
|-------------------------|-------|-------|--------|----------|-------|
| Revenue: | | | | | |
| Network | -- | \$ 2 | \$ 273 | \$ 6,112 | \$ 27 |
| Lend-X technology | -- | -- | 136 | 852 | 3 |
| | ----- | ----- | ----- | ----- | ----- |
| Total revenue | -- | 2 | 409 | 6,964 | 30 |

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| | | | | | |
|---|-----------|-----------|------------|-------------|---------|
| Cost of revenue: | | | | | |
| Network | -- | -- | 235 | 2,209 | 7 |
| Lend-X technology | -- | -- | 149 | 312 | 1 |
| | ----- | ----- | ----- | ----- | ----- |
| Total cost of revenue | -- | -- | 384 | 2,521 | 9 |
| | ----- | ----- | ----- | ----- | ----- |
| Gross profit | -- | 2 | 25 | 4,443 | 21 |
| Operating Expenses: | | | | | |
| Product development | -- | 293 | 1,051 | 1,109 | 2 |
| Marketing and advertising | -- | 54 | 2,494 | 18,528 | 56 |
| Selling, general and administrative ... | 4 | 621 | 2,955 | 10,056 | 28 |
| | ----- | ----- | ----- | ----- | ----- |
| Total operating expenses | 4 | 968 | 6,500 | 29,693 | 87 |
| | ----- | ----- | ----- | ----- | ----- |
| Loss from operations | (4) | (966) | (6,475) | (25,250) | (66) |
| Loss on impaired investment | -- | -- | -- | -- | (1) |
| Interest income, net | -- | 3 | 41 | 505 | 2 |
| Miscellaneous expense, net | -- | -- | -- | -- | |
| Accretion and dividends related to preferred stock | -- | -- | (24) | (2,816) | (2) |
| | ----- | ----- | ----- | ----- | ----- |
| Net loss attributable to common stockholders | \$ (4) | \$ (963) | \$ (6,458) | \$ (27,561) | \$ (68) |
| | ===== | ===== | ===== | ===== | ===== |
| Basic and diluted net loss per common share | \$ (0.02) | \$ (1.20) | \$ (1.88) | \$ (7.74) | \$ (|
| | ===== | ===== | ===== | ===== | ===== |
| Weighted average shares used in computing basic and diluted net loss per common share | 259 | 803 | 3,435 | 3,560 | 16 |
| | ===== | ===== | ===== | ===== | ===== |

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PERIOD FROM
INCEPTION
THROUGH
DECEMBER 31,
1996

1997

1998

1999

(IN THOUSANDS)

BALANCE SHEET DATA:

| | | | | |
|---|--------|-------|----------|--------|
| Cash, cash equivalents, short term investments and restricted investments | -- | \$402 | \$ 3,085 | \$29,4 |
| Working Capital | \$ (1) | 333 | 2,666 | 26,4 |
| Total assets | -- | 424 | 3,687 | 33,7 |
| Long-Term capital lease obligations | -- | -- | -- | |

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| | | | | |
|--|-------|-------|-----------|--------|
| Mandatorily redeemable preferred securities .. | | -- | 4,631 | |
| Convertible preferred stock | | -- | -- | 59,1 |
| Total stockholders' equity (deficit) | \$(1) | \$353 | \$(1,695) | \$27,7 |

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

This discussion includes "forward-looking" statements that reflect our current views with respect to future events and financial performance. We use words such as "expect," "anticipate," "estimate," "intend," "believe," "plan" and similar expressions to identify forward-looking statements. Investors should be aware that actual results may differ materially from our expressed expectations because of risks and uncertainties inherent in future events, particularly those risks identified in the "Risk Factors" section of this prospectus, and should not unduly rely on these forward looking statements. We will not necessarily update the information in this discussion if any forward-looking statement later turns out to be inaccurate.

OVERVIEW

We incorporated in the state of Delaware on June 7, 1996 and began serving consumers across the United States on July 1, 1998. In August 2000, we acquired a nationwide network of real estate agents and other assets, and assumed certain liabilities of HomeSpace Services, Inc.

We offer an Internet-based lending exchange for consumers and lenders. We attract consumer demand to our exchange through our proprietary website www.lendingtree.com as well as through private-label and co-branded exchanges enabled by our technology platform, Lend-X(SM). In addition, through our website, we provide access to other services related to owning, maintaining or buying and selling a home, including a network of real estate brokers.

