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EDITED TRANSCRIPT

TREE - Q2 2012 Tree.com, Inc. Earnings Conference Call

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PRESENTATION

Operator

Good day, everyone, and welcome to the Tree.com second-quarter 2012 earnings conference call. Today's call is being recorded.

At this time, I would like to turn the call over to Mr. Alex Mandel, Chief Financial Officer. Please go ahead, sir.

Alex Mandel - *Tree.com, Inc. - CFO*

Thanks, Operator, and thank you to everyone for joining us today for Tree.com's Q2 2012 earnings conference call.

First, a quick reminder. During this call, we may discuss Tree.com's plans, expectations, outlook or forecast for future performance. These forward-looking statements are typically preceded by words such as we expect, we believe, we anticipate, we are looking to, or other similar statements. These forward-looking statements are subject to risks and uncertainties, and Tree.com's actual results could differ materially from the views expressed today.

Many but not all of the risks we face are described in Tree.com's periodic reports filed with the SEC. On this call, we will discuss a number of non-GAAP measures, and I refer you to today's press release available on our website at investor-relations.tree.com for the comparable GAAP measures definitions and full reconciliations of non-GAAP measures to GAAP.

I'm delighted to have the opportunity to speak with you today. By way of introduction, my name is Alex Mandel, and I joined the Company as its CFO at the beginning of last week. However, I've actually spent the past two years working with Tree as a financial consultant, working on various strategic finance initiatives that culminated with the completion of the HLC transaction, which we'll discuss in more detail on this call.

My impression of Tree early on was that there was a meaningful opportunity to unlock value in both the iconic LendingTree brand and a scalable performance marketing platform the Company has built. In my experience working with media companies prior to Tree, I came to appreciate how powerful a brand can be at engendering trust and loyalty with consumers. While at Tree, I came to appreciate the benefits to businesses of performance marketing, delivering qualified consumer leads, and doing so with much more cost certainty than traditional and new media advertising.

Further, it seemed that the Company had additional opportunity to enhance its already compelling value propositions for its two key constituencies, consumers seeking high-value considered purchase transactions, and businesses seeking the best path to connect with and serve those consumers. Through the divestiture of HLC and the impressive improvements our marketing, sales and product teams have made over the past year, I'm proud of how far the Company has come towards achieving these goals.

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On today's call, I'd like to cover three primary topics. First, the second-quarter results. Second, the wind-down of HLC, and third, our balance sheet and current financial position. I'll start with my perspective on our second-quarter results, which I'll speak to from the three perspectives -- our adjusted exchange's presentation; secondly, our GAAP continuing operations; and third, our discontinued operations.

Top level, our strategy going into the quarter was to manage marketing expenditures very tightly, in order to maximize Variable Marketing Margins, or VMM, in the face of what we knew would be a transitional period because of the sale of HLC. On May 24, we announced the HLC transaction would be closing on June 6, which meant that HLC would be cycling off as a recipient of leads from our mortgage exchange, and after a brief transition, Discover Home Loans would be onboarding.

In that context, while our adjusted exchange's revenue declined modestly by 4% over Q1 [to] $23 million, we did achieve our objective of increasing VMM by 5% to $11.9 million in the quarter. This VMM result is significant, both because it represents a margin of 52% of adjusted exchange's revenue, and because it has grown consecutively in each of the six quarters since the first quarter of 2011, which is the first quarter for which we provided this metric.

To put further context around our results, earlier in the year, when Doug first provided guidance for 2012, he indicated that the second half of 2011 would be a relevant benchmark to measure performance for 2012, given the interest rate environment of that period, as well as the ramping up of our new marketing and analytics team. In that regard, our results for the first half of 2012 on an adjusted exchanges basis represents a 25% increase in revenue and a 38% increase in adjusted EBITDA.

These results were achieved through strong execution by both our marketing and sales teams. In raising our full-year 2012 adjusted exchanges EBITDA guidance today to a range of $12 million to $14 million, the implied second half of this year also represents a strong performance, while anticipating typical seasonal effects relative to the first half of the year.

Turning to continuing operations GAAP basis, you will see from our earnings release that results generally improved notably. This resulted in part from the transitioning of lead volume that was previously transmitted to HLC, which the exchanges did not recognize revenue from, to our network of third-party lenders, which now includes Discover Home Loans. Revenue in the second quarter also included $1.1 million related to certain marketing consulting services we provided.

We anticipate that we will recognize an additional $700,000 of marketing consulting revenue in each of Q3 and Q4, but do not anticipate recognizing such revenue beyond 2012. I would also note that within our revenue base, revenue from non-mortgage verticals -- primarily education, auto, and home services -- was up 6% in Q2 compared with Q1. Those businesses are being managed with a priority on growth and, therefore, have a lower level of profitability.

Lastly, on the discontinued operations side, which primarily comprises HLC plus some small amounts attributable to our former real estate business which we exited last year, results in Q2 generally declined relative to Q1, since the HLC business was only operated through June 6. Comparisons with Q2 last year were actually favorable, despite the shortened contribution period, thanks to the dramatically improved interest rate environment this year.

Next, I'll turn to the HLC wind-down. We closed the sale of the HLC business, our former principal mortgage origination business known as LendingTree Loans, on June 6. The ensuing wind-down was a significant focus of management during the quarter, the results of which have exceeded our expectations and are visible from our balance sheet.

