FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day, everyone, and welcome to the Tree.com third-quarter 2011 earnings conference call. Today's call is being recorded.

At this time I would like the turn the conference over to Mr. Doug Lebda, Chairman and CEO of Tree.com. Please go ahead, sir.

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

Thanks, operator, and thank you to everyone for joining us today for Tree.com's Q3 2011 earnings conference call. First, a quick disclaimer.

During this call we may discuss Tree.com's plans, expectations, outlook, or forecast 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 also discuss non-GAAP measures, EBITDA and adjusted EBITDA. I refer you to today's press release for the comparable GAAP measures, definitions, and full reconciliations of adjusted EBITDA and EBITDA to GAAP measures.

As we do on each call, I will first address the overall results for the quarter and highlight several key strategy points, and then turn it over to Tamara for a more detailed financial review.

Q3 was a great quarter for Tree.com. We posted net income of $12.6 million, which is $30 million better than Q2 and a $10.8 million increase over Q3 of last year. Q3 net income includes a $7.8 million one-time gain on the sale of our remaining real estate assets; but without that sale we still would have had solid improvement both quarter over quarter and year over year.

Revenue was $50.7 million in the quarter, a 17% increase over Q2 and a 5% decline from Q3 of last year. As you can see in our press release, mortgage interest rates dropped again, falling nearly 60 basis points in the third quarter, and ended the quarter at just over 4%. We said it before, but these levels are truly unprecedented and they have provided us with a temporary tailwind, felt most strongly at LendingTree Loans.

LTL's financial results fall into discontinued operations because of the pending sale to Discover Bank. A lower rate environment provided LTL with a boost in loan production, showing 14% more closed units compared to Q2. It also resulted in an increase in average revenue generated per closing.

As a result of these factors, revenue from discontinued operations, the vast majority of which is LendingTree Loans, was up $11.1 million or 42% over Q2.

One callout for LTL relates to our cash balance at quarter-end. As you can see on our balance sheet, we reported an unrestricted cash balance of just over $10 million, compared to $34 million in Q2. That might seem surprising, but it's a normal event given the flood of refinance volume.

We were reaching capacity in our warehouse lines and used existing cash to fund loans. This cash decline is offset by an increased balance in loans held for sale.

Subsequently, in October these loans were sold off and the proceeds returned as unrestricted cash, bringing us back to a more normal cash balance. We have now expanded our warehouse capacity to handle increased loan production.

While we're on the subject of LTL, let me give you an update on the sale of our LTL assets to Discover Bank. Previous calls we indicated that this deal was likely to close by the end of 2011. The asset purchase agreement with Discover Bank, which was publicly disclosed, allowed for them to extend the closing past November 8 upon payment of extension payments if FDIC approval was not obtained. The FDIC has not yet approved the deal, and Discover exercised its first 30-day extension and paid us the associated $1 million extension payment.

All extension payments will be offset against the purchase price owed by Discover upon closing. At the present time, I don't want to speculate on the exact timing of the closing except to say that both we and Discover remain committed to completion of the deal. In the meantime, given the interest rate environment and the excellent results at LTL, we are pleased with the financial benefits the LTL contributed to our business in Q3.

Moving on to our continuing operations, we reported net loss in the third quarter of $3.7 million. This was a $4.4 million improvement quarter-over-quarter, and a $3.8 million improvement year-over-year. Adjusted EBITDA in Q3 was a loss of approximately $500,000. This is also a significant improvement both quarter-over-quarter and year-over-year. The improvements we saw in Q3 adjusted EBITDA came despite declines in revenue.

For those of you who have been tracking our business for a while, you will remember that when refinance volume spikes, revenue per lead decreases as lenders reach capacity and therefore take fewer leads from us; and LTL takes more of the lead volume, for which we don't record revenue in our continuing Exchange business. Upon closing of the sale of LTL to Discover Bank, leads sold to Discover Bank as as HLC's successor will provide revenue to the Exchanges business.

Our results from continuing operations therefore do not give the full picture of how the Exchanges business would perform if LTL assets were sold, as opposed to treated as discontinued operations.

To counteract the lender capacity issue in this low interest rate environment, we have aggressively ramped up sales efforts. We have launched an automated lender setup tool; and that plus increased sales efforts have helped us add almost 80 lenders in just the last two months. Given the high quality of LendingTree leads and our better marketing performance with our new marketing leadership, we are hoping to gain significant share in the mortgage lead gen vertical in the coming months and into 2012.

