

FINAL TRANSCRIPT

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TREE - Q4 2009 Tree.com, Inc. Earnings Conference Call

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Daniel Tomtur

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Josh Goldberg

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PRESENTATION

Operator

Good day, everyone, and welcome to the Tree.com fourth-quarter 2009 earnings conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Matt Packey, Senior Vice President and Chief Financial Officer. 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 Q4 2009 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 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.

Some of the risks we have have been set forth in our earnings release, and more in our periodic reports filed with the SEC.

We will also discuss certain non-GAAP measures such as EBITDA. I'll refer you to our press release for all comparable GAAP measures, definitions, and full reconciliations of adjusted EBITDA and EBITDA to operating income.

Overall, we had a good quarter in the fourth quarter. While revenue was down 6% quarter over quarter, due primarily to the impact of the previously-announced loan-loss settlements, as well as Q4 holiday and seasonality impact, the Company experienced only a 1% decline year over year. This is a testament to the day-to-day focus on metrics and continued efforts to diversify into new verticals, which are generating real revenue.

Moreover, we are extremely excited to report that all three operating segments posted positive adjusted EBITDA. Before I turn the call over to Matt, let me provide some highlights from our individual lines of business.



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At LendingTree loans, we continued the strong performance we've seen all year, delivering positive adjusted EBITDA in all quarters of 2009. In fact, this segment's annual adjusted EBITDA more than doubled compared to the full-year 2008, despite an extremely volatile mortgage market.

On the operations front, we consolidated our call center functions, and that's bearing fruit as we are now delivering customers directly to licensed loan officers, which is the first step towards streamlining the overall customer experience at LendingTree loans.

We're also really pleased to have announced favorable settlement terms with two buyers of our mortgages, which had previously been the largest sources of loan-loss exposure. This is a giant step for Tree, as it reduces our exposure to future loan losses.

In the Lending Exchange, increased sales efforts and stabilizing interest rates have significantly increased the revenue we generate from each lead. In fact, in Q4 we experienced our second consecutive quarter of greater than 20% improvement in revenue per loan request. This enables us to increase marketing going forward and hopefully grow market share.

In our non-mortgage verticals, we continue to gain real traction as we focus on sales, marketing optimization, and building relevant content. Specifically, the education business is continuing to grow its client base; home services is expanding into new markets and deepening its sales coverage in the 30 top metropolitan areas; and although it's still small, our new LendingTreeAutos.com site is live and generating leads to auto dealers and insurance providers.

In Q4, we relaunched InsuranceTree with an initial focus on auto and homeowners insurance, which is a natural complement to our existing lending and real estate businesses.

For our real estate business, Q4 marked the first time this segment of business posted positive adjusted EBITDA. This exciting news highlights the hard work and dedication of our team to reduce costs and operate more efficiently in what is continuing to be a very difficult real estate market. Although this is a big achievement, we acknowledge that sustained positive adjusted EBITDA will be a challenge, given the current market conditions.

Finally, we announced earlier this month that our Board of Directors approved a stock repurchase program of up to \$10 million. As we said in the announcement, we will continue to invest in our business, but this buyback approval will allow us to opportunistically repurchase shares at a time when we believe they are undervalued.

Overall, 2009 was a good year for Tree.com and the Company is well poised for 2010. We are confident in our core business, we're committed to our new verticals, and we'll continue to invest in them, and we stand behind our previous 2010 guidance.

And now let me turn it over to Matt to take you through the detailed financial results.

Matt Packey - *Tree.com, Inc. - SVP, CFO*

Thanks, Doug, and good morning to those online today. As you see in our release, we reported \$400,000 of positive adjusted EBITDA, slightly better than our previous indications for the quarter and including the impact of the previously-announced loan-loss settlements.

You can also see that in our corporate segment, we reflect the impact of the legal settlements and other litigation of \$12.8 million. Those charges are excluded from our definition of adjusted EBITDA.

For LTL, we are pleased that, even with the loan-loss settlements in the quarter, our adjusted EBITDA still improved 74% to \$2.9 million over the prior quarter on about \$23 million of revenue, which is only down 5% from the prior quarter despite the loan-loss

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settlements. Although our closed loan unit volume was down slightly, about 3%, due to the seasonal holiday impact, this was more than offset by the improvements in the average loan amount, up 11% from a year ago and 3.5% from last quarter.

