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TREE - Q4 2011 Tree.com, Inc. Earnings Conference Call

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PRESENTATION

Operator

Good day, everyone, and welcome to today's Tree.com fourth-quarter 2011 earnings conference call. With us today from the Company is Doug Lebda, Chairman and CEO; and Tamara Kotronis, Senior Vice President of Financial Planning and Investor Relations. Today's call is being recorded. At this time, I would like to turn the call over to Tamara Kotronis. Please go ahead.

Tamara Kotronis - *Tree.com, Inc. - SVP Financial Planning & IR*

Thanks, operator, and thank you to everyone for joining us today for Tree.com's Q4 2011 earnings conference call.

First, a quick disclaimer. During this call, we may discuss Tree.com's plans, expectations, outlook, or forecasts for future performance. These forward-looking statements typically are 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 the periodic reports we file with the SEC from time to time.

We will discuss a number of non-GAAP measures. I refer you to today's press release for the comparable GAAP measures, definitions and full reconciliations of non-GAAP to GAAP measures. I will start by addressing the GAAP financial measures and non-GAAP adjusted EBITDA, and then I will hand it over to Doug to provide his views on 2012, how we are viewing the business internally and what we expect for 2012.

In the fourth quarter 2011, we posted a net loss of $1.1 million or $0.10 a share (technical difficulty) loss of $12.5 million or $1.12 per share in Q4 of 2010. The net loss this quarter included a non-cash $5.6 million impairment charge related to the write-down in the book value of the LendingTree trade name. For accounting purposes, we calculate the book value of the trade name using a hypothetical royalty rate that is applied to gross revenues. Due to pending sale of HLC, our gross revenue will be reduced, and thus the accounting math dictates the book impairment. This is a non-cash charge that has absolutely no impact in our operations.

Revenue was $10.7 million in the fourth quarter, which represents continuing operations only. Variable marketing margin in the quarter was $4.4 million, a significant improvement from the loss of $600,000 in Q1 of this year.

Total Company adjusted EBITDA was $6.2 million in the quarter, which is a $5.6 million improvement over Q4 2010 and marks the strongest fourth quarter we've seen in five years.

Looking to the balance sheet, we ended the quarter with approximately $45.5 million in cash and cash equivalents, plus $12.5 million in restricted cash. We ended the quarter with 11 million common shares outstanding with another 1 million options and 933,000 RSUs outstanding. As has been the case throughout 2011, we did not repurchase any shares in Q4, so we still of approximately $4.3 million in share repurchase authorization remaining.

With that, I would like to turn it over to Doug.

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

Thanks. Thanks to all of you for joining us on the call today.

Q4 was a great quarter for TREE. I am thrilled by the progress we have made on our transformation to a pure play lead gen company with the success of our initiatives and the strength of our LendingTree brand. It was also nice to see the significant cash generated by LendingTree Loans.

As you all know, earlier this month, we announced the amendment of the asset purchase agreement related to the sale of our mortgage assets to Discover Financial Services. I won't go through the details of that amendment here, but we are pleased with the new terms. We and Discover are very committed to completing the transaction and we anticipate closing to occur by midyear, subject, of course, to satisfaction of various conditions. Until then, we expect LendingTree Loans to continue to generate significant profits in this historically low rate environment.

Between now and then, we want to give our shareholders a clear picture of how we manage the business. In my comments, I will focus on how we actually manage the business day-to-day, which is surprisingly simple. It's displayed in the table we disclosed entitled "2011 Exchange Metrics".

In the lead gen business, we generate revenue by selling leads and spend marketing dollars to generate those leads. Subtract those two numbers and you get variable marketing margin. Subtract fixed costs and you have adjusted EBITDA. It really is that simple. These adjusted exchange metrics reflect what we believe the revenue and profitability of our business would have been without the effect of LendingTree Loans. This simplified view can thus be easily understood for this past year and more simply forecasted going forward.