At the time of the closing, HLC had approximately $125 million of funded loans held for sale, which it intended to sell to its existing investors. Historically, HLC typically sold funded loans within a 30-day timeframe, although loan sales after exiting the business can be more challenging. We are therefore pleased to report that as of the June 30 balance sheet date, HLC has reduced its loan inventory to $1.1 million, and as of today, has substantially completed the selldown of the remaining loans.

We consider this a significant accomplishment. The margin achieved on these loan sales also exceeded our expectations and contributed to the cash balance at June 30. The $125 million of loan inventory at closing on June 6 was financed with approximately $110 million of warehouse line

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borrowings. As of the June 30 balance sheet date, there was just $300,000 remaining on the lines, and we're pleased to report that as of July 20, all three of HLC's warehouse lines were fully repaid and terminated. So the Company has no debt or open facilities remaining.

Where that leaves us at HLC is with a net liability of $35.9 million, which is primarily the $33.1 million reserved for contingent loan repurchase obligations. As relates to the loan repurchase exposure, we have had a couple of smaller settlements subsequent to the closing of the HLC sale, and have a number of current dialogues with other former investors who purchased loans from HLC. We will look to achieve settlements where they represent appropriate value.

A number of you have asked about the reserve amount. Our periodic SEC filings contain detailed descriptions of our accounting policies for calculating loan loss reserves. Our calculations are performed in accordance with GAAP. And while the calculations do involve significant estimates and judgments, they are based on our actual loan loss history, adjusted for recent trends and loan loss experience, as well as market pricing information on loans we purchased and other historical variables described in our periodic filings.

The calculation process is robust, and of course, our independent auditors performed the procedures they are required to perform on these calculations as part of their quarterly revenues and annual audit. In relation to loan loss exposure, we have $17 million in escrow pursuant to the asset purchase agreement with Discover. Escrowed amounts are to be released to us as resolutions are achieved with investors on this exposure.

All in, we believe our exit from the mortgage business has exceeded expectations to date, and the strong results achieved are evident on our balance sheet, which I will now turn to as the third topic I'd like to cover.

We ended the quarter with approximately $94.7 million in unrestricted cash and equivalents, plus $30 million of restricted cash. This compares with $59 million of cash and equivalents, and $14.9 million of restricted cash at March 31. We had previously given guidance of unrestricted cash post-closing and post-wind-down of at least $60 million. Needless to say, unrestricted cash is well above our expectations.

While the observed substantial increase in cash resulting from the transaction proceeds and liquidation of the loan inventory at HLC is quite robust, we are focusing on working capital as a more comprehensive, yet readily measurable, metric in relation to our liquidity position. In this regard, at June 30, we had $72.1 million of working capital, representing current assets, including cash and restricted cash of $139.4 million, minus current liabilities of $67.3 million.

I note that current liabilities includes the $33.1 million loan loss reserve. I would also note that the $72.1 million of working capital excludes $10 million of deferred contingent considerations that will be due on the first anniversary of the HLC sale, which is to say June 6, 2013 subject to various conditions.

Looking ahead, we'll be giving careful consideration as to alternatives to deploy our available liquidity. During the quarter, we did repurchase 14,300 shares of stock, and we have approximately $4.1 million in share repurchase authorization remaining under the program our Board authorized in January of 2010.

In conclusion, it was a long road to completing the HLC sale, and we thank our employees and investors for supporting us through this time. Results from our exit of the mortgage origination business have exceeded our expectation. The operating results of our core performance marketing business were historically strong in a transitional environment, and we are seeing our newly recast business profile resonating with our customers.

With that, I'd like to turn it over to Doug.

Doug Lebda - *Tree.com, Inc. - Chairman and CEO*

Thanks, Alex. And thanks to all of you for joining the call today. I'm going to be fairly brief. Our quarterly results are great and, frankly, speak for themselves. So there's not much to add. I'll give you my perspective on the quarter and talk more about what lies ahead for Tree.

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Before I do that, I'd like to give you my view on the Herculean effort we undertook since our spin in August 2008. At that time, we set on a path to restructure this Company, get it back on solid footing, and then grow. We had a few supporters but lots of skeptics, particularly given the economic environment. It's been extremely difficult at times, but I'm thrilled with how our Company has come through it.

At the time of the spin in 2008, we had approximately 1,000 employees compared to about 150 today. We diversified our revenue mix and launched three new businesses. We shed money-losing parts of our Company, and invested significantly in our consumer-facing and lender-facing products. We capitalized on our marketing strength and then rebuilt our marketing capabilities, and are well on our way to building what we call the best marketing machine on the planet.

All this happened in the midst of an unprecedented financial and housing crisis. And put simply, we set out our strategy and then we executed it. And I think Q2 is the proof that that hard work has paid off. We achieved very solid revenue and EBITDA performance, despite encountering what were some very fairly significant headwinds for us.

First, we closed the LTL transaction in early June, rather than the drop-dead date of early July, which meant that we had to sell leads to other lenders at a much faster clip than we anticipated. Our sales team delivered, and that's a testament to not only their hard work, but LendingTree's reputation for quality. That installed base of lenders is a fantastic platform to grow from going forward, and we expect to continue to grab more budget from our advertisers.