I do want to give you a little bit more color on the loan-loss settlements. These arrangements were with two of our loan investors and covered principally stated-income second-lien loans. Historically, those loans have been the biggest source of our exposure. Since 2005, stated-income seconds have represented less than 5.5% of loans we've sold, but have represented about 50% of the losses we've incurred.

The two investors we settled with accounted for about half of the historical losses and represented a significant portion of the loan-loss exposure in our pipeline. The settlements clear all current and potential future exposure on stated-income seconds that we sold to those two investors.

We'll continue to maintain a balance sheet reserve for all other estimated exposures. And as in the past, we'll be providing you with more detailed information in our Form 10-K.

As we look forward for LTL, we'll continue to grow the leads available to our loan officers to take advantage of the encouraging margins here, but the consumer interest rates and loan product availability will continue to be the big driver of this segment's results in 2010.

Moving onto our exchanges, quarter over quarter this segment-adjusted EBITDA was flat at \$3.7 million on slightly lower revenue. Normally in Q4 we would expect the holiday impact to have been more significant, and while total mass requests were down 18%, reflecting lower purchase volume, a normal seasonal decline, and lower auto volume as the Cash for Clunkers program wound down, our average long-form loan amount increased 7% and our average match fee improved 21%, while our average closed-fee improved to 5%. Each of these key metric improvements are encouraging signs as we move into 2010.

We remain pleased with the performance of our new non-mortgage lead-gen exchanges. With, EDU, home services, insurance, and auto, we were able to serve over 120,000 consumers, matching them with service providers and generating more than 10% of our total exchange revenue. Operating costs for the exchanges have also improved with a 4% decrease quarter over quarter, as we've continued to lower our indirect costs through various restructuring efforts.

Exchange-related selling and marketing expenses as a percentage of revenue increased from 66% to 67% quarter over quarter, in line with our expectations and normal in a lower volume quarter like Q4. As we move into 2010, we expect to continue to increase our ad spending for the exchanges to ramp our non-mortgage verticals and to meet the higher demand of our lender network.

Turning to real estate, we continue to make some operating efficiency improvements. These improvements involved reductions of lower producing agents, enabling us to distribute our leads to agents with higher conversion trends, and also involved reductions and indirect roles in overhead, which are reflected in a 31% improvement in operating costs. Now we just need the housing markets to begin to cooperate with us and to get a boost from transactions and home values. Clearly, we didn't get that in Q4 with closed loan -- or closed units down 6% and average home prices down 10%, as short sales and foreclosures and lower home values continue to drag on our commission base.

For our corporate operating expenses, we decreased those \$1.6 million, or 20% quarter over quarter. The decrease reflects a reduction in employee-related costs as a result of our prior restructuring efforts. As it relates to our building consolidation, which we announced in our 2010 guidance, weather-related delays caused us to miss our moving date, and as such, the anticipated restructuring charge of \$2.6 million will be recorded in January 2010 instead of December.

Briefly turning to the balance sheet, we ended the quarter with approximately \$98 million in cash, including \$12 million of restricted cash, about flat with the end of Q3 and up from \$9.3 million -- up \$9.3 million from the end of last year.



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Of course, as we discussed in our recent press release, we now have about \$17.3 million of cash outflows remaining over the next few quarters for the various litigation matters and loan settlements. We met all of our warehouse line covenants in the quarter and we continue to originate only loans we can sell into the secondary market, primarily conforming product and some FHA, and we continue to see those items turn very quickly.

Impaired loans on the balance sheet improved quarter over quarter from 40 units to 34, with a net value of \$2.1 million. And we ended the quarter with 10.9 million common shares issued and outstanding, with another 1.2 million options and 745,000 RSUs. We'll provide our normal detailed breakdown of those items in our 10-K coming in the next two weeks or so.

With that, I'd like to hand it back over to the operator for Q&A. Thanks.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Mark Mahaney, Citigroup.

Mark Mahaney - Citigroup - Analyst

Two questions, please. One, the first one is a housekeeping question. On the terms of the -- in the LTL segment, the revenue per closing declined approximately 11% year over year after rising each of the last three quarters on a year-over-year basis. Can you go through the explanation for why we saw that switch?