In our Mortgage revenue, there's an important assumption here. For leads that we sent to LTL, we assume that those leads would have monetized on the exchange at the same price for similar leads. We are also breaking out for the first time our revenue that comes from our non-mortgage businesses so you can better understand how we have diversified our revenue streams in other lead gen categories.

In Q4, non-mortgage revenue of $3.9 million was 22% of the adjusted exchange revenue, up from 16% in Q1, and we expect this diversification to continue in 2012. Assuming that we keep fixed costs truly fixed, the most important metric to us is variable marketing margin, or VMM. If we maximize VMM, we maximize profits. In 2011, we have made significant improvements. In Q4 alone, we generated $9.5 million in VMM. We are managing the interplay between our revenue from the leads that we sell and our costs to generate those leads you than we ever have in the 16 years since I started this Company.

Let me also give you some additional highlights from the quarter and more recently. In our Mortgage business, earlier this month, we were recognized for the second consecutive year by Leads Counsel with awards for best lead quality and best conversion. This confirms what we already knew. We have a world-class brand that resonates with consumers and delivers to our partners high-quality customers that are ready to transact. To our partners, higher quality and higher conversion rates mean that we command a premium price in the market. Higher prices enable us to better scale our marketing and grab share versus our competition.

Yesterday, we also announced the successful completion of a pilot project called the Predictable Volume Program, or PVP. Using new technology and analytics, we have successfully been able to smooth volume delivery for our pilot lenders. We are going to aggressively roll this out in the coming months. We've heard from lenders for years that if they knew the volume they could expect to receive from LendingTree they would buy more from us and less from our competition. We are now going to make that happen.

The education vertical delivered a higher lead volume and revenues in Q4 over Q3 and more than doubled revenue year-over-year. This business, like LendingTree, has established a reputation for high quality leads, represented by the fact that we have 7 of the 10 largest public companies in the EDU industry as clients. These companies represent 49% of for-profit enrollment in the United States. While still small, our clients love our business and as we get better at consumer marketing, we expect continued growth.

Our auto business is small, but we have delivered consistent revenue throughout 2011. Earlier this month, we announced the launch of our new call lead program, allowing auto dealers and manufacturers to gain access to car buying consumers through our LendingTreeAutos brand. Through direct relationships and agencies, we have signed 1700 dealers and 10 auto manufacturers and are delivering leads today. Similar to EDU, we are slowly ramping up consumer marketing to feed clients' demand for new customers.

In Home Services, 2 1/2 years ago we bought a business called the Done Right! Directory, which principally drove consumer leads via automated call technology to local merchants via a physical directory. While that wasn't a pure Internet business, those leads are extremely high quality and now we are leveraging that quality base to scale online marketing.

(technical difficulty) quarters were challenging as we push to get out of unprofitable marketing, restructure the business, restarting our new marketing machine, disposed of some assets and invested in others. In Q3, we began to see the fruits of those efforts and in Q4 we continued to execute. Now we feel great about where we are and we believe we can also accurately forecast the business going forward.

Now, we are comfortable giving guidance for 2012 on both a GAAP and non-GAAP basis. On a GAAP basis, we expect 2012 net income of between $3 million and $4 million, and on an adjusted exchanges basis, we expect EBITDA of between $8 million and $12 million.

I know our cash balance is also of interest to shareholders. Last quarter, we projected that, post our HLC deal, we would have between $30 million and $40 million in cash. We now see that number as at least $50 million.

Now I would like to turn the call back to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator instructions). Neil Doshi, Citi.

Neil Doshi - *Citigroup - Analyst*

Two quick questions -- Doug, can you talk a little bit about the interest rate environment? It seems like it had a little bit of a negative effect on the mortgage leads as you guys funneled more leads. I guess there were probably more leads going directly to the lenders. How do you see the interest environment shaking out over the next 12 months? How does that impact the leads business?

Then, secondly, would Discover expect some sort of a discount for leads coming from LendingTree, or will they be paying market rate for those leads?