Consumers begin the LendingTree process on www.lendingtree.com by completing a simple online credit information request, referred to as a qualification form. Data from the qualification form, along with a credit score calculated from credit reports retrieved by a credit scoring firm, is compared to the underwriting criteria of lenders in our lender network. We currently have more than 100 participating lenders in our network. Consumers can receive multiple loan offers in response to a single credit request and then compare, review, and accept the offer that best suits their needs. We believe that our participating lenders can generate new business that meets their specific underwriting criteria at a substantially lower cost of acquisition than through traditional marketing channels. LendingTree's exchange encompasses most consumer credit categories, including mort gages, home equity loans, automobile loans, credit card, and personal loans.

We are not a lender. Rather, we are a lending exchange that seeks to drive efficiency and cost savings in the consumer credit markets for both consumers and lenders. We earn revenue from lenders that pay fees for every qualification form that meets their underwriting criteria and is transmitted to them, or transmission fees, and for loans that they close, or closed-loan fees. Our website is powered by our lending exchange technology platform, Lend-X.

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We also license and host our Lend-X technology for use by other businesses, enabling them to create their own customized co-branded or private-label lending exchanges. Through these Lend-X partnerships, we can earn revenue from technology fees related to customization, licensing and hosting the third-party exchange, as well as from network sources such as transmission fees, closed-loan fees and brokerage fees.

THREE MONTHS ENDED MARCH 31, 2001 COMPARED TO THREE MONTHS ENDED MARCH 31, 2000

REVENUE

Total revenue was approximately \$12.3 million in the three months ended March 31, 2001, an increase of \$7.8 million from \$4.5 million reported in the same period in 2000.

Network

Our network revenue was approximately \$11.2 million, or 92% of total revenue, for the three months ended March 31, 2001, compared with approximately \$4.4 million, or 98% of total revenue, for the same period in 2000. This revenue growth reflects a substantial increase in volume of qualification forms we transmitted to our lenders and in the amount of revenue earned from closed-loan fees. It also reflects the addition of realty services to our product offerings. We attribute the increase in transmission volume, from approximately 134,000 discrete transmitted qualification forms in the three months ended March 31, 2000 to approximately 344,000 in the three months ended March 31, 2001, primarily to increased brand awareness and a significant increase in website traffic due to the effectiveness of our advertising spending in 2000. This increased volume can also be partially attributed to the recent lowering of interest rates. The increase in closed-loan fees is due not only to the increased transmission volume, but also to an increase in the number and variety of lenders on our network. Closed loans increased from 24,000 in the three months ended March 31, 2000 to 64,000 in the three months ended March 31, 2001.

Lend-X Technology

Lend-X technology revenue totaled \$1.0 million, or 8% of our revenue, for the three months ended March 31, 2001. This is an increase of \$.9 million over the same period in 2000. The growth in Lend-X technology revenue in the three months ended March 31, 2001 is the result of several significant new customization, licensing and hosting contracts that have been entered into since the first quarter of 2000. These new licensing and hosting contracts contain certain upfront fees that are being recognized as revenue over their expected service periods. The new contracts provide for transactional revenue as well, based on volume that has been enabled by our technology through these customers' sites. For the period ended March 31, 2001, two customers accounted for 32% and 25%, respectively, of our total Lend-X technology revenue.

GROSS PROFIT AND COST OF REVENUE

Gross profit of \$8.8 million, or 72% of total revenue, for the three months ended March 31, 2001 was approximately \$6.0 million higher than the same period of 2000 which had gross profit of \$2.8 million, or 63% of total revenue. The improvement in gross margin and gross margin percentage is due to the substantial increase in network revenue, as noted above, without similar, proportionate increases in network costs of revenue.

Total cost of revenue increased \$1.8 million from \$1.7 in the first quarter of 2000 to \$3.5 in the first quarter of 2001. This is principally due

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to increases in variable network cost of revenue and due to the addition of realty services to our product offerings. The most significant portions of our costs of revenue are volume-based. Costs such as credit scoring fees, consumer promotional costs, network hosting expenses and direct costs to Lend-X partners tend to increase as volume and revenue increase.