And then, another question on the exchange business. You've rolled out a couple of new segments. As you think about the growth of that in 2010, will the growth in that non-mortgage exchange segment, will that just come from the three existing areas you've got now or are there plans to roll out other new verticals there?

Matt Packey - Tree.com, Inc. - SVP, CFO

Mark, thanks for the questions. This is Matt. I'll address the first one there. The LTL revenue per closed that you're seeing in Q4 was impacted by the loan-loss settlements in the quarter, and [as close] to normal loan-loss provisions. As you recall, our loan losses are reported net within revenue.

So when you actually back out that impact, the revenue per closed was up in the quarter, and that was driven by really an average loan-amount increase of about 10% over the prior quarter. I'll let Doug handle the next one.

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

On the second one, right now we don't have any plans to roll out any new verticals on what I would call a principal basis, where we are -- where we have a sales force actually signing up clients and advertisers. However, we are anticipating that in some new lead-gen verticals, as we get to rolling out Tree.com, which will be lead generation across many categories, that we would have -- that we would roll out new verticals probably through a partnership or revenue-share basis. And stay tuned on that. We'll be hopefully rolling out those plans sometime in Q1.



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Mark Mahaney - Citigroup - Analyst

And Doug, one other follow-on question. Just in terms of overall advertising expenses, keyword costs, have you seen a material change in keyword pricing for some of the terms that you are looking at over the last three months?

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

Not really. I would say, if anything, we're -- I would say the market does not seem to have changed much. But what we will now do going forward, now that the business is back to what I would call normal, we will steadily increase spending on things like search and other areas, which will have a tendency to drive pricing up a little bit.

But now that lenders are buying leads, LTL needs leads, and as the market shrinks here, this year we will be stepping back on the gas. And I'd anticipate they would move up in that type of an environment going forward.

Operator

George Askew, Stifel Nicolaus.

George Askew - Stifel Nicolaus - Analyst

Thanks very much. Just sticking with the exchange segment for a moment, I just want to confirm -- you said that exchange -- that the revenue from the non-lending exchanges that you mentioned, education, home services, auto insurance, is 10% of match fees within the exchange?

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

George, it's 10% of the total exchange revenue.

George Askew - Stifel Nicolaus - Analyst

Okay. Can you give us a sense of some other metrics around those businesses? Growth rates, margins, etc.?

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

I don't think we're publicly making statements about the key metrics there yet, George. We're trying to indicate at least that the revenue is a growing part of the business, and that the transactions flowing through, the matches that you see in the press release, are increasing as well.

But we're not yet ready to break out all of the metrics for those businesses.

Matt Packey - Tree.com, Inc. - SVP, CFO

I think just in terms of color that I think will help a little bit is we don't expect -- early in any of these verticals, while we are very pleased with the topline revenue growth, what you basically do is do the -- you're driving volume through paid marketing, for the most part. You don't have a lot of organic traffic in the early days of these things.

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So you're going to be spending most of -- almost all, essentially, of your revenue right back in marketing to drive these businesses, and then the marketing margin will improve over time as you get more efficient and get more repeat business.

But the good news is these are all running off of sort of the same tech platform. They're all running with the same overhead, and so we can bolt these new verticals in very nicely with really the only incremental cost added, new one, really being the marketing cost.

George Askew - *Stifel Nicolaus - Analyst*

On the LendingTree loans side, we've been looking at industry data for 2010 that suggests originations could be down 40% and refinancings potentially down 60%. And you guys have acknowledged in your guidance that 2010 will be weak. But then, you also say that essentially you will gain market share and LendingTree loans will be down just about 5%. Can you help us to understand that discrepancy?

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

George, some of the lack of decrease in our numbers is really driven by two factors. One is LendingTree loans will continue to pick up more and more of the available volume that we're already driving in, and second is the purchase volume.

So LendingTree loans, before really this past quarter, was primarily focused all on re-fi. And we're beginning to build our purchase teams knowing what the 2010 market is going to deal us. So we will begin that shift in Q1.