Second, LTL took less volume in the period, as state licensing was transferred prior to the close. Third, we had significantly higher professional fees for the quarter. And despite all these factors, we were able to adjust our business in real time and post very solid results.

So, after all that hard work, we're left with a Company that is extremely well-positioned. We've got the leading brand in our sector, a very scalable and growing business, a growing base of lenders who are increasing their advertising budgets with us consistently, and millions of consumers trusting us at the most critical times in their lives.

And financially, for those of you who are shareholders, you own a piece of a company that, this year, we expect to produce between $12 million and $14 million in adjusted EBITDA, has roughly $6.00 per share of working capital on its balance sheet, and we expect should produce second-half adjusted exchanges revenue that is about 25% greater in the second half of 2011. Those kind of growth rates place us in some pretty good company in the broader Internet landscape, and certainly are in the upper echelon of our competitive set.

So, what's next? We're focused on a few key things. Right now we're actively focusing on how we can accelerate growth. And after years of restructuring and retooling, this is exciting for our people, and we expect will be for all of our shareholders. As soon as we internally lock down a plan for next year and beyond, and vet that with our Board, we'll certainly share that with all of you.

Second, we're focused on what to do with our roughly $72 million of working capital that Alex discussed. All options are on the table. We believe we should either deploy that in a way that gets real growth and acceleration for our shareholders, or we should return that to you so you can deploy it yourselves.

Third, we're going to further advance our product, particularly on the consumer side. Expect to see some fantastic innovations for consumers that will further differentiate us and enable us to grow share. Most importantly, we expect to set aggressive financial goals, share them transparently with you, and then deliver. We recognize the top performing companies deliver both growth and profitability, and we intend to do just that.

I'd like to thank all of our employees for their tremendous work, our advertisers for trusting us to help them grow their businesses, and our shareholders who trust us with their dollars. I'm very pleased with how our Company has performed in its position and have never been more confident in our future. After 15 years of this Company, I believe that we are still in the early days of our key products shifting online, and we intend to help lead that transformation.

And now I'd be happy to take any questions that you have.

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Mark Mahaney, Citi.

Neil Doshi - *Citigroup - Analyst*

Hey, guys, it's Neil Doshi. Nice quarter. Doug, had a few questions for you and Alex. And Alex, congratulations on the new role. First of all, Doug, in terms of your revenue outlook for the back half of the year, where do you think most of the growth will come from in the second-half exchange revenue? Is this going to be from mortgages? Or will we see meaningful uptick on the non-mortgage side?

Doug Lebda - *Tree.com, Inc. - Chairman and CEO*

Sure. I think we're going to see it mostly in mortgage, although we do have some expectation of some growth from non-mortgage. And the basic reason is really this right now -- we've -- I'm feeling very confident, given where we emerged from in Q2 on the mortgage sales side, and how we were effectively able to add lenders. So, given that we've been able to sell a lot of cap, so-called cap, to our lenders, I'm very confident in our ability to deliver that.

And the other verticals, they continue to do fine. We're letting them operate at breakeven, and we do have some plans to get some growth there. But I think -- but it's -- they're just too early to really bank on it. Mortgage is also the one, quite frankly, where versus our competitors, we can now draw very clear distinctions between our value proposition and those of some of our competition -- our brand, better conversion, higher lead quality, an ability to predict volume.

And so, I'm just much more confident there. I do have hopes, dreams, and confidence in some of the other verticals, but it's just still early. And if we get it, it will be upside and good news.

Neil Doshi - *Citigroup - Analyst*

Okay, great. And then we're seeing a nice expansion in the variable marketing margin. Do you think we'll continue to see that? Or do you feel like you're going to have to invest pretty heavily on the marketing side in order to get that 25% revenue growth in the second half?

Doug Lebda - *Tree.com, Inc. - Chairman and CEO*

So, we will definitely -- the key number one metric that we focus on internally is variable marketing margin on a dollar basis, not on a percentage basis. And that is important. If we have demand for leads and rising prices, we absolutely will invest in marketing to go get it. And we'll do whatever it takes to maximize that dollar-based VMM.

One of the reasons you saw it expand so much in Q2 -- and we kind of alluded to this -- is, quite frankly, we spent less in marketing in Q2 than we would have otherwise spent. And that was really related to the transition from LTL to the network, with all the loan -- even though we were very, very successful at sales, with all those leads flooding over. And then Discover transitioning licensing, where they didn't take nearly as many leads post-close than they did pre-close, we managed that very tightly and very conservatively. And the way to maximize VMM in Q2 was very much to be mindful of not overspending on the marketing front.

One thing that I'm incredibly thrilled with is how, not only on sales, but also how our team now is able to literally manage spend and revenue on an hour-by-hour -- in some cases, minute-by-minute basis. And we're very, very nimble. And that's definitely continued into Q3.

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So, I would expect to see -- long story short, watch VMM dollars, and then, obviously, overall EBITDA margin percentage, and don't worry too much -- or I wouldn't worry too much about the VMM percentage.

Neil Doshi - *Citigroup - Analyst*

Okay. And Doug, can you just explain a little bit about the -- about why the exchange revenue declined on a year-over-year basis? I think you alluded to the fact that there was some -- something in conjunction with the closing of HLC, and maybe kind of a slowing of leads from that perspective. But any more details on that?