Network

For the period ending March 31, 2001, variable network costs of revenue were \$1.9 million or approximately \$.5 million higher than the same period in 2000. In the first quarter of 2001, variable network cost of revenue included approximately \$.9 million for direct consumer promotion costs associated with customers that requested and qualified for rebates. These promotional costs were approximately \$.4 million during the first quarter of 2000. During the first quarter of 2000, the most significant direct consumer promotion cost was associated with consumers that requested and qualified for a credit card through the network and also closed a loan through our network of lenders.

Costs of revenue that are not directly volume based, principally personnel costs increased approximately \$.2 million reflecting increased staffing in our implementation and customer care departments.

Lend-X technology

Costs of revenue associated with Lend-X technology are principally employment costs related to customizing and/or implementing Lend-X for partners, as well as ongoing server costs related to hosting Lend-X for these partners. Since we have entered into several new Lend-X technology arrangements since first quarter 2000, these types of costs were \$.3 million higher in the first quarter of 2001 (at \$.4 million) compared to the first quarter of 2000 (at \$.1 million).

OPERATING EXPENSES

Product development expense was approximately \$1.1 million for the three months ended March 31, 2001 and \$.5 million for the same period in 2000. The increase from first quarter 2000 to first quarter 2001 is principally related to increased personnel costs. Product development costs consist of expenses incurred related to the ongoing efforts to enhance and maintain the functionality of our Lend-X technology and our website.

Marketing and advertising expenses decreased \$6.0 million to approximately \$8.9 million for the three months ended March 31, 2001 compared to \$14.9 million for the same period in 2000. During the first quarter of 2000, we spent significantly more on advertising as we kicked off our national brand-building advertising campaign with combinations of network and spot television and radio as well as cable television advertising. During the first quarter of 2001 we were already experiencing very high consumer volume on our website as a result of prior advertising efforts and the Federal Reserve's recent action of lowering interest rates and as a result we were able to reduce our advertising spending.

Sales, general and administrative expenses increased to \$9.1 million for the three months ended March 31, 2001 from \$5.2 million for the same period in 2000. Approximately \$1.6 of this increase is due to higher employee compensation related costs due to the hiring of 80 additional people during the period following the first quarter 2000 through first quarter 2001, reflecting the growth in our business. The amortization of the excess purchase price related to the acquisition of certain assets of HomeSpace contributed to \$1.3 million of the increase. Depreciation expenses increased \$.5 million from the first quarter 2000 to first quarter 2001 reflecting new equipment and software

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purchases. we believe that we have the current infrastructure and staff necessary to support the forecasted growth and as such we do not expect sales, general and administrative spending to continue to grow at these rates in the foreseeable future.

Included in our operating expenses for the three months ended March 31, 2001 are non-cash compensation charges of \$1.1 million. The most significant component of this expenses relates to the charge taken as a result of fair value changes of the securities collateralizing the Chief Executive Officer note. This expense for the period ending March 31, 2001 was \$.8 million. As of March 31, 2001, our balance sheet also reflected deferred non-cash compensation charges of \$2.2 million related to certain stock option grants that were considered compensatory. This deferred charge is being amortized over the four-year vesting period associated with the related options, ending principally in the third quarter of 2003 and the first quarter of 2004.

INTEREST INCOME

Interest income consists primarily of interest earned on cash and cash equivalent and short-term investment. Interest income decreased to \$.1 million in the three months ended March 31, 2001 from \$.5 million in the same period in 2000. This decrease was primarily due to a higher average cash balance in the first quarter of 2000 as a result of the net proceeds from our initial public offering in February 2000.

OTHER INFORMATION

For the three months ended March 31, 2000 and 2001, we had losses before taxes, interest, depreciation and amortization and other non-cash compensation charges ("EBITDA Losses") of \$17.1 million and \$7.2 million, respectively. Non-cash compensation charges of \$.5 million and \$1.1 million are excluded from the EBITDA Losses for the three months ended March 31, 2000 and 2001, respectively.

YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999

REVENUE

Total revenue was approximately \$30.8 million in the year ended December 31, 2000, an increase of \$23.8 million from \$7.0 million in the same period in 1999.