In the non-lending Exchanges, revenue was down about $600,000 quarter-over-quarter. Total transmitted non-mortgage consumer requests fell slightly from Q2, down 4%, driven primarily by an expected decline in home services leads.

However on a positive note, leads in our education business were up 9% over Q2 levels. Even with the small quarter-over-quarter decline in lead volume, the combination of our non-mortgage verticals still transmitted nearly 145,000 consumer service requests in Q3 and represented over 52% of our total mortgage and non-mortgage transmits.

To expand on our marketing success, our marketing expense as a percentage of revenue in continuing operations was only 65% compared to 90% in Q2. We are much more flexible in our spend, much more automated with new technology tools, and staffed with new senior-level talent in search, CRM, creative, and analytics. We're beginning to see very real progress in marketing.

Helping to drive our non-mortgage verticals was the rollout of significant improvements to our technology. In education, the DegreeTree site has been completely revamped with an improved customer experience; improved marketing for schools; improved landing pages; and importantly, improved information management, enabling better day-to-day management of the marketing spending and revenue. In home services, we rolled out a new merchant management system enabling easier setup for merchants, improved bidding, and better lead flow management. In our auto vertical, we added functionality to enable us to enter auto lead sales in addition to auto financing.

With that let me turn the call over to Tamura to add more detail to the financial results.

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

Thanks, Doug, and good morning to all who have joined us on today's call. Since Doug already hit many of the high-level results for the quarter, I will go ahead and dive into some details not already covered.

But first, a quick comment about the changes in structure of our financial reporting. Due to the previously disclosed sale of the remaining assets of the real estate business, we are reporting the remainder of our real estate operations as discontinued operations. Effective this quarter, the financial results reflected in discontinued operations include those of LendingTree Loans and now all of our real estate operations. All prior periods presented in the earnings release and discussed on this call have been recast to conform to this new presentation.

Now into the numbers. As Doug mentioned earlier, in the third-quarter 2011 we reported net income of $12.6 million or $1.13 per share. This compares to $17.8 million or $1.62 per share net loss posted in Q2, and a $1.8 million or $0.16 per share net income in Q3 of 2010.

Looking at continuing operations alone, we reported a net loss in the third-quarter 2011 of $3.7 million or $0.33 per share. This was $4.4 million improvement over Q2 and a $3.8 million improvement over Q3 of last year.

Staying in continuing operations, revenue was $13.1 million in the third quarter, which was $3.8 million or 23% lower than Q2, and $2.1 million or 14% lower than Q3 of 2010. Due to the spike in refinance volume we transmitted 18% fewer consumers to lenders compared to Q2; plus there was 7% quarter-over-quarter decline in the average number of lenders per transmitted consumer. The resulting decline in revenue from the lending Exchanges represented most of the quarter-over-quarter revenue decline.

While revenue was down versus Q2, lower interest rates provided the backdrop for significant reductions in marketing expense. The increased organic consumer activity in the refinance market translated into lower marketing spend to acquire mortgage lead volumes. After months of testing new marketing avenues and renegotiating old ones, today we can more easily step on the gas when volume is light and throttle back when leads are hard to come by. As a result, in continuing operations total selling and marketing costs were 44% lower quarter-over-quarter and 35% lower than Q3 of 2010.

Beyond marketing we have maintained a very sharp focus on fixed costs. General and administrative expense and continuing operations was 16% lower than Q2 and 30% lower than Q3 of 2010. The primary drivers of lower G&A, both quarter-over-quarter and year-over-year, are lower compensation expense from corporate restructuring that took place in previous quarters in addition to lower professional fees.

I think it is important to take a moment to discuss our cash expectations looking into the near future, particularly related to the pending sale of Home Loan Center assets to Discover Bank. As we discussed on previous calls, upon completion of the sale Home Loan Center will receive $35.9 million adjusted for certain transition amounts. $1 million of that amount has already been received with the closing extension.

Approximately $15.5 million of that amount will be held in escrow pending the discharge of loan-loss liabilities that will remain with us. Assuming a breakeven business elsewhere and no unusual or unplanned uses of cash, we estimate our unrestricted cash after the sale and discharge of loan-loss and other liabilities to be in the range of $30 million to $40 million.