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

Two good questions. First off, the interest rate environment right now is obviously the rates are low. Volume is high. What that does is it does a couple of things. One, it makes it easier to generate leads from the marketing side so we can generate them more efficiently and at lower price points. At the same time, on the lender network side, lenders are busy, and so they have got lots of leads. So, it will depress your revenue per lead and make it harder to match the leads. That's why --

Now, in that environment, we also will make a lot more money on the LendingTree Loans side. So we basically take as many leads as we can and get them to LendingTree Loans so that we get that profit and cash flow. Really, it goes to why we are talking about variable marketing margin here in this new world so much, because it's really the interplay of that revenue and cost of revenue that drives the business. So, if we drive variable marketing margin up, that obviously helps the business. So what you will see as rates go up little bit, so what you will see then is that it will be slightly more expensive on a per lead basis to generate leads. At the same time, our revenue per lead will really go up dramatically, which will enable us to market into that. So you will have more demand for leads than you have supply of leads, and that will enable you to really step on the marketing gas. That goes to the initiative we announced yesterday as well as I just want to touch on marketing.

Our marketing group, when we announced the other day that we literally have 19 hires in our marketing group now in San Francisco, they are doing a fantastic job across every type of marketing -- search, display, CRM. We are doing very, very well on the Mortgage side and we can see that we are gaining share and really able to reduce our cost of getting leads in, can monitor quality, etc. Importantly, they can also deliver consistently. So we used to have spikes in volume up and down, but now we can basically say, hey, tomorrow we need this many leads kind of these types, and they can deliver that very consistently, which is great.

The second part goes to this planned volume program that I announced, or predictable volume program. We are going to roll this out aggressively at LeadsCon, and we have been working with several lenders here this month. We have heard consistently lenders say -- I was talking to one just this morning -- listen, if you can match my cost per funded loan versus your competition or even get close to it, I'll turn them off and buy more from you -- and if you are predictable. So if you are a lender who buys 1000 leads from me and 1000 leads from another competitor, you are going to pay a premium for a LendingTree lead because it's got roughly twice the conversion rate, and that's good, and that enables us to drive marketing.

At the same time, on a cost per funded basis, some of those other guys are so inexpensive that they will cut deals really cheaply that they might have a better cost per fund. But your loan officers like LendingTree leads more, so you're going to continue to do that LendingTree buy.

On an incremental basis, if we go out to a lender and say, listen, let's price your first thousand leads at this, but your second thousand leads we can cut that such that we get closer to our competition. But we'll get that buy, and then we can -- and assuming we can now guarantee that volume is going to show up, we can translate that into an order to our marketing group and then go produce those leads, and we can significantly steal wallet share. So that's the plan for 2012 now that marketing is gripping.

The good news is because of that interplay between revenue and cost, which I spend a little too much time talking about probably, we can do that in any interest rate environment as long as we are growing volume.

Secondly, on the DFS notion, no, DFS does not get a discount. We have an agreement with them and they will be just like any other lender on the network, however a very special one from the standpoint that, at least out of the gates, they will be our largest customer. They will move from getting exclusive leads to competing against others on the network. We are planning right now for that transition. So again, we are aggressively out there selling in the market, adding new lenders, signing them up, expanding buys with our existing lenders to plan for that transition.

Neil Doshi - *Citigroup - Analyst*

Great. If I could squeeze in one more question. On the 2012 guidance, it's looking like it's going to be a nice ramp for profitability. Do you expect the, I guess the adjusted revenue to accelerate from 2011, or is it more going to be from cost savings that we can get to that $8 million to $12 million EBITDA?