Network

Our network revenue was approximately \$27.5 million, or 89% of total revenue for the year ended December 31, 2000, compared with \$6.1 million or 88% of total revenue for the same period in 1999. This growth reflects a substantial increase in volume of qualification forms we transmitted to our lenders and a significant increase in the amount of revenue earned from closed-loan fees. We attribute the increase in transmission volume, from approximately 186,000 discrete transmitted qualification forms in the year ended December 31, 1999 to approximately 716,000 in the same period of 2000, primarily to our extensive advertising campaign run during 2000. Although advertising expense was reduced in the third and fourth quarters of 2000, as compared to the first and second quarters of 2000, we attribute effectiveness of the increased brand awareness and a significant increase in website traffic during 2000 to the effectiveness of the increased advertising spending. The increase in closed-loan fees reflects not only the increased transmission volume, but also an increase in the number and variety of lenders on our network.

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Added lenders create additional opportunities for consumer's credit requests to be transmitted for evaluation and possible closure by a lender, thereby creating revenue for us. Closed loans increased from 27,000 in 1999 to approximately 145,000 in 2000.

We derive additional network revenue from credit requests that are received through our Lend-X partners, private-label or co-branded websites of other businesses that are enabled by our Lend-X technology and brokerage services. If these qualification forms are successfully transmitted to or fulfilled by one of our network lenders, we earn transmission fees and closed-loan fees, if applicable, from that lender. In arrangements where we broker loans to specific lenders for a Lend-X partner, we receive a fee at the time the loan closes. For 2000, we recorded \$2.3 million of Lend-X related network revenue, compared to none in 1999.

Lend-X Technology

Lend-X technology revenue totaled \$3.3 million or 11% of our revenue for the year

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ended December 31, 2000 compared to \$0.9 million, or approximately 12.2% of total revenue in 1999. The increase in Lend-X technology revenue is principally the result of a significant new customization, implementation and licensing contract that we entered into in the second quarter of 2000. Lend-X technology revenue recognized during the second and third quarters of 2000 under this contract reflects our progress towards completion. For 2000, this single customer accounted for \$2.4 million, or 71% of the total Lend-X technology revenue.

GROSS PROFIT AND COST OF REVENUE

Gross profit of \$21.4 million, or 70% of total revenue, for the year ended December 31, 2000 was \$17.0 million higher than in 1999, when we had gross profit of \$4.4 million or 64% of total revenue. These improvements in gross margin and gross margin percentage are the result of the substantial increase in network revenue, as noted above, without similar proportionate increases in network costs of revenue.

Total cost of revenue increased \$6.9 million in 2000 to \$9.4 million, from \$2.5 million in 1999, principally as a result of increases in variable network costs of revenue. The most significant portions of our costs of revenue are volume-based. Costs such as credit scoring fees, consumer rebates, network hosting expenses and direct costs to Lend-X partners tend to increase as volume and revenue increase.

Network

For the year ended December 31, 2000, variable network costs of revenue were \$6.1 million or approximately \$4.3 million higher than in 1999. In 2000, variable network cost of revenue included \$1.9 million for direct consumer promotion costs associated with consumers that requested and qualified for rebates. These promotional costs were \$0.2 million in 1999. During 2000, the most significant direct consumer promotion cost was associated with consumers that requested and qualified for a credit card through network and also closed a loan through our network of lenders. Other variable network costs related to credit scoring, network hosting and Lend-X partners increased \$1.0 million, \$1.1 million and \$0.5 million, respectively, as a result of increases

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in customer volume.

Costs of revenue that are not directly volume-based, principally personnel costs, increased approximately \$1.0 million to \$1.5 million in 2000, reflecting an increased number of personnel in our implementation and customer care departments.

Lend-X technology

Costs of revenue associated with Lend-X technology are principally personnel and consultant costs related to projects to customize and implement Lend-X for partners, as well as ongoing server costs related to hosting Lend-X for these partners. Because we entered into several more Lend-X technology arrangements in 2000, these types of costs were \$1.5 million higher in 2000, at \$1.8 million, compared to \$0.3 million in 1999.

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OPERATING EXPENSES

Product development expense was approximately \$2.7 million for the year ended December 31, 2000 and \$1.1 million in 1999. The increase in product development expense is principally related to increased personnel costs. Product development costs represent costs incurred related to the ongoing efforts to enhance and maintain the functionality of our Lend-X technology and our website.