Separately, there is an additional $20 million of contingent deferred consideration to be paid by Discover Bank over two years, which is not considered in that estimate. It also does not consider other uncertainties such as litigation, restructuring, currently unplanned capital expenditures, or changes in the loan loss reserve that would affect the amount put in escrow, all of which could cause the actual outcome to be substantially different from this estimate.

Now briefly turning over to the balance sheet, we ended the quarter with approximately $10.3 million in unrestricted cash plus $13 million of restricted cash. The unrestricted cash balance is down approximately $24 million from the end of Q2, reflecting the timing of loan funding and sales. We have reserved approximately $27.3 million for potential loan-loss liabilities as of September 30, 2011.

We ended the quarter with 11 million common shares outstanding, with another 1.1 million options, and 578,000 RSUs outstanding. As has been the case throughout 2011, we did not repurchase any shares in Q3, so we have approximately $4.3 million in share repurchase authorization remaining.

And with that I would like to turn it back over to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Mark Mahaney, Citi.

Neil Doshi - *Citigroup - Analyst*

Hi, guys. It's Neil Doshi calling in for Mark. Couple questions. Can you talk a little bit about the trends you are seeing in October and November? I think rates have continued to stay pretty low. Have the trends that you saw in Q3 continued, or are you seeing anything different?

Then secondly, could you talk about how the new refi rules for Fannie Mae/Freddie Mac loans by the government could help your Exchange business?

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

Sure. Great questions. Trends in Q4 I would say are largely the same as they were in Q3, albeit probably not continuing down -- rates haven't continued down on a straight slope, so we are continuing to see very strong LTL results.

And then, at the same time, on the Exchange lenders are still very full of volume, so sales are sometimes a little more challenged. That said, that is why we really put the lender sales push on and added a bunch more lenders.

One thing I would say, seasonality is starting to set in a little bit, so volume is not as strong as it would have been, let's say, a couple months ago. But in general things are still good -- probably not as fantastic as they were in Q3.

In terms of the new refi rules, we're talking about the HAMP program there, or HAMP II. We think that is going to be a very positive thing for the business. However, the exact rules are not out yet.

So when it was publicized we saw a big surge in volume, which normally happens anytime there is press about anything mortgage related. But we do believe it will be net positive.

The biggest issue that you have right now is lenders just can't qualify. Typically things are falling out because of appraisal, and so any ability to relax appraisal restrictions will certainly be a good thing.

My guess is it will benefit LendingTree Loans more than it will benefit the Exchange, because if lenders can refi them on their own, again they will be full of volume.

We are definitely seeing less capacity. The industry has taken a lot of capacity off-line. So therefore as lenders -- lenders need a lot of confidence to add people back to the business. But it seems like every time we say rates can't get any lower, it seems like they get lower.

Neil Doshi - *Citigroup - Analyst*

Great. Then, Doug, on the non-mortgage related leads, could you talk a little bit about why the home services was a little bit light, and then also why the -- but the education side was stronger? Seems like we have been hearing more concerns from some of your competitors on the education side.

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

Sure. On the home services side, the business that we bought was traditionally wedded to a direct marketing off-line business, which related to -- what they would do is actually produce guidebooks and send them out. We generally send those out early in the year, and then they kind of tail off later in the year.

It's actually a really good business, and it's profitable, and it is something that no one else in the industry has been able to figure out. So that volume is tailing off.

And we have been very deliberate about turning on online advertising spend. That home service is a very interesting and complicated business, and the only people who have figured this out at scale have been ServiceMagic. But what we are seeing is -- and it's complicated because you have got coverage by category and coverage by geography, and so you need to be able to market very precisely.

We didn't want to lose money in marketing, so we haven't turned on the online marketing yet. We really spent our time getting the product right, launching the new site, getting merchants on the platform. And now we will very deliberately and slowly turn on the marketing spigot in Q4.

On the education front, partially good fortune but mostly just a fantastic team. The changes in the regulations there have not really -- we have a very unique niche, very similar to LendingTree in the education space, which is -- we produce high-quality consumers that are actually going to convert.

So the bread and butter of pretty much a lot of the other competitors was marketing. Essentially saying -- hey, you can go to school here and get a Pell Grant and you will never need to pay anything. Well, that is now outlawed.

We never did that. One, because we didn't think it was right; and two, because it just felt like it wasn't going to last. So we have always marketed -- we never really got into that game.