Doug Lebda - *Tree.com, Inc. - Chairman and CEO*

Sure. I mean, well, quite frankly -- I think we talked in the last call that the second half of 2011 was what I would characterize as kind of the starting point for our Company from the standpoint of there not being noise in the system. Q1 and Q2 of last year were very noisy.

You might remember we had lots of revenue, but we also had very significant losses. And the reason was we were basically spending -- we were long advertising -- we were spending money on marketing that was losing us money. It was absolutely driving in revenue, but it was driving in revenue that was unprofitable.

We were also, if you recall, we talked about having to maintain a certain level of volume to make sure that the HLC deal was going to get sold, and we wanted to make sure we maintained that at a capacity -- at a certain capacity. So that also caused us to spend money, which we shouldn't have otherwise spent.

So, as an exchange, I mean, we operate in the supply and demand of leads. And we oversupplied the exchange with money-losing advertising last year. And we're just much more thoughtful about how we can manage that.

So, basically again, we want to maximize VMM dollars. And the way to do that this quarter in this transition was to pull back on marketing, be very careful about our sales, and then let that volume transition over; as Discover pulled back their volume, we were able to transition that to other lenders.

Very conservative on our marketing. And now we can -- now in Q3, we're building it back, so to speak. And so from here, our plan and expectation is that Q3 will be better than Q2, and we'll start to get growth quarter-over-quarter subject to some seasonal elements. It's one of the reasons why, when I talked about revenue growth and profit growth, I'm using the second half as kind of that baseline.

I think second half versus first half this year will be roughly flat. But second half of 2012 versus second half 2011, I expect to be a very good comp. And then going forward, things should be very clean and normal, and what you're used to with a lot of your other media and Internet companies.

Neil Doshi - *Citigroup - Analyst*

Right. And then, Alex, can you just give us an indication as to what the average price on the repurchase was?

Alex Mandel - *Tree.com, Inc. - CFO*

That's actually not something I feel comfortable disclosing on this (multiple speakers). Oh, you mean the stock repurchases? Or the --?

Neil Doshi - *Citigroup - Analyst*

Yes. Yes, the stock discount for repurchases.

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Doug Lebda - *Tree.com, Inc. - Chairman and CEO*

Oh, I thought you were talking about the sale of our loans.

Alex Mandel - *Tree.com, Inc. - CFO*

Yes, I think on the stock repurchases, we said in the press release that we purchased 14,300 shares at an average price of $8.98.

Neil Doshi - *Citigroup - Analyst*

Great. All right. Congrats on the quarter, guys.

Doug Lebda - *Tree.com, Inc. - Chairman and CEO*

Thank you.

Operator

Hamed Khorsand, BWS Financial.

Hamed Khorsand - *BWS Financial - Analyst*

Hi, guys, just a couple of questions here. One is just looking at it from how you guys grew revenue on the mortgage side, how much of it came incrementally from new service providers you had in the first half of the year?

Doug Lebda - *Tree.com, Inc. - Chairman and CEO*

I actually don't have -- I actually do not have that in front of me, but I'd be happy to go look into that. I would say it's -- roughly speaking, it's probably half and half. We've been very successful at increasing cap from existing relationships and also very successful at adding new lenders. Some of those new lenders are small, but a lot of them are surprisingly large.

And the thing that I take most comfort in is that we are seeing increases in order size really across the board. We're -- and we're doing that in an environment where it's selling ice cubes to Eskimos. So, a lot of times, we get somebody who comes on, they start small, and then they're growing it. And I'm seeing some numbers here about -- our cap is up 22% from early Q1, and revenue is up 20% from our 40 new lenders -- from the 40 lenders that really comprise our big lenders. And of those 40, probably about 10 of them are new and 10 of them are old.

But we're seeing tremendous demand for LendingTree lead flow and we're seeing that increase. I talked about this on prior calls. Another key reason for that is that we're actually able to predict it, and with some amazing new technology we've created. And so lenders can count on it. And when they can count on it, they're willing to build a business around it.

Hamed Khorsand - *BWS Financial - Analyst*

Okay. My follow-up question was just -- I guess since you can foresee how much referrals you have, and you have to go through the whole HLC wind-down in the referrals that was being created there, the increase in marketing that occurs in Q3, did that have a margin impact going forward?

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And how would you really manage the referrals base, right? Because all of a sudden, your service providers could end up saying, okay, we'll pay you less for referrals. How do you compensate for that?

Doug Lebda - *Tree.com, Inc. - Chairman and CEO*

It's a great point. So, basically, one of the changes we made very early on -- and this is very similar -- basically, what we've done is, is done what a lot of other companies have done in the online advertising space. And let me just riff on this for a little bit.

If you think -- let's take what Google did in search, and then what's happened with DSPs and the ad exchanges and display, that's basically what we're doing on a cost per lead basis; which is, we're creating a very dynamic marketplace where advertisers can basically bid up or down the price of the leads, based on their returns on our leads, based on the other leads in the market, or there are other ways that they can advertise.

So, right now, for example, even though our revenue is solid, et cetera, et cetera, our -- relative to where we would be in a rising rate environment, we're not getting very high revenue per lead. And that's because we've got a lot of volume. And lenders are also experiencing high organic volume from previous customers, et cetera.