Matt Packey - *Tree.com, Inc. - SVP, CFO*

And a little more color on that LTL shift. What we basically have done with LTL, and this has been a long journey, and I'd mentioned it in our prepared remarks around this call-center shift, in the past, LTL has taken leads that passed their filters very similar to what other lenders would do, and they generally take leads that have lower loan to values, high credit scores, higher loan amounts, etc..

What they've gotten very good at now is being able to take inbound calls with people that haven't yet run through the filters, and so those inquiries are going to be a lower conversion rate, but they have been able to do that and still do it very profitably. So what that enables them to do is to pick up more leads that a normal exchange lender wouldn't want to put the effort against because they don't have the technology and the processes in place, and LTL can pick up a lot of that volume that previously has been falling on the floor.

So LTL will essentially pick up share of the leads, and then we're also going to gain market share really again through marketing and stepping on the advertising gas again and leveraging the LendingTree brand. So that's how you stay essentially flat in a down market.

That said, it's not going to be an easy challenge. But we think we're up for it.

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

And just one last point, George, not to overkill the question, but in 2009, the LendingTree loans business had substantial loan-loss charges, north of \$16 million, including the settlements. We don't anticipate that would continue going forward. So that's an incremental boost to revenue next year because it was hurting this year's revenue.

So our growth, if you will, is somewhat in tuned by the lack of loan losses next year.

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George Askew - *Stifel Nicolaus - Analyst*

That's a good point. Just one last quick question, we've -- we'd look at your cash balance, your unrestricted cash balance, back out, as you mentioned, \$17 million of cash payments over the next several quarters related to the settlements and charges and whatnot, then we back out an amount that we think is tied as essentially collateral to your warehouse lines of credit, and we come up with a number kind of in the mid-20s in terms of millions of dollars.

Thinking about your share buyback, the investments that you're doing, how do you feel -- are we right about that number and is there any -- are you going to be able to do all the things you want to do?

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

Yes, I think we are, George. I would say you are right about that number. The one thing that I would also deduct from that is the \$2.5 million restructuring that we mentioned in the prepared remarks as well.

A couple of things -- the twenty -- mid-\$20 million number that you're talking about, we hope to continue to enhance that number as we drive positive cash earnings throughout the year. But clearly, the special charges and the settlements that we've incurred, the \$17.3 million, will come out of that cash. But we feel pretty confident with our ability to buy back shares when the stock is depressed.

Operator

Reed Meyer, Stifel Nicolaus.

Reed Meyer - *Stifel Nicolaus - Analyst*

A couple of questions. Can you please provide some detail on the match learner quest? It looks like they were down both year over year and sequentially.

Matt Packey - *Tree.com, Inc. - SVP, CFO*

Reed, this is Matt. The primary driver there is the auto leads quarter over quarter. They were down substantially.

We're attributing a lot of that to, one, the seasonal downturn, but also, the Cash for Clunkers program which wound down towards the end of Q3. Purchase volume was also down in the quarter, compared to last quarter.

Year over year, I think you'll remember at the end of 2008, we had a start of a re-fi boom. Interest rates really started to drop at that point, and we got a lot of inflow of volume and we were able to match that with a number of lenders before the lenders really got hit with capacity issues early in Q1 and Q2. So, that's the key change year over year, is the re-fi boom that started back then, and clearly that wasn't happening in Q4.

Reed Meyer - *Stifel Nicolaus - Analyst*

Second question, is there any way to discuss the quarterly seasonality embedded in the 2010 guidance?

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Matt Packey - *Tree.com, Inc. - SVP, CFO*

In general terms, and it's difficult to say whether or not there's a normal market coming or not, but in a normal market we would expect to be investing a little bit more in our marketing as we move into the spring and summer homebuying seasons, so we'd normally have a peak in Q3.

So, Q1 being down, Q2 improving, Q3 being the peak, and then Q4 tailing off due to seasonality. We haven't given specific quarter-by-quarter guidance. We've given just the annual guidance. I expect as we move through Q1, we'll give some indications of how that's shaping up. But we're still pretty early in the quarter at this point.

Operator

[Daniel Tomtur], BFC Financial.

Daniel Tomtur - *BFC Financial - Analyst*

Very quick question. I'm trying to get a clear understanding of the distinction between the direct lending that you guys are doing, which seems to be or have created substantial loss of \$16 million, versus the lead business and what that generates. And the wisdom to the strategy of not just dealing with the lead business, which seems to have shown less headache and more profit.