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

We definitely expect revenue growth. I'm not comfortable giving specific guidance on revenue growth at the moment. I can say we are definitely going to get growth. The reason you're not going to get it all falling to the bottom line is we're going to let our emerging businesses run at pretty thin margins while we figure out the marketing there. I think Tamara commented, made this comment in the release. But if you take the back half of the year as a good starting point, I would expect growth off of that. That's the way I would measure it. We had big revenue in Q1 and Q2, but obviously we lost our shirt. So, what I would be looking at is Q3 and Q4 sort of combined as a pretty good proxy of where to start and then we will definitely grow off of that.

Operator

Dan Weston, WestCapital Management.

Dan Weston - *WestCapital Management - Analyst*

Good morning, guys, and congrats on a nice quarter. A question just on the Discover deal -- is there any color you can talk about as to what's leading to the delays in the closing at all?

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

Not really. Really, we've kind of agreed we are not commenting on that. We are working through various closing conditions, and if you need that one, I would suggest that you direct that one to Discover.

The thing that I am very pleased with in the deal, though, is that, while delayed, first off, we are making a lot of money at LendingTree Loans, as you can see. So right now, quite frankly, longer is better because it's just adding to the cash balance.

Dan Weston - *WestCapital Management - Analyst*

Yes.

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

Number two, the closing -- the conditions upon that deal, which you can read about and which we talked about, are significantly loosened. Once we get past this March 7 date, it effectively will close, subject to some things that I don't think are very likely. So, it's almost certainly to get done once it gets past that date.

Dan Weston - *WestCapital Management - Analyst*

Okay, fantastic. Then you guys were going a little fast on the opening there. I just want to make sure I get my notes right. Did you say that you expect to end the fiscal 2012 year with $50 million of unrestricted cash?

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

No. That is actually a little better than that. We expect to -- once the Discover deal closes and we unwind all of the liabilities there, the assets, etc., etc., we expect that number to be at least $50 million. So if you assume that's going to happen midyear, it will be around that midyear timeframe. Now, there will be some wind down. As you wind down your loans, some of that cash does not come over until 60, 90 days later. But effectively we -- that's the number, assuming it closed in midyear, and assuming also, by the way, that we settle out loan losses at their face value, you could do better or worse than that. We clearly hope to do better. And the business is still making a profit. So I think at least $50 million is what we are comfortable saying, which clearly means it's going to be a little higher.

Dan Weston - *WestCapital Management - Analyst*

Yes, understood. Just to clarify, that's total unrestricted cash?

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

Yes.

Dan Weston - *WestCapital Management - Analyst*

Got you. Then if I'm hearing you right, maybe you've tightened up your assumptions a little bit. Am I assuming that all loan losses and, let's say, all liabilities relating to loan losses will be completed by the end of fiscal 2012? Is that your projection?

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

No. It could be or could not be, so the way that process works is we either cut a deal and do a settlement -- so there's two types of loan losses, keep in mind, for the reserve. So there's sort of loans that investors have put back to us and have requested us to buy back or to make a deal on, and we know those. Then there's sort of your reserve for future, for future loan losses, which are loans that you are originating now that might not go bad for a year or two years, who knows. But there's no requirement that you do what would be called in the industry a global settlement, and settle your old and your go-forward. That would certainly be our intent and our hope because we would like to settle them out and move on as a pure lead gen business.

At the same time, we are not going to cut a bad deal. So you really do go through these loan by loan and you look at what's the reason for the default. Was it our underwriting issue or was it some unrelated issue that the borrower had or maybe he just lost his job and etc., etc. And you really get into the details of these and you discuss them and debate them on a loan-by-loan basis. So it's our intent to settle them out, but we also recognize that we want to be -- we want to deal in good faith and we want to be fair, but we also recognize that this is our investors' cash.

Dan Weston - *WestCapital Management - Analyst*

Very good. Thank you, Doug. Just a couple more is the monies that you've received so far from Discover that will hopefully offset the purchase price -- and then I think you have another $3 million coming in about a month or so. But I just want to make sure I'm clear here, using a negative approach or draconian approach. If the deal doesn't close, do you still keep all of the monies that they have paid you up until that date?