So we just continue to take share, and I am thrilled with what is happening. So every month, schools are upping their cap with us, their request of leads. They are very pleased with the leads we produce.

We also are in this for the long term, so we monitor lead quality very, very closely and work in partnership with these people. They are pleased with what we are, so we're adding new schools; we're adding caps in schools; and we're also now, believe it or not, doing a very small but growing international business.

So prospects for that business we think are really bright because we've got such a quality focus.

Neil Doshi - *Citigroup - Analyst*

Great. Just one last question if I can, Doug. When do you think we can see EBITDA on the pro forma business turn positive?

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

We actually don't show it on a pro forma basis yet, but it would have been positive in Q3 if you -- we just ran some numbers this morning and said -- what if the volume we sent to LendingTree Loans we were able to monetize on the Exchange? And it would have been -- basically it would add about $7 million for the quarter of top line and add $3 million to adjusted EBITDA.

And that is at not great monetization on the Exchange, so -- in Q3 because of the volume effect that we have talked about. So it would have been positive in Q3 and certainly would be positive going forward.

Q4 on a pro forma basis will be right at breakeven really because of seasonality. But I am really bullish on the pro forma business and what it is going to be post-LTL.

Now in the meantime, right now, it's great to have LTL, and we will keep it and we will take the profit that it's generating and take the increase in cash. So that's great. But, going forward, this is a profitable business; and as marketing grips, it could get really profitable.

Neil Doshi - *Citigroup - Analyst*

Great. Thank you, Doug.

Operator

(Operator Instructions) Ed Antoian, Chartwell.

Ed Antoian - *Chartwell Investment Partners - Analyst*

Hey, Doug. Could you just -- what is the process with Discover and the Fed?

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

Sure. Discover can postpone the deal for FDIC approval. The FDIC has not approved it. And that process is ongoing.

I can't really comment more on that. I wish it were faster; so do they; and we just have to wait. We are working -- I know they are working very hard on that. Literally, that is the last hurdle.

Everything in integration is done, the deal is done, everything is done, and I can't really give any more comment to it. Except to say that as much as it would clean up our situation, kind of happy to have LendingTree Loans right now given the market. So we will take it.

Ed Antoian - *Chartwell Investment Partners - Analyst*

And just to make sure I understand the magnitude, $13.1 million revenue from continuing ops; $10 million of that is mortgage?

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

We have never really broken that out before, so we don't --

Ed Antoian - *Chartwell Investment Partners - Analyst*

You kind of did. You said the mortgage Exchange revenues were down 25% -- were down $2.5 million or 20%. So if you give me both those numbers I can do simultaneous equations.

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

I think it is a little less than $10 million, but you are in the ballpark.

Ed Antoian - *Chartwell Investment Partners - Analyst*

Okay. Then you said transmits for Exchange was actually -- transmits for education were actually up. What percent did you say that was?

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

I believe I said 9%.

Ed Antoian - *Chartwell Investment Partners - Analyst*

9%? And home services was down --?

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

Down single -- 18%.

Ed Antoian - *Chartwell Investment Partners - Analyst*

Okay. 18%? Wait, wait, wait. Mortgage was down 18%.

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

No, I think home service. I think I got home services.

Ed Antoian - *Chartwell Investment Partners - Analyst*

Are both of them down that much?

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

Yes..

Ed Antoian - *Chartwell Investment Partners - Analyst*

Oh, okay. And Exchange, the bigger piece?

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

Yes.

Ed Antoian - *Chartwell Investment Partners - Analyst*

I mean education the bigger piece?

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

Yes.

Ed Antoian - *Chartwell Investment Partners - Analyst*

Okay. Thanks.

Operator

[Kevin Hanrahan], [KMH Capital Advisors].

Kevin Hanrahan - *KMH Capital Advisors - Analyst*

I had a couple questions. It's very confusing what happened. First I wanted to talk about -- you said LendingTree used $30 million of cash; so as of September 30 that was not on your books, but then it came back in October. Would that be fair to say in October the $30 million came back into cash, but it's not going to show for September 30?

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

Absolutely it would. So the cash balance moved down into loans held for sale; and then those get cleared out in the next two -- typically two weeks after that and then that cash comes back.

Kevin Hanrahan - *KMH Capital Advisors - Analyst*

So the cash today would be about $40 million in unrestricted cash?