Matt Packey - *Tree.com, Inc. - SVP, CFO*

Daniel, thanks. Two good questions there. I'll address the numbers side, but the direct lending business, the LendingTree loans, actually is making money. It's not incurring losses. We were positive net income -- operating income on that business all year long.

The \$16 million in charges that I'm referring to are loan losses from prior loan sales, principally before August of 2007 and backwards. The major of those, in short, are stated-income second-lien position loans, where the borrower has subsequently defaulted on those loans and investors put those back to us.

It's a pretty normal occurrence in the industry. Of course, with the economy being what it is and unemployment being what it is, it's been a little bit worse, but we've put a couple of those settlements behind us now and we feel like going forward, we want to experience the same level of losses. And I'll let Doug address the strategy side (multiple speakers)

Daniel Tomtur - *BFC Financial - Analyst*

Just going back to that, though. With it -- I'm sure the industry has changed, but in making the loans, there still are other and added expenses, warehousing and whatever other associated expenses that go with it. So while the industry has changed, to a degree, I'm still curious as to -- and I guess that's what Doug is going to do, the strategy of LendingTree.

I had read recently about lawsuits where some of the brokers are saying, are we -- is LendingTree competing with us, the brokers? So it kind of -- I'm sitting and looking and going, are they competing with their own -- with the people that are generating the revenues?



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

Yes, I guess -- look, we debated this, gosh, six years ago when we first decided to buy LendingTree loans, and I'll give you a sense for the history and why we did it. But, essentially what we created -- what we saw in the market was basically this. Take you back in time and then come to the present, was that our lenders, who essentially are correspondents, from the most part, they're not keeping credit risk and holding loans on their balance sheet. Most of our lenders are mortgage correspondents.

And we saw the profits that they were making from business that we were sending them. And we were taking, we saw, a tremendous amount of risk, really in the marketing risk, which is 50%, 60% of total revenue, and we were buying lots of marketing, and then basically making money when a lender closed the loan, and then we got paid. If they would close a loan in one month, report it in the next month, and pay us 30 days later, and we were carrying essentially five, six months' worth of marketing expense and not really getting the lion's share of the revenue from it.

As we looked at that, we said -- as we looked at the profits on a per-transaction basis, we said if we buy a correspondent lender, and have a model where we don't just give one offer to the consumer but we actually give four offers to the consumer, and just create transparency from the secondary-market investors right to the consumer, that that would give the consumer an option of a single point of contact, give them multiple choices, and be able to offer them a very attractive price.

With that, that has -- that basically, the increased revenue and profit -- at first, by the way, our lenders were reluctant about that, and we basically showed them that, look, these increased profits are going to fund increases in marketing spend, which are going to increase share gains, which are going to grow our business for you. That was a leap of faith for them.

It turned out to be the case for several years until the mortgage market corrected and LTL drove significant profit and significant investments back in marketing. The one exception and the one issue with the business was really the stated-income second market, and so this is going a bit deep on this, but I'm happy to do it.

When LendingTree loans sells a loan to an investor, we are on the hook, if you will. We have to buy that loan back if there is an early payment default or if there is borrower fraud, and in the industry what the investors have basically said is, well, even if you were allowed to take the stated income, if the borrower lied, that was in fact then committing fraud, and particularly in stated-income second-lien position, there was a lot of that.

So that was our big exposure, much of which has now been settled with these things. We're not doing stated incomes and we're not doing seconds, whether stated or full documentation, and so we think this is -- we think LendingTree loans is a key part of the business going forward because it is low risk, certainly than managing credit risk, and the consumers love it. Our net promoter scores and customer sat scores are off the charts. And it obviously drives significant profitability.

Operator

Josh Goldberg, G2 Partners.

Josh Goldberg - *G2 Partners - Analyst*

Nice quarter. Just a couple of questions for Matt and then one for Doug. In terms of the exchanges, I know in your 2010 initial guidance, you felt that that business should grow, let's call it, 5% or 10% year over year. Is that your -- that was the original estimate?

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

Yes, it was.