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

Yes.

Dan Weston - *WestCapital Management - Analyst*

Okay, very good. Then lastly, I just want to make sure I'm clear here. On the -- in the quarter, for the exchanges business, how much revenue in exchanges, if any, were you -- did you book over to LTL as opposed to TREE?

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

So you book 0. That's why we are doing this adjusted exchanges view, because we don't actually get to book revenue in the P&L for anything we send to LendingTree Loans. It gets eliminated in consolidation. So, what we're trying to do with this adjusted exchanges view is to say, if we did get paid on those leads, here is what we believe it would have looked like.

Dan Weston - *WestCapital Management - Analyst*

So I'm looking at your press release now, and, sorry, I just need some clarification here. I'm looking at your press release and I see revenue from continuing operations of $10.7 million.

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

Yes.

Dan Weston - *WestCapital Management - Analyst*

The $10.7 million would be just the leads that you are able to monetize at TREE. What was the number that was sent over to LTL?

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

So, we don't give a revenue number for that, but you could see, for example, on an adjusted basis, Q4 Mortgage revenue was $14.1 million. So if you took the $10 million that we monetized through the lender network, you have roughly another $4 million that, if we had taken those same LendingTree Loans leads and sold them on the network at the same price for the same type of lead, we believe we would've gotten another $4 million of revenue from lenders.

Dan Weston - *WestCapital Management - Analyst*

Got you. Then what would that EBITDA contribution have been?

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

That basically gets to that adjusted EBITDA right there on the thing, which is the $3.3 million off that front sheet. I'm really trying -- I love that. By the way, this table in the press release on Page 1, like that -- I said this on the remarks. We actually manage the business. It's what my comp is based on, it's what all my team's comp is based on. Our marketing team is comped off that VMM line and driving variable marketing margin as high as they can. But we believe, had we monetized those, our adjusted EBITDA for the quarter would have been that $3.3 million.

Dan Weston - *WestCapital Management - Analyst*

$3.3 million? Very good, that's all I had. I really appreciate you walking me through that. Good luck.

Operator

Brian Gaines, Springhouse Capital.

Brian Gaines - *Springhouse Capital LP - Analyst*

Just a question -- you kind of mentioned I think to the first question that there's interplay when interest rates go up and puts and takes between revenues and then the expenses in generating the leads. Is there any way just to boil it down? If you saw interest rates move higher, I understand there would be a different interplay. Would that be a positive, a negative? If so, could you -- can you quantify it in any way?

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

So it is absolutely positive, assuming that you can market and generate leads as well as your competitors. And you've probably heard me talk about this before. We have seen over the years -- so, for example, like I will have demand for leads shoot up, which means price will also shoot up at a time that supply gets tighter. And if we can generate them at an acceptable cost, it absolutely will be a positive for us. Now, that's an "if". That's why -- that's a big "if", but it is one that I firmly believe in, and that's why we hired Gabriel Dalporto and 18 others in marketing who are very analytical, very mathematical. We've got masters level statisticians and guys who are just remarkable. We also have hired people away from some of our competition and who basically have said to us, oh, my God, if I've got the marketing capabilities of one of your competitors but your brand, which not only has a higher premium in the market but also gets a much better click through ad to ad, we can still a lot of share. That's our intent.

So we're seeing it in Search -- excuse me, one anecdote in search, for example. Our new head of Search came in about a year and has made our Search spend much, much more efficient. He's now able to scale that up in Mortgage very significantly. So think of Search as a perfect marketplace as my revenue per lead goes up, that I can up by bids on Search and just steal share. Then when you talk about, let's say, Google Search, the way the Google Search algorithm works is they do it based off click through. If you see -- if a consumer sees an ad for LendingTree, rates are low, click here, and the next ad on the page is lowratesforLife.com, low rates click here, you're more likely to click on the LendingTree ad. That means, in a Google environment, not only do I get more clicks but Google -- I have to pay a lower price to get that same click and I'm getting a revenue premium. So if I really up my bid, I can steal significant share over my competitors, and then they have to be even higher to stay in that game.