So, our sales success is coming now because we are able to predict the volume and give them very tight returns, give them very accurate returns on what they should expect. And quite frankly, we're stealing share from our competitors. And we hear stories of that all the time, where somebody says, I'll up my buy with you, and I'll shut off XYZ aggregator. And that's the reason I think we're winning right now.

So, what you'll see in Q3 maybe is you'll see the VMM percentage decline, but hopefully, see the VMM dollars increase. And again, that's what we focus on. This business is very simple. We have a cost to get a consumer in the front door, and we monetize them. And the core of the business model is the interplay between those two, and watching your fixed costs. And it's highly predictable.

Now that we have -- one of the great things about this business going forward than where it was, let's say, five years ago, even on the exchanges side, is now that we have allowed pricing to float on an open exchange, that takes out a lot of the variability. We used to have, for example, in a low rate environment, it would sort of benefit us; and then a rising rate environment it would hurt us. And so we're always talking about interest rates.

Well, now what you have is, in a rising rate environment, it will get more expensive to get a customer in the front door, but lenders will really want a lot more leads. At the same time, in the environment we're in now, you have lower marketing costs but lower revenue.

So, those two things balance each other out. And then we basically win by being, number one, a more efficient marketer, but number two, gaining share of the mortgage market. And to give you a story on that, right, this is a highly fragmented, absolutely enormous market, where LendingTree right now is still only touching about 1% of all the mortgages in the United States. And for a free product where you can fill out one form and get banks to compete, I think everybody should be doing it. And certainly, there's more share to be gained.

Hamed Khorsand - *BWS Financial - Analyst*

Okay, great. Thank you.

Operator

At this time, we have one question remaining in the queue. (Operator Instructions) Howard Rosencrans, Value Advisory.

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Howard Rosencrans - *Value Advisory - Analyst*

Thank you very much, and Andrew, welcome aboard. The -- you provided a lot of color and it's very helpful, thank you. In terms of the environment -- and you were just on this the last question. So your sense is -- my question is really two-fold.

Let's assume that the housing environment continues to get better. Are we -- should we really more so focus on your share or sort of the cross-currents from theoretically higher rates and more demand in a better housing environment?

And also the mix is going to change between a refi and originations -- well, it's both originations. But for new house -- for new home product (multiple speakers), is that going to be a positive for you, a headwind? Or since that's a more detailed sale and since you're touching more players, is that something we should be concerned about? If you would go from there in terms of the environment going forward, how that should impact you.

Doug Lebda - *Tree.com, Inc. - Chairman and CEO*

Sure. It's a great question and one that's been on people's minds, quite frankly, for 15 years and depending on the environment. At a -- let me deal with this at multiple levels.

At a very high level, the size of the market matters. So, right now, the mortgage market is substantially smaller than it was in 2006 and '07 and '08. And so therefore, we're playing in a smaller pond. And that's the -- and that is the restructuring we've had to go through, and getting our company to an appropriate size to compete in a smaller market, and fix everything that we fixed to become more efficient.

Any improvement in housing from here will naturally flow to our benefit, all other things being equal. Because the market will be bigger. And if we just maintain share, we'll get our fair share of a growing market. So that will definitely help.

It also helps -- you also get some sort of accelerants in that, because you get more lenders moving back into a market, and maybe moving back more aggressively than they are today. So, today, quite frankly, you still have people that are pretty gun-shy to lend money. That means not only are they not increasing staff, but they're also very strict on underwriting guidelines, et cetera, et cetera.

I mean, people have heard me say many times that right now you can only get a loan if it's insured by the federal government. That will change at some point. At some point, we will have a private securitization market, no matter how small, and that will help. Right now, a large percentage of our customers who come in cannot even qualify for a refinancing because of credit, down payment, debt to income ratio, et cetera.

Also, as lenders start to loosen up a little bit, and they have more capacity -- and capacity is the key area here -- they'll start moving into smaller loan amounts. We have a lot of consumers today that can't get matched because their loan amount is too small.

Lenders act very rationally in this market. If they can do $300,000 loan sizes all day long, that's what they'll do. If they can do $300,000 refis with 20% down and 750 credit score, that's all they'll do, if that's all they've got capacity for. And then they -- and they will -- but they will move -- they will open up and do more marginal types of borrowers -- not saying bad credit, but even just smaller loan amounts.

The same thing is true between purchase and refinance. If you're a sales guy sitting on a mortgage floor, and you've got five leads today, and four of them are refi's and one's a purchase, you're going to call back the four refi's quickly, because you get better margins, they close sooner, and you don't have a realtor who's trying to flip the transaction. Once those four refi's wash away, you'll call the purchase guys like a dog on a bone. So, that will naturally inure to our benefit.

In addition, we'll get what we call a multiple transmit effect -- a lead that I can only match twice today, we'll be able to match it three times; I'll be able to match it four times; and I'll be able to match it five times. So, demand for leads will go up and that will help.

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By the way, a business that we had five years ago that is literally zero today is the home equity market. We had every major bank in the country issuing home equity loans through LendingTree. It was our largest, most profitable segment, highest converting. Some day, there will be home equity in the world, and some day, banks will actually make home equity loans again, and that business will come back.

So, any improvement from here in the housing market will inure to our benefit. And then we hope to expand shares, steal share from our competitors, move people from offline to online, which hopefully, puts more gas on the fire.