Marketing and advertising expenses increased \$38.1 million to approximately \$56.6 million for the year ended December 31, 2000 compared to \$18.5 million in 1999. This increase is primarily due to substantially higher advertising expenses in 2000 incurred in an effort to build and maintain our brand awareness and attract users to our online lending exchange. During 2000, we ran a national network and cable television advertising campaign and expanded our radio and outdoor advertising campaigns to significantly more markets than we did during 1999. We currently anticipate that marketing and advertising will continue to be our most significant expense, as we will continue to run promotional campaigns and maintains awareness for both our LendingTree and Lend-X brands.

Sales, general and administrative expenses increased to \$28.3 million for the year ended December 31, 2000 from \$10.1 million in 1999, an increase of \$18.2 million. Approximately \$9.1 million of this increase is due to higher employee-compensation related costs which are a result of the significant growth in the business. Another \$1.6 million of the increase relates to employee related costs such as travel, relocation and recruiting fees. Professional and consulting fees increased \$1.6 million from 1999 to 2000, reflecting increased professional development, technology consulting costs, public relations and increased professional fees related to regulatory and intellectual property matters. We also incurred \$1.2 million in higher facilities, telephone, utilities and related expenses primarily as a result of our move to a larger facility and an increase in our number of personnel in 2000. The amortization of the excess purchase price related to the HomeSpace asset acquisition contributed \$2.1 million of the increase. Bad debt expense increased \$0.8 million from 1999. Depreciation expenses increased \$0.8 million from 1999 to 2000 reflecting new equipment and software purchased in 2000. We do not expect sales, general and administrative spending to continue to grow at these rates in the foreseeable future.

Included in our operating expenses for the year ended December 31,

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2000 is amortization of deferred non-cash compensation charges of \$2.3 million. As of December 31, 2000, our balance sheet reflected deferred non-cash compensation charges of \$3.1 million related to certain stock option and warrant grants that were considered compensatory. The deferred charge related to stock options, \$3.0 million, is being amortized over the four-year vesting period associated with the related options, ending principally in the third quarter of 2003 and the first quarter of 2004. The deferred charge related to warrants, \$0.1 million, is being amortized through January 2001, corresponding to the initial term of the underlying service agreement.

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LOSS ON IMPAIRED INVESTMENT

In February 2000, we made a \$2.5 million equity investment in a company providing mortgage exchange services over the Internet. Our minority investment represents approximately 8.3% of the outstanding equity of that business and accordingly, it is accounted for using the cost method of accounting. In December 2000, our management determined that the carrying value of this investment was impaired as a result of a series of historical and forecasted operating losses and the prospect that the company might be unable to fund its operations in the future. As a result of this impairment, our management wrote the investment down to its estimated fair value of \$0.6 million, recording \$1.9 million as a non-operating loss on impaired investment.

INTEREST INCOME

Interest income consists primarily of interest earned on cash and cash equivalents and short-term investments. Interest income increased to \$2.1 million in the year ended December 31, 2000 from \$0.5 million in the same period in 1999. This increase was primarily due to higher average cash, short-term investment and restricted investment balances in 2000 as a result of the net proceeds from our initial public offering in February 2000 and the net proceeds from a private offering of preferred stock in September 1999.

YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998

REVENUE

Total revenue was approximately \$7.0 million in the year ended December 31, 1999, an increase of \$6.6 million from \$0.4 million in 1998.

Network

Network revenue accounted for \$6.1 million, or 88% of total revenue for the year ended December 31, 1999, compared with 67% for the year ended December 31, 1998. Network revenue in 1999 increased by \$5.8 million from \$0.3 million in 1998 primarily as a result of higher qualification form and closed loan volume. Transmitted qualification form volume increased over nine times from approximately 18,000 to approximately 186,000 during this period while the number of loans closed increased nearly forty times from about 700 to 27,000.

Lend-X Technology

Lend-X technology revenue accounted for \$0.9 million, or 12% of total revenue for the year ended December 31, 1999, compared with \$0.1 million for the year ended December 31, 1998. The increase in Lend-X and other technology revenue resulted primarily from the sale of more Lend-X licenses.

COST OF REVENUE

Network

Cost of network revenue increased to \$2.2 million for the year ended December 31, 1999, up from \$0.2 million for the year ended December 31, 1998. This increase in cost was as a result of volume-related expenses such as credit scoring and network hardware expense and from an increase in personnel in the borrower relations department. Our gross margin increased to 64% from 6% for the years ended December 31, 1999 and 1998, respectively.

