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PRESENTATION

Operator

Ladies and gentlemen, good day, and welcome to the Tree.com fourth-quarter 2010 earnings conference call. Today’s conference call is being recorded. And at this time, I would like to turn the call over to Doug Lebda, Chief Executive Officer. Please go ahead.

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

Thanks, operator, and thank you to everyone for joining us today for Tree.com’s Q4 2010 earnings conference call.

First, a quick disclaimer. During this call, we may discuss Tree’s plans, expectations, outlooks 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.

Some of the risks we face have been set forth in our earnings release and in greater detail in our periodic reports filed with the SEC. We will also discuss certain non-GAAP measures such as EBITDA and adjusted EBITDA. I refer you to today’s press release for all comparable GAAP measures, definitions and full reconciliations of adjusted EBITDA and EBITDA to net income.

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

This quarter, as you know, we posted adjusted EBITDA of $300,000, down approximately $5.2 million in the previous quarter, as expected given normal seasonality, and virtually flat year over year, which we view as a positive sign.

Revenue was in line with the EBITDA trends, down $2 million for the quarter but up 7% year over year. Our guidance for the quarter had been that we expected adjusted EBITDA between breakeven and $2 million in Q4, and we were pleased to land in that range, given the significant change in the mortgage market that had occurred late in the quarter.

We are going to spend a lot of time talking on the call today about this market shift and what we are doing about it. The short story is this – mortgage rates increased from 4.2% in early Q4 to 5% by year-end, and mortgage applications dropped off significantly as a result.

The MBA is forecasting that rates will rise another 50 basis points by the end of 2011. This is the market change we have been talking about for years, and we have planned for it, and now we’re executing that plan.
Let me provide some highlights from the quarter for our individual lines of business. And after Tamara gives you the detailed financial results, I will actually spend a few more minutes talking about our strategy for 2011 in this new market reality.

Our LendingTree Loans unit contributed another strong quarter of bottom-line performance, with adjusted EBITDA of $8.3 million. Revenue was up 7% from Q3 and up significantly from Q4 2009. EBITDA tracked the same trends as the total Company, down $4.2 million from Q3, but up $3.5 million year over year. The results were driven by continued improvements in LTL.

We continued to grow loan officers, up 39% year over year and 28% quarter over quarter. And we shifted more volume to LTL because of its profitability and great customer service. We were very pleased by these results in the face on a shrinking market, and we are gaining market share.

We remain committed to this growth strategy. We are not only hiring more loan officers to expand in new areas, but also in the final stages of integrating our SurePoint acquisition, which will bring another 300 loan officers to the business. Additionally, SurePoint’s expertise in the lower lead quality aggregator channel is an important capability for us to have going forward.

Turning to our Lending Exchange, in the quarter, not surprisingly given the overall market and more leads going to LTL, we saw a 27% reduction in total transmitted mortgage lead volume compared to Q3, which was driven by a 29% reduction in refinance leads.

The positive news in the exchange business, though, is that as the market volume declines, lender demand for our leads increases. The number of lenders we matched each refinance lead with increased 14% in Q4 over Q3, and match fees increased 15% from October to December.

On the marketing front, the declining refinance volume makes lead volume harder to come by, and we have to increase marketing spend to get each new customer. Marketing expense rose as a percentage of revenue from 34% to 37%, and we will consciously allow this to increase even more in 2011.

We executed on several key marketing initiatives in Q4 that helped counter the market trends and set us up for success in 2011. These include new direct-response TV campaign, new marketing technologies to increase the efficiency of our online spending, new partnerships with agencies and affiliates, and significant new hires from the online marketing world that are already having an impact.

Moving on to our real estate segment, on the last call I announced a new real estate strategy, and our team continues to execute this strategy while constantly evaluating our strategic options. Clearly, it is too early for new management to have a significant impact on financial results, particularly in a bad real estate market.

Q4 revenue was down approximately $900,000 from Q3 on 21% fewer real estate transactions. This weakness in transaction volume was compounded by lower home prices in the quarter, which were on average 13% lower than Q3. Our expectations from real estate were modest and continue to be modest going forward for at least the next year.

In our nonmortgage and real estate verticals, we are continuing to gain traction. Although transmitted consumer requests across education, insurance, home services and auto fell in Q4, that is the function of the expected seasonality. Even with the decline in transmitted requests, the combined Tree.com businesses generated over 139,000 loan -- or transmitted consumer requests in the quarter, which represented over 59% of the total transmitted exchange leads.

And now let me turn it over to Tamara to take you through the detailed financials.
Tamara Kotronis - Tree.com, Inc. - SVP of Financial Planning & Analysis and IR

Thanks, Doug, and good morning to all online today. Since Doug already hit the high-level results, I will go ahead and dive into some details not already covered.