Howard Rosencrans - *Value Advisory - Analyst*

Great. That was very informative. I have a few more quickies and then I'll go back in queue. Year-end, you just -- you gave a very elongated answer in terms of your cash, and you're sort of -- you're now talking about working capital as contrasted with straight cash. But can you -- whichever metric is more important -- what are you looking at now as a year-end number for cash, net of the -- what you described in your first quarter press release as your intended write-down?

What's your number now on that? And is that -- and then do I add the $10 million that you'll be getting incrementally? Or is that $10 million that flows back -- I think that's $10 million you get incrementally from HLC.

Doug Lebda - *Tree.com, Inc. - Chairman and CEO*

Yes. So, let me give an answer -- give you this. And if we need to get more precise, I can get Alex to do it.

So, the reason we switched from cash to working capital is just, quite frankly, we wanted to give -- and Alex, to his credit, as our new CFO, is, if nothing, he is highly accurate; and as you get to know him, you'll know that what I just said is the understatement of the year. Look, cash matters, but you basically have cash plus receivables minus payables. And that is really what I think of as our net asset.

As the wind-down happens, that's effectively cash. And receivables and payables being the same, that is cash. But it is truly a net working capital number. The HLC wind-down, very importantly, from a loans held-for-sale standpoint, has already happened. We literally have, as of today, one loan remaining in the shop at HLC. The other ones have been sold and monetized to cash.

We then have a reserve of 30-some-odd-million-dollars for potential loan buybacks. Let me just comment on that, though. That -- the way we calculate that is sort of on a -- kind of a going concern basis, as if you're in the mortgage business. So, the way you do that is you see what the history is of putbacks that come in, et cetera, et cetera. And that is what we, when we talk about that net working capital number, that's what we expect.

But if we settle those all-out today, we would expect to do that. That's not -- and I'll highlight this. If you read any bank's 10-K, 10-Q, people aren't settling it at anywhere near those kind of percentages. And now that we're out of the business, we might do better than that number. We might also do -- you know, you could also theoretically do worse than that number. But we're not going to do settlements unless we believe it's in our best interest to do it. And we believe that it is fair, et cetera.

And let me just give you one little piece of color on how this happens. I have -- we underwrite a loan, it gets appraised, we sell it to Bank X; Bank X gets it insured by Fannie Mae, sells it off to a mortgage-backed security. It comes back to Bank X when it defaults. Fannie or Freddie reappraises it, for example, and says, oh, we think you didn't use a good comparable in your appraisal.

Well, Bank X tells Fannie Mae, with their army of lawyers, forget it; it's not my fault. The loan didn't go bad because of the appraisal. And then they turn around and they take the exact opposite argument with us, and they say, oh, it's a bad appraisal.

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If you're in an ongoing business relationship, you act very differently than you do when that -- when you're not in an ongoing business relationship. So we have no problem owning up to mistakes that we've made, but we're not going to own up to mistakes we didn't make. And we plan to act in our best interest and do what is fair with those loan buybacks.

So to your actual initial question about cash at year-end, basically, it's going to be this number plus whatever cash we generate from operations over the next two quarters, is the way I would think about it. And -- but the wind-down, to be crystal clear, is effectively complete.

Howard Rosencrans - *Value Advisory - Analyst*

Okay. And then you'd get the $10 million -- and then the $10 million flows to you next year? (multiple speakers)

Doug Lebda - *Tree.com, Inc. - Chairman and CEO*

Yes, the $10 million comes in, in one year.

Howard Rosencrans - *Value Advisory - Analyst*

Got you. Very good. Thank you.

Doug Lebda - *Tree.com, Inc. - Chairman and CEO*

(multiple speakers) -- closing.

Operator

Noah Steinberg, G2 Investment Partners.

Noah Steinberg - *G2 Investment Partners Management - Analyst*

Congratulations, guys, on the great results and continued success. Just two quick questions. Number one is, it seems to me like we're right now sort of at the absolute bottom of how much leads are needed by these banks for two reasons. One, because mortgage rates are so low, and because they only have a certain amount of capacity to get out loans.

Clearly, one of the Fannie Mae and Freddie Mac forecasts are that loan originations will be down dramatically next year to the tune of 20% to 25%. That would actually play to your benefit. And I just want you to, if you can, to comment on kind of the tone of your business improving as mortgages are less easy to get.

Doug Lebda - *Tree.com, Inc. - Chairman and CEO*

You're, I think, calling it exactly right. And then I'll point out one potential risk, because I always do that. I couldn't have said it better myself. Like, right now, it is like selling ice cubes to Eskimos.

For those of you who aren't familiar with the mortgage business, capacity is critical in the mortgage business. If you only have 50 loan officers, round numbers, they can handle five leads per loan officer per day. Some guys can go up to eight. If you have volume flowing in, you don't go out to third-party advertisers and buy more volume. You -- and then you only buy from those channels, whether it's us or any of our competitors, where you're the most profitable.

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Profitability is not just the cost per lead. Profitability is also very related to the conversion rate. Because if you -- you know, you can buy $2.00 leads all day long from some of our competitors, but they're going to convert one out of 500. You're going to burn out your loan officers, and it's just not a very efficient way to run your shop.

And so, that's why you buy from LendingTree and you generally shut off or tone down some of your other ones. But you're exactly right. As volume goes down in the industry, lenders will naturally increase their buys with us and increase the price at which they're willing to get that volume. And that will happen naturally.