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

You nailed it.

Kevin Hanrahan - *KMH Capital Advisors - Analyst*

Okay, that's good. So, I am trying to figure out the deal with Discover and the timeline, and that gentleman asked them. I understand you've got some regulatory issues. So are you still hoping to close that deal by year-end?

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

No, I think I said in the comments I don't anticipate that will happen in year-end. I can't really speculate further on when it will happen. They will pay us extension payments to do it, and we are in ongoing discussions with them.

It is really not regulatory on our side. As you know they're a bank, so they are regulated by the FDIC, so it is between them and the (multiple speakers).

Kevin Hanrahan - *KMH Capital Advisors - Analyst*

Right, so the bank regulators are doing their job.

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

They are doing something.

Kevin Hanrahan - *KMH Capital Advisors - Analyst*

Okay. So you would say that the payment that they gave you doesn't really reflect that the deal is not going to get done; it is just kind of pushing out in time?

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

Exactly. The contract called for their ability to extend, only for FDIC approval, for up to five months; and they have to pay us $1 million a month to extend, that then gets netted against purchase price.

Kevin Hanrahan - *KMH Capital Advisors - Analyst*

Right. So they did one month so far.

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

Exactly.

Kevin Hanrahan - *KMH Capital Advisors - Analyst*

Yes, so that is my next question. So, the CFO was mentioning that you will get $20 million. As I recall, that is $10 million a year after the close and another $10 million on the second anniversary. Is that correct?

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

Yes.

Kevin Hanrahan - *KMH Capital Advisors - Analyst*

So if the deal closes, just say -- whenever, March 1, then you would get $10 million more in March 1 of the following year and $10 million more on March 1 of the second year?

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

You got it, exactly.

Kevin Hanrahan - *KMH Capital Advisors - Analyst*

Right.

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

In addition to the upfront payment.

Kevin Hanrahan - *KMH Capital Advisors - Analyst*

Right, exactly. So you are probably -- you were restricted in terms of you couldn't do share repurchase this quarter if you had wanted to in Q3?

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

That's right. I think we were in possession -- we think given the status that we know where things are that we are really in possession of material nonpublic information that I think would prevent us from doing that.

Kevin Hanrahan - *KMH Capital Advisors - Analyst*

So will that probably be the case until the Discover deal closes?

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

I don't think so. I think it would -- I'm not the lawyer on this, but my guess is once we publicly give a very clear statement on exactly where it stands and when things are going to happen, then I think that would relieve itself.

Kevin Hanrahan - *KMH Capital Advisors - Analyst*

You might be able to go if the window was open otherwise?

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

Exactly. Yes. You might be able to. You put a plan in place, etc.

Kevin Hanrahan - *KMH Capital Advisors - Analyst*

Okay, thanks and the best of luck to you.

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

Thank you very much. Good to talk with you.

Operator

(Operator Instructions) Nick Zamparelli, with Zeke, LP.

Nick Zamparelli - *Zeke Capital Advisors, LP - Analyst*

Hi, guys. Thanks for taking the question. I just have a quick one on the pro forma Exchange business. Doug, you mentioned when marketing start to grip; you mentioned kind of being bullish on EBITDA and when marketing starts to grip we should really see that.

Maybe just elaborate on that a little bit in terms of timing and what we should expect and what are the hinge points there.

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

Sure. So last March we hired a new CMO in Gabe Dalporto. We talked about that. He is now -- I referred to a little bit of this on the call -- we now have a new head of search, a new head of CRM, a new head of analytics, and expect very soon to have a new head of display marketing and a new head of off-line. So literally we are retooling the entire team.

From search we are seeing it right now. The search team that we brought in has actually substantially increased margins from search marketing while actually decreasing spend.

The analytics people that we have brought in are basically able to manage this business in real-time like we never have before. So for example, what we have seen in this past couple of months, we are seeing volume go up and down in more drastic -- more drastically than we ever have before. And our analytics guys can basically tune the engine to basically tell the marketers to turn it up or turn it down literally within the hour -- where if you remember back to Q1 we really got caught.

Another interesting little model I have seen. One of the new guys on the team is a statistician. Literally by 10 o'clock in the morning, based on a number of inputs, he can predict the level of volume we are going to see that day. So based on that they can tune the engine even more.