So marketing is now online, a very efficient market. We have traditionally been a very good brand advertiser, but we have not been as good of an online advertiser. We have been good and not so good at different times. But this is about analytics, math and technology. We are fielding a Super Bowl quality team on there, and we think they are at least going to get us to the playoffs.

Brian Gaines - *Springhouse Capital LP - Analyst*

Right, that's helpful. Maybe if I gave you a hypothetical world where rates went up 100 bps, mortgage rates, what would you -- is there a way to think, okay, well, could you ballpark the EBITDA estimate? I'm just trying to figure out if you -- how much more or less sensitive you guys are now to interest rates as this change takes place with Discover.

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

I don't think I could ballpark that at the moment because it really -- again, it's going to depend. So let me tell you what's going to happen and let me give you one scenario that would make that bad. Right? So if you had, for example, 100 bps up, refinance volume is going to fall off a cliff. So I'm not going to have as many refi leads. Lenders are going to immediately, literally, go into panic mode and they are going to say oh, my God, I need purchase volume and every refi lead now will be massively valuable and every purchase lead will be also, and lenders will immediately switch over to purchase and those leads will get very valuable.

By the way, we're selling a lot of purchase leads right now because lenders are kind of preparing for that and thinking they need to diversify a little bit.

So hypothetical example -- a lead that today I might be selling for $17, and I'm selling it two times, will all of a sudden be $100 and I'll sell it five times. So my revenue from that lead will go, could go from like $34 to hundreds of dollars. Then -- and I'm not selling any $17 rate; that might be a bit of an extreme example. But just say that -- take that -- just a big magnitude shift.

My marketing guys, then, who today, on average, because when I think about averages let's say they have to go get a lead for -- I'm making this up because, again, certain types of leads I don't want to give information to our competitors. Let's say they got a bogey, they've got to go get that lead for $20. Now they can go generate that same lead for $75 and I might still even have higher margin in that. And so they've got a much bigger gun to go shoot.

Now, the market is smaller. Right? So it all comes back to market share. LendingTree right now, we believe, has about 8% share of the online lead market. Now, not all leads are the same in Mortgage. So lower my bills, and these guys produce magnitude more leads than I do because their marketing has been more efficient. As I close that gap, I take share directly out of their pocket and I stick it in mine.

The one other area which is a product improvement that we are going to work on this year and we have said that we are doing it is the rate table product. So if you look at a Zilo, you know, LendingTree lowered my bills and a QuinStreet and lead point, for example, all have lead gen models where you fill out a form, it goes to multiple lenders, LendingTree requires that we get offers back so we are a bit of a hybrid on a rate table. If you look at Quinstreet, LeadPoint has this product as well. But if you look, really, BankRate and Zilo are the biggest rate table people. Their lender uploads their rates, consumer clicks on them and you charge per click. So you literally charge between $5 and $10 per click off to some landing page. By the way, you can generate a hell of a lot of clicks of those things.

So we're actively working on a rate table product and we will put that into the market sometime this year. We believe that a LendingTree rate table existing on distribution sites around the Web and driving search traffic to will be very competitive in that market as well.

The number one thing I guess I'm going on here a little bit -- watch that VMM line. That's the whole business. Quite frankly, I wish had thought of this like in 2001-2002 because I was spending all of my time talking. We had this complicated discussion of how many leads are we driving and once the transmitter (inaudible) transmits per close rate, average revenue and all this stuff. And it was tough to get your mind wrapped around it. But when you just think revenue from leads, marketing cost to get those leads, think of the percentage of that, how much marketing can you drive, and it's a much easier way to model out the business. This is the way we think about it.

Operator

(Operator instructions). Nick Zamparelli, Zeke LP.