The one risk for us is, in that environment, our marketing costs will absolutely go up on a given lead. By the way, our revenue per lead will always go up more than the cost of getting that lead -- unless we stink at marketing, and we don't. So we know that with certainty that the revenue will go up. I know with certainty the marketing costs will go up.

The one remaining task in my mind for this business and this Company and our turnaround will be if we can actually maintain and/or grow volume in a rising rate environment when that happens. We are preparing for it now. We've done it before in the past. But that is the one thing in my head that I -- that we think about, and that we are taking every step we can to prove it out right now.

The good news is there's not a single person in this company who's like thinking about loan loss reserves, buybacks, quality of how LendingTree loans is doing, whether we're going to get a warehouse line renewed, whether we're going to run out of cash, whether we're not running out of anything. We're worried right now about the efficiency of our marketing and the quality of our sales effort, and our technology improvements on the website. And we can do that, and we're putting all of our efforts against that. And if we prove that out, we are, I think, very truly off to the races.

Noah Steinberg - *G2 Investment Partners Management - Analyst*

Doug, can you talk a little bit about post- the closing, how the leads that you were sending over to the LendingTree loans business, how has that been sold in the marketplace and the receptivity of those quality leads?

Doug Lebda - *Tree.com, Inc. - Chairman and CEO*

So, first off, I've got to say hats off to a number of folks here. We have a new general manager of our mortgage business that we put in place several months ago. And, by the way, that happened in January -- just to give you a story of LendingTree -- in January, we came out of the gates not doing so hot this year. And Chander raised his hand and said, let me get this back. And started managing Intraday, and then a couple -- and got us back on track in about two weeks.

Now lots of other people helped, but he obviously led that effort. We then made him General Manager of our Mortgage business, and he's performed exceptionally well. He came from salesforce.com, where he worked in their sales efforts doing analytics, and has brought an analytical rigor to our mortgage business that is something I've never seen before.

He sits -- he and our team figure out the profitability of the LendingTree channel, and then they go in and with profitability metrics and a clarity to these lenders of how much money you're going to make from this, and what that means to your institution, and how that stacks up against our competition.

He's also been helped over the past few months. We made two senior hires to co-head our Sales and Account Management effort. And we hired them -- two of the most successful people from each of -- one from each of our competitors. It was -- they told me in the interview how they used to sell against us. I had them tell me how they were going to sell LendingTree. They told me with crystal clear clarity, and they've been doing it. And so that's been very helpful.

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And so the receptivity has been good, aided with, as I said, the fact that you can now that we're at -- now, with analytics much better able to predict the volume that we actually send them, and our marketing team is producing very, very high quality volume that's converting. So, it's hitting on all cylinders, and I couldn't be more thrilled with how our team is performing.

Noah Steinberg - *G2 Investment Partners Management - Analyst*

That's it. Thank you.

Operator

Howard Rosencrans.

Howard Rosencrans - *Value Advisory - Analyst*

Doug or Andrew, you raised guidance for the year -- just an abbreviated comment, if you would, on -- so, you went from $8 million to $12 million to $12 million to $14 million. Was that because you envisioned that the transitional period in Q2 would be weaker? Or is that more so because -- so, therefore, that Q2 would be weaker? Or more so that the back half would not be as strong? Or what changed in terms of your guidance?

Doug Lebda - *Tree.com, Inc. - Chairman and CEO*

So just describe the process that we go through literally every week. Our finance team updates a forecast of what they believe every month is going to be for the remainder of the quarter. First-half of the year, we did approximately $7.6 million of adjusted EBITDA; to get to $12 million to $14 million, call that kind of -- those trends sort of continue in the back half. Keep in mind for this business, Q4 is a seasonal -- is seasonally our worst quarter. And so that is very, very important.

That's why Q3 for me is a very important one, if we have a good Q3 -- and then, really, you go from Q3 into next year. Q4 becomes a seasonally weaker quarter for one reason -- ad rates, the cost of advertising goes up substantially because of holiday. Holiday retail and consumer interest in getting mortgages goes down, because you're interested in holiday, and buying things and spending time with your friends and family.

Typically, Q1 then comes back much stronger with consumer interest, where people recognize they're in debt up to their eyeballs. And then they come back and they try to get their finances in order post-holiday. So that's -- Q3 is one to watch for us, I believe. And then Q4, you'll see it seasonally weaker, as it is every year.

Howard Rosencrans - *Value Advisory - Analyst*

Last question regarding your analytics and your lead vis-a-vis your competitors. There's a lot of guys out there working on analytics who can hire. And why are you so confident that your analytics will create -- or your team and/or your analytics will create very long-term -- or maybe not so -- you'll define it a sustainable competitive advantage that you'll be able to maintain?

Doug Lebda - *Tree.com, Inc. - Chairman and CEO*

I think it's a great question. By the way, on a lot of ways what we've done is gotten closer to parity with the marketing science of some of our competitors. And then we're leveraging our brand to get past that.

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So, guys like QuinStreet and Bankrate and Zillow have done a very good job of maximizing, of being very scientific and numbers-based about SCO, SEM, partner marketing, et cetera, et cetera, and they -- and other smaller guys. And they've been able to do that without a brand name that is recognized by 80% of the population.