So, what will happen is as the market tightens, lenders once again will need our volume and the bids to get every lead -- if you remember going back a few years, the first thing we did was we fixed the monetization. So we put in standardized filters, we cleaned up a lot of the technology on the lenders' side and importantly moved our bidding to all lead fee based and adjusted so that the lenders can bid the price of the lead up and down.

So as those bids move up, the lender -- the marketing team will be able to step on the gas. So right now they are testing, they are learning, they are seeing what works. And then as -- they have a metric literally we call variable margin dollars, which is the spread between total revenue for the day and total marketing cost for the day; the difference is VMD. And they just drive VMD. Their job is to maximize VMD for the Company. As they get better it is going to -- they just drive more.

We just did some share analysis for our planning process. LendingTree has a pretty small share, we think, of the online mortgage market, but we think we are uniquely positioned. Our competition obviously are the guys that like QuinStreet, Bankrate, Google and others. But I heard from some of the other -- from one of our competitor calls they had weakness in the financial category and weakness in the education category, and we are seeing the opposite.

So I think we can steal share in this business just from marketing effectiveness alone, not even counting the brand lift and having a great customer experience too.

Nick Zamparelli - *Zeke Capital Advisors, LP - Analyst*

Okay, great. Thanks. Good luck, guys.

Operator

(Operator Instructions) Ed Antoian, Chartwell.

Ed Antoian - *Chartwell Investment Partners - Analyst*

You guys answered already. Thanks, guys.

Operator

Dan Weston, WestCap Management.

Dan Weston - *WestCap Management - Analyst*

Yes, hi. Good morning. Thanks for taking the questions. It looked to be a much improved quarter, so congrats on that as well.

A couple questions on the cash. Tamara, you were going a little fast; I just wanted to make sure I got it. So as of today, with the recovery of the cash used to fund the loans, you are standing at about $40 million unrestricted today?

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

That is exactly right.

Dan Weston - *WestCap Management - Analyst*

Okay. Then postclosing you guys receive $35.9 million in cash minus the $15.5 million that is held in escrow?

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

That is exactly right. But then you need to -- and then you have some additional liabilities that you will have. So that will take you to, call it $55 million.

And then we got some stuff we got to work out here, and a lot of this has been disclosed previously. But there is -- we've got some litigation matters, we have got loan losses that we would expect that we'd have to -- that it could be that we are going to pay more than the escrow amount. Probably would be likely. And you have some deal costs, etc. etc., so there's a number of other things that get you down to them that $30-million-ish level.

But it doesn't happen all at once. Clearly, a lot of that could take over time, so you might end up with a larger cash balance on day one. But we wanted to give you -- to say really pro forma when you deal with everything and it's all put to bed, what do you have left? And it's in that $30 million range.

Dan Weston - *WestCap Management - Analyst*

$30 million; and that would be the unrestricted cash portion?

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

Yes, yes.

Dan Weston - *WestCap Management - Analyst*

And then would you expect your restricted cash levels to change materially between now and closing, let's say?

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

Yes, once that deal closes, that restricted balance should go down pretty substantially because a lot of that restricted cash is tied up because of the LTL business.

Dan Weston - *WestCap Management - Analyst*

Let me make sure I understand that. So, when the deal closes does any part of the restricted cash turn into just regular cash postclosing? Or does that restricted cash go away?

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

No, no, no. It doesn't go away. Probably about -- house numbers and don't hold me to this, my guess is about $10 million of the restricted cash will turn into unrestricted cash.

Dan Weston - *WestCap Management - Analyst*

Okay. So then if you have the -- you end up at the $30 million, plus you are able to convert the restricted of $10 million, you should be end up somewhere around $40 million of net unrestricted cash postclosing.

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

Yes.

Dan Weston - *WestCap Management - Analyst*

Got you. Then lastly on the loan loss reserves, I noticed they ticked up the few million dollars quarter over quarter. The $15.5 million that you hold in escrow at closing, is that specifically designed to offset those loan loss reserves?

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

It is. That was a negotiated amount. The way this will work -- that was a negotiated amount with Discover. The deal was -- hey, we want to make sure you've got some money set aside to cover these things; and we negotiated $15 million.

We have got $27 million on our reserves right now that we would estimate the total liability would be from now into the future. And we've got to have negotiations with the -- you either negotiate global settlements or you pay the bills as they come due over time. And one side of me wants to negotiate those and get those out of there, but -- just clean it up. At the same time we want to negotiate good deals; we want to make sure we do what is fair.