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Josh Goldberg - G2 Partners - Analyst

Looking back, obviously 2008, you guys did north of \$90 million in that business. And in 2009, you're going to do about \$70 million. I'm taking out the inner company revenue. And that 70 obviously has a little bit of acquisitions to it, so let's call it 65.

I just -- I have a hard time believing that that business is only going to be up 5% or 10% off of such a depressed base this year. And I'm just wondering if you can talk a little bit about that, especially because you talked very early on in the year how much there was no matching revenue because there was -- it was so easy to get refinanced volumes that none of your customers were asking for any other business.

Matt Packey - Tree.com, Inc. - SVP, CFO

Josh, great question. And I think somebody earlier keyed on the downturn in the mortgage market next year. I think it was George at Stifel, indicating that re-fis will be down north of 40% from originations next year.

That's clearly going to hurt the Lending Exchange, which, the dominant share of the revenue for Lending Exchange currently comes from that part of the business. We do expect to be able to generate more revenue per transaction, but we think there will be fewer transactions.

So, to your point, earlier in the year when we had a lot of volume, the lenders on the network themselves were flooded and weren't really willing to buy all of our leads. In today's market, when volume is in high demand, the lenders are willing to step up and buy more of our leads, pay more for them, perhaps. That has let us transmit the customers queue up multiple times and generate more fees.

But the sheer number, the sheer volume of them, are down, and we expect them to be down next year as well, somewhat offset by the new verticals, the growth in education and insurance and home services should offset that. But those are relatively small, as you heard, about 10% of the revenue of the exchange revenue right now.

I hope that addresses the question. I'm hopeful that you're right and I'm wrong that we can grow it more than that 5%. That would be a nice problem to have.

Josh Goldberg - G2 Partners - Analyst

Okay. And then, competitively, no one talked a little bit about the Google product which I guess was launched. I even read some -- this week that Ditech has sort of cut back on their advertising in a pretty big way in the last few months. And I just wondered if you could talk a little bit about both of those companies.

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

Sure. On the second one, we've actually heard they've essentially closed up shop, so I think they'll be advertising essentially zero.

Josh Goldberg - G2 Partners - Analyst

Does that benefit you guys?

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

You never like to see competitors get out of the market because it certainly signals that the market is pretty tough. But at the same time, fewer competitors going after the same market, it probably does help in some way. It will certainly make -- certainly, marginally (multiple speakers)

Josh Goldberg - *G2 Partners - Analyst*

Keyword pricing and stuff helping a little bit because of that?

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

I'm sorry?

Josh Goldberg - *G2 Partners - Analyst*

Would keyword pricing be up a little bit?

Matt Packey - *Tree.com, Inc. - SVP, CFO*

I never saw Ditech doing a lot of search advertising. They really did a lot of TV. And, so I don't think it will impact the advertising pricing as much as it will just the overall -- just fewer competitors.

They were certainly a big -- certainly a significant scale player in the business. So, that's them.

On Google, we feel really good about our position. The -- I think Google -- anytime Google enters your market, you want to be -- I want to be highly paranoid. At the same time, I don't think, and we've now seen it, I don't think -- a rate search engine thing inside of a Google search return, it feels out of context to me.

A mortgage is a very considered purchase. Some people want to spend some time. They want to understand who they're dealing with, they need more information on the lenders, they -- you need to input more information than just a few fields to get accurate rate quotes. You want to maybe read something and understand what this transaction is all about, and just having a list of search results, I don't think really fulfills that.

So, we haven't seen that it's caused a reduction in our volume. Google is still a very good partner of ours. What we hear from the lenders is that this -- is that Google is not going to have any impact in terms of LendingTree still being the very highest quality lead in the market. So while I am paranoid for the future, this has not yet had a change on our business.

Josh Goldberg - *G2 Partners - Analyst*

Okay. And if you look out at your three businesses, where would you see a chance of having upside to your EBITDA number of \$10 million to \$15 million?

Matt Packey - *Tree.com, Inc. - SVP, CFO*

Honestly, I think it's going to be -- it's going to be -- look, it's -- we were out there to put guidance out. A lot of people were surprised we did it.



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Upside would come in one of the following ways. First of all, the market could give it to us. Right? So we are assuming a down mortgage market next year. That would give it to us.

So, you could make a bet on whether housing is going to come back faster or whether rates are going to stay low, or get lower somehow. So that would really give it to us.