Lend-X Technology

Cost of Lend-X increased to \$0.3 million for the year ended December 31, 1999 from \$0.1 million for the year ended December 31, 1998. This increase is primarily the result of greater direct hours incurred for Lend-X projects.

OPERATING EXPENSES

Product Development

Product development expense was \$1.1 million for each of the years ended December 31, 1999 and 1998.

Marketing and Advertising

Marketing and advertising expense increased to \$18.5 million for the year ended December 31, 1999 from \$2.5 million for the year ended December 31, 1998, an increase of \$16.0 million. This increase is primarily the result of higher advertising expenses in order to build brand awareness and increase volume to our exchange.

Sales, General and Administrative

Sales, general and administrative expense increased to \$10.1 million for the year ended December 31, 1999, an increase of \$7.1 million from the year ended December 31, 1998. The increase is primarily the result of higher employee-related costs such as compensation, recruiting and relocation expenses, rent for a larger facility and professional fees.

QUARTERLY RESULTS OF OPERATIONS

The following table, table presented in thousands, except per share amounts, sets forth a summary of our unaudited quarterly results of operations for each of the eight quarters in the two-year period ended December 31, 2000 and for the quarter ended March 31, 2001. This information has been derived from unaudited interim financial statements contained elsewhere in this prospectus or in our quarterly report on Form 10-Q for the quarter ended March 31, 2001 incorporated herein by reference and includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information for the quarters presented. You should read this information in conjunction with our financial statements and the accompanying notes

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included elsewhere in this prospectus. Historical results for any quarter are not necessarily indicative of the results to be expected for any future period. All share and per shares amounts referred to in the table below have been adjusted to reflect the 1.27 for 1 stock split of our common stock effected on February 22, 2000 upon the closing of our initial public offering.

| | Quarter Ended | | | | | |
|--|----------------|----------------|------------------|-----------------|----------------|----------------|
| | Mar 31 1999 | Jun 30 1999 | Sept. 30 1999 | Dec. 31 1999 | Mar 31 2000 | Jun 30 2000 |
| Revenue | \$ 637 | \$ 1,073 | \$ 2,318 | \$ 2,936 | \$ 4,483 | \$ 7,699 |
| Gross profit | 245 | 609 | 1,621 | 1,968 | 2,820 | 5,632 |
| Net loss attributable to common stockholders | (4,263) | (4,724) | (8,266) | (10,308) | (19,691) | (18,796) |
| Net loss per share (basic and diluted) | \$ (1.12) | \$ (1.25) | \$ (2.24) | \$ (3.39) | \$ (2.07) | \$ (1.04) |

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2001, LendingTree had approximately \$16.5 million in cash, cash equivalents, restricted investments and short-term investments. Management believes that the existing cash and cash equivalents, including the proceeds from the Series A Preferred Stock sales noted above, the availability of the revolving credit facilities noted above and cash generated from operations will be sufficient to fund our operating and capital needs through 2001.

During 2000, we required \$59.2 million of cash to fund operations. Such amounts were expended primarily for advertising, expansion of our infrastructure and support personnel, and working capital needs. Since inception, we have incurred significant losses and had an accumulated deficit of \$98.1 million as of December 31, 2000. These uses of cash, losses and accumulated deficit have resulted from the significant costs incurred for advertising and marketing efforts to build and maintain brand awareness. Additionally, significant costs have been incurred for employment expenses related to the establishment of relationships with lenders, real estate brokers and other business partners and the development of Lend-X, as well as for other general corporate purposes. Because we plan to continue to invest in these items, we anticipate that we will continue to incur losses and experience negative cash flow from operations throughout 2001. As of December 31, 2000, we had approximately \$12.7 million in cash, cash equivalents and short-term investments. Of this amount, \$5.1 million was restricted under an escrow arrangement with our advertising agency.

As more fully described in the prospectus summary and in the notes to our financial statements incorporated by reference herein, subsequent to 2000, we signed definitive documents for the following financing transactions:

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- A preferred stock purchase agreement with various investors, pursuant to which we issued and sold, on March 20, 2001, 3,700,001 shares