If we owe somebody money we are going to pay it. At the same time, there's lots of -- every one of those loans is a story, and you have debates and negotiations about every single one.

Dan Weston - *WestCap Management - Analyst*

Okay, so maybe you can get away with paying a little less. But I guess lastly on the loan loss reserves amount that you've committed to, the $27 million, Doug, what do you think realistically is likely for that amount?

Do you think you have reserved adequately for those loan losses? Is there a chance that it could be materially higher than that? Or is that really the extent of the liability as far as you guys know today?

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

Look, honestly I can't -- it completely depends. So if you had -- when I came back to the Company after IAC we had I think about a $12 million reserve on, and I thought that was going to be adequate. Obviously as the business keeps -- as the housing market got worse and worse and worse we saw the pace of loan buyback requests increase, and so we have obviously had substantially higher losses than at least I ever thought.

We think we're adequately reserved now. But the way that reserve calculation happens it basically takes loan buyback requests as they come in, runs a mathematical calculation on what we think that means about the future, and that is the way that is calculated.

So in general, we have been increasing that regularly, but we haven't necessarily been paying out the cash as we look to negotiate with the people that we owe. So we are in good faith negotiations with all of our so-called investors on those loans; and we expect to continue to do that.

We have got very good discussions and very good relationships. And we hope to settle them on a level that is fair for them and fair for us.

Dan Weston - *WestCap Management - Analyst*

Very good. If I may just one last one. On terms of the operating expenses, you guys have done a terrific job in getting those lowered, especially on the sales and marketing side.

First, is that the appropriate level now for specifically your sales and marketing going forward, even continuing ops post-sale? And then additionally once the sale, if and when it is completed -- is there any other place in the operating lines where you can reduce expenses? Or would this G&A line and the rest of it stay the same as what you did in Q3?

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

I think we are at a good level from the level of G&A. What we are going to see different -- where you are going to see, I think, some reductions over time would probably -- and I don't think it's going to be huge. But we have got a good bit of professional fees and legal fees etc. and accountants and auditors, because even though we are pretty small, we are pretty complicated. We are heavily regulated. We have got some -- the regulatory stuff in South Carolina and other places.

So it is a much simpler, cleaner business when it is just the Exchange business. So I would expect that we'll see some reductions there.

On selling and marketing, I think on the selling side -- on the personnel side I think you might see marketing in particular creep up a little bit, just because we are hiring people there. But all those people pay back quickly.

You will see the dollar marketing expense increase over time, and that is working media. The key thing there is to remember that marketing for us is not an expense; it is fuel. We are a direct marketer.

So I want to spend, in my dreams, I want to be a $1 billion advertiser because then I will have $1.8 billion in revenue. So as long as you get that, I think we will be fine.

But no, from a fixed cost standpoint we've got this place lean. I basically say to everybody internally around here -- you have to be able to program a computer, you got to sell, you got to be a marketer, or else you're overhead. And I am the number-one example of overhead and everybody else actually rolls up their sleeves every day and is doing great work.

The other I think you will see expenses tail off a little bit is in the product development tech front. We have invested -- and we said we were going to do it -- that we were taking the money from LendingTree Loans, those profits, so we could build a diversified business. And that is largely done.

So we have unwound for -- we completed a lot of technology this quarter and we are spending a lot less, for example, on third-party consultants and offshore technology. So I think we are going to -- knock on wood -- I think we are going to start to reap some of the benefits of that investment here in the next couple quarters.

Dan Weston - *WestCap Management - Analyst*

Very good. Well, I appreciate the detailed answer. And once again, congratulations on a terrific job for Q3.

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

Hey, thanks a lot. I think we're out of questions, so I'll thank you all again for your attention this quarter.

We have been grinding it out this year. I'm really pleased with the work that our team has done across-the-board, really pleased with the new people we have brought in. We are optimistic that we have gotten this business right sized. I have said that before, and we have gotten some surprises.

Clearly this is a volatile business, but we are very focused. We've got our plan down and we are very focused going into 2012 to get significant revenue growth and significant earnings growth and hopefully get this a little clearer and a little bit of a simpler business for everybody to digest. And we look forward to working with you in the future.

Operator

Ladies and gentlemen, this will conclude today's conference call. We thank you for your participation.