So, two years ago, when we retooled our online marketing effort by bringing in Gabe Dalporto and then 20 people under him, I said -- we knew that -- just one example, if you see a search ad on Google that says LendingTree.com, get rates as well as X, and you see us -- an ad underneath it from Joe Schmoe website.com, get rates as low as X, you're more likely to click on the LendingTree ad.

And so it confounded me that our competitors were able to grow as large as they were. And as we dug into that, we realized it was analytics and math and science, and testing and rigor. So, in a lot of ways, we've caught up to our competitors. And basically, a lot of those guys said to me, they said, look, we were able to compete against you with some lousy brand names; wait till you see what I can do when I apply my science with your brand name. And they've done that.

And so now we've, I think, gotten closer to parity, but now the brand is what's going to carry us. By the way, the beauty of the brand is, that brand was created over time with $1 billion of advertising spend, a lot of it offline. So it sits in a consumer's brain and it resonates. It's the reason that a consumer -- for example, a lot of our competitors have a tough time getting what's known in the industry as a long form, a Social Security number that you can pull credit off of. It's the highest quality lead in the industry.

LendingTree has never really had that problem, because we're a brand that you can actually know and trust. So, these guys have performed really well and -- but look, we've got to stay on -- we've got to stay sharp. I mean, what I've learned in this business is if you slack off, it's -- things change very, very quickly. But ultimately, we believe the brand is the sustainable competitive advantage and how we aim to compete.

That then translating into new product improvements, which you'll see coming down the pike. And by the way, that brand then translates on the lender side as well, too. Because if you get higher quality leads, lenders pay you more for it, which means you can actually have the horsepower to go invest back in marketing.

So, we've been pushing on the flywheel for four years. It's finally spinning, but we're going to keep on pushing and try to stay as sharp as we can.

Howard Rosencrans - *Value Advisory - Analyst*

Thank you.

Operator

Michael Wood, Oppenheimer.

Michael Wood - *Oppenheimer & Co. - Analyst*

Hi, Doug. A question for you on what you were just speaking about, in regards to how the consumer sees you folks sort of as a much more of a legitimate business than some other people that just have something online. I went on myself the other night and was sort of walking through it, and I sort of got that same sense.

Can you tell us whether or not that number is improving or staying flat or de-proving? In other words, as you get more demand, is that ratio still staying high with the amount of people that are willing to fill that form out?

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Doug Lebda - *Tree.com, Inc. - Chairman and CEO*

A ratio -- when you say ratio, what do you mean, like --?

Michael Wood - *Oppenheimer & Co. - Analyst*

Yes, in other words, the number of people that go on, there's some ratio that, like, let's say, 100 people start the form and only 50 fill it out. I don't know what the number is, but is that number staying strong with you folks? Or how does that look to you?

Doug Lebda - *Tree.com, Inc. - Chairman and CEO*

It is. It's actually improving. And a lot of that improves also through testing methodologies which we've done. You know, in the good old days, when I was actually smart enough to do this, I could look at a form and make judgments about ordering questions or adding questions or deleting questions, et cetera, et cetera. That's now done with literally hundreds of tests and continual tweaks, and very rigorous processes that Gabe and his team have put in place.

So, those numbers have moved up very nicely. And that -- obviously, the more people you get through the funnel, the more people you can then monetize.

One thing, though, that I would note in terms of our product improvement, and I've said this before previously, there's a large segment of the population that chooses to do business without a Social Security number and a credit report. And that would be what I would call a rate table, that's best exhibited by guys like Zillow and Bankrate. They're -- and a lot of advertisers for a variety of reasons really like the rate table product. And we intend to compete there.

So, we have made some key hires. We believe we will have a rate table experience that will be best-in-class. We believe it will help monetize our competition because of our brand. And we believe that we can go get distribution and drive people to that for consumers who choose to do that.

So, we'll operate a short form product, we'll operate a long form product. We'll operate a rate table -- cost per click rate table product. And right now, we also have a pay-per-call product as well. So any way that an advertiser wants to work with us to connect to a consumer, we intend to give them all those ad units in the same way that any media company will have different ad formats to engage with consumers. We see it exactly the same way.

Michael Wood - *Oppenheimer & Co. - Analyst*

Okay, hey, thank you very much. Yes, I noticed when I went on there just to look at it, it seemed -- I looked at some of the other people on there, without naming names, and they seemed to -- it just seems like they're so archaic. And it didn't seem smooth at all. But thank you very much for the answer.

Doug Lebda - *Tree.com, Inc. - Chairman and CEO*

I appreciate the feedback. And obviously, we love consumer feedback, so feel free to tell us how we can make it better, too.

Michael Wood - *Oppenheimer & Co. - Analyst*

Okay. Thank you very much.

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Operator

It appears there are no further questions at this time. Mr. Lebda, I'd like to turn the conference back to you for any additional or closing remarks.

Doug Lebda - *Tree.com, Inc. - Chairman and CEO*

Very good. I'll just thank you all as I always do for your time and your attention and your faith in us. We look forward to -- we obviously got through a significant transition here that we've been working against for, gosh, probably well over a year. We feel this is almost like a fresh start for the Company. We're very energized. We hope you are too.

And we look forward to hopefully reporting a great third quarter in a few more months. Thank you.

Operator

That concludes today's presentation. Thank you for your participation.

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