Nick Zamparelli - *Zeke Capital Advisors - Analyst*

Thanks for taking the question. I really appreciate the table there with the adjusted numbers. That's very helpful. Most of mine have been answered, just a few quick ones. Just getting back to the mortgage leads that go to LTL, do you disclose just the percent of mortgage leads that are currently going to LTL?

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

We don't, but it just kind of hit me that if you do that calculation that I just did you can come pretty darn close.

Nick Zamparelli - *Zeke Capital Advisors - Analyst*

Okay, got you.

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

(multiple speakers)

Nick Zamparelli - *Zeke Capital Advisors - Analyst*

The $4 million revenue?

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

Yes.

Nick Zamparelli - *Zeke Capital Advisors - Analyst*

(multiple speakers) $4 million in revenue? Okay. I'll back into that.

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

There's also a reconciliation in the back, I'm sitting here looking at it, which is in the back here. There's a reconciliation that will take you, that will show you the hypothetical revenue from those and how that kind of walk happened.

Nick Zamparelli - *Zeke Capital Advisors - Analyst*

Okay, great. Then what percent of mortgage leads are currently for refi?

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

Let me just straighten you out on one thing. I did that $4 million of the total, including nonmortgage. It's actually more like a $7 million number from that reconciliation. So that's an important number to look at.

Nick Zamparelli - *Zeke Capital Advisors - Analyst*

Okay. Sorry, the percent of mortgage leads that are refi?

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

Oh, percent that are refi? We don't really disclose that either. It's not all that relevant because you are going to get, in this market, you are going to get a lot of refis. That will just change. It's definitely north of $50 million. But you also get a lot of purchase, but the purchases don't monetize as well. So when lenders want to buy refis, they just price higher than refis.

If you take a step back and just describe a lot of the change -- some of the changes we made on the pricing and lender side to make is essentially a media company, over the last three years, the first -- we put in several things on the lender side. The first was what we called fixed filters, which think of that as getting a fewer number of SKUs of our ads. We used to let lenders to send them up a spaghetti curve. Now we have defined segments.

The second thing was we put in what's called caps, which any advertising and media company would have, which is how many leads do you want to buy before you, "cap out"? And then the third thing was for it will pricing, and we let the pricing float up and down.

So the combination of all three of those things smooths out, gives you a perfect picture of demand that you can then give your marketing guys to drive supply. So truly, it's like a media business right now. Then we actually have what we also call over-flow filters as well, so think of that in a media business where you have premium inventory and then if you get spikes you have remnant inventory or spot market inventory. We have that same dynamic, so the average CTM, if you will, is the way you think about that business. A corollary to traffic would be the total lead flow coming in.

I'm going to work on some metrics to give you guys a view of what other people would talk about traffic, and then you could see how that traffic monetizes. I don't want to do average leads because a lead is not a lead. But I want to get some good traffic statistics that might be indicative of volume coming in, so you would be able to think that through and model that out a little clearer. I just need to think through what we can actually disclose.

Nick Zamparelli - *Zeke Capital Advisors - Analyst*

Okay, great. One last one, just back on loan-loss liability. What are you currently reserving for loan-loss liability?

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

We are currently at $32 million.

Nick Zamparelli - *Zeke Capital Advisors - Analyst*

$32 million. Great. Thanks guys.

Operator

There are no further questions at this time. I would like to turn the conference back to Doug Lebda for any closing remarks.

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

I'd just like to say thank you all very much for, certainly, your patience, for many of you as shareholders. We've had a three-year restructuring effort. I'm pleased that as I sit here and knock on wood and say I believe our restructuring is all behind us, our marketing is gripping, we have put in a lot of new technology, and our efforts right now are turning to sales and stealing share. For those of you who happen to be at LeadsCon next week, we will be there with many of our top lender partners and taking new insertion orders for, hopefully, bigger and bigger buys as this market scales up. We look forward to showing you the results of that next quarter.

Operator

Thank you, everyone. That does conclude today's conference. We thank you for your participation.