Or a breakthrough in our ability to market, and that would affect both the exchange and LTL. If we are effective at generating alternative sources of leads and inquiries on our site, and we've got a lot of things in the hopper, that could move EBITDA from there.

But at the same time, I'm not -- those are hopes. It's not something I want to bank on. Because I will tell you, we are managing to hit these numbers. This is not in the bag. We are working hard every single day to get to these kind of levels of where we put our guidance out there. So, it's going to be good, hard work every day to get there.

Josh Goldberg - *G2 Partners - Analyst*

Last one for me, Doug. If you could just kind of -- I know a lot of people were worried about the cash per share now and the concerns about the refinancing activity going down next year, but I look at the last 12 months and realize that you've got the loan reserve issues kind of put to bed, you've got a \$50 million line of credit now that you didn't have at the beginning of the year, and you've kind of cleaned up the business in a pretty big way.

Just give me kind of a 12-month review of what you saw this year that kind of makes you feel even more confident in the future of the Company.

Matt Packey - *Tree.com, Inc. - SVP, CFO*

Look, we've been through a three-year, essentially, restructuring process. Basically, what's happened is we were building this Company to be a very large mortgage-centric business, and as revenues declined we had to massively pull back on advertising.

So this year was a year of significant cost restructuring, as was last year, but significant process restructuring. So at LTL, our technology is better, our processes are better, we are a much leaner company.

We don't -- we have many fewer management layers, and the thing is just humming. We are closing loans fast. Consumers enjoy it. The pricing is very good to the consumer, and it's working great.

In the exchange side, same kind of thing. We put some significant advances in technology in place, which give us a view into lender demand for leads, which made it much easier as to price relative to the market, and that's evolving into sort of real-time, market-based pricing for leads. And so, we feel -- and our sales have been totally revamped with new management and really hitting ramming speed. So that feels very good.

Real estate, same kind of thing. Also been restructured. Obviously, we wish the numbers were bigger there, but at the end of the day, look, it's a business that lost \$10 million a year for years, and now we've got the thing hovering around breakeven. So it took a lot of work and it's not where we want to be long term, but we feel good about that.

And then on the balance-sheet side, when IAC decided to spin this business out, one of the reasons they gave us \$110 million in cash was because we were bleeding money like crazy.



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Go back a year -- I think most analysts at the start of the year said we were going to lose \$15 million or \$20 million for the year. It was certainly north of \$10 million, and I made what people thought was a bold statement and said by the end of 2009, we will achieve breakeven at some point on the year, and people couldn't believe that.

And here we are now, making money and going forward. Not a lot of money, but we can see the -- certainly see the future. We've restructured the balance sheet. We obviously were given a lot of cash.

We had a lot of [fins] in there from the past when LendingTree was running -- was the big elephant. Everybody -- you were a target, and when we were part of IAC, we were a nice target for these IP lawsuits and we've obviously settled those now, and certainly the loan-loss issue, nobody would've ever thought it was -- that it was that bad. It kept coming and coming and coming, and as Matt said we took a lot of losses on that last year and still made some money.

So, we are going into it now, and I feel like we are now back to a normal environment, which is -- I feel like we've found the bottom in terms of lenders are buying leads again. We know they're paying for leads. We know you can close mortgages. We know you can -- there are warehouse lenders that are there who will lend you money, and that feels good.

The competitive situation, which you alluded to with Ditech, has improved. We don't see new, other than Google, and that was a big threat, which I think we now at least understand, and it doesn't seem like such a big threat anymore. So I feel really good on the competitive front. We are not overly threatened by any of the other lead-gen competitors out there.

So I feel good about kind of the core business, and then I think the option value is on Tree.com for the future. And, so we've put a lot of effort into that this year.

So, it's been a pretty remarkable year for the Company, and now we've got to do it in a tougher market going forward. But we've been there before, and I just -- I feel like the restructuring is behind us and now we are just running the business again, and that's kind of fun and we know how to do that.

Operator

(Operator Instructions).

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

All right. With no other questions, thank you all very much for your time and we look forward to talking to you anytime you'd like, and certainly we'll talk to you all again in another three months.

Operator

And this does conclude today's presentation. We thank everyone for their participation.

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