On a GAAP basis, we reported a net loss of $12.5 million or $1.12 per share, driven primarily by a noncash write-down of RealEstate.com intangible assets.

This compares to the third quarter, where we reported net income of $1.8 million or $0.16 per share. This also compares to the fourth quarter 2009, where we posted a net loss of $21 million or $1.90 per share.

Now getting into the Q4 results in our business segments, at LendingTree Loans, total consumers transmitted from LendingTree to LTL decreased 4% from prior quarter. However, LTL still grew its total lead volume in the quarter by 8% through diversification of its lead sources. Additionally, closed loan transactions increase 11%, and revenue from origination and sale of loans was up 7% over the prior quarter.

At the same time, we realized a 3% decrease in revenue per loan from Q3, primarily due to rising interest rates. Additionally, the provision for loan losses increased $3.7 million in Q3 to $4.3 million in Q4. This is the third consecutive quarter we have experienced an increase in the provision.

The primary driver of the lower adjusted EBITDA quarter over quarter was $3.1 million or 70% increase in marketing expense at LTL. Although the Q4 expense was higher, I must point out that Q3 was particularly low as a result of record low interest rates, which naturally drove consumers into the marketplace.

By contrast, in Q4, we increased our marketing spend to counter the effects of rising interest rates, as well as normal seasonality. Also contributing to the increase in marketing expense in the segment is the fact that LTL received a higher percentage of the total leads generated by the LendingTree brand and therefore a higher percentage of the total marketing dollars.

As a percentage of LTL revenue, marketing increased from 13% in Q3 2010 to 20% in Q4. This increase in marketing as a percent of revenue is expected to continue at LTL as rates continue to climb.

Now moving on to the Exchanges, revenue in the Exchanges segment was down $3.4 million or 22% from the prior quarter. This was driven primarily by fewer matched consumer requests, which were down 25% quarter over quarter. This decrease was the result of higher interest rates, expected seasonality and more volume sent to LendingTree Loans.

The average match fees paid by mortgage lenders in Q4 were relatively flat compared to Q3. However, they were 25% higher in the quarter compared to Q3 ’09. This reflects both a planned price increase as closed loan fees were being eliminated, and the effectiveness of our flexible market-based pricing on the Lending Exchange. Consequently, the average revenue generated per completed loan request was also flat versus the third quarter 2010, but 24% higher than the fourth quarter of 2009.

Adjusted EBITDA for the Exchanges was a loss of $3.1 million in Q4, down about $1.9 million from Q3, and $6.1 million from Q4 2009, driven by lower revenue for all the reasons I have already discussed.

Now moving on to the real estate segment, as you can already see in the press release, it was a tough quarter for real estate. Contributing to the lower revenue and lower bottom line was an 11% drop in the average revenue per real estate closing, which is a direct function of lower average home prices.

Finally, Q4 agent count in our Company-owned brokerage unit was 19% lower than the prior quarter and 44% lower than Q4 2009.
Lastly, our corporate segment -- operating expenses in the corporate segment decreased $1.2 million or 23% from Q3 2010 and decreased $2.3 million or 37% from Q4 2009. The quarter-over-quarter and year-over-year improvement was largely due to lower compensation expenses and lower professional fees.

Now briefly turning to the balance sheet, during the fourth quarter, under the previously announced $10 million share repurchase program, which began in February 2010, the Company repurchased 140,897 shares at an average price of $7.21 in open market transactions.

Through December 31, 2010, the Company has repurchased a total of 810,922 shares at an average price of $7.03 and has approximately $4.3 million of share repurchase authorization remaining.

In addition, during the fourth quarter, Tree temporarily suspended its share repurchase program in lieu of the previously announced Dutch auction tender offer. The completion of the tender offer was announced on December 23, 2010.

During the offer period, which expired on December 17, Tree.com accepted for purchase 312,339 shares of its common stock at a price of $7.75 per share for an aggregate purchase price of approximately $2.4 million, excluding fees and expenses related to the tender offer.

We ended the quarter with approximately $79.5 million in cash, including $10.7 million of restricted cash. This is up approximately $11 million from the end of Q3. The change from the last quarter principally reflects the timing of loan portfolio fundings and sales, partially offset by the outflows related to the tender offer and share repurchases.

We ended the quarter with 10.8 million common shares outstanding, with another 1 million options and 635,000 RSUs outstanding.

And with that, I would like to turn it back over to Doug for some additional comments.

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

Thanks, Tamara. Now let me give you all a few thoughts on our go-forward strategy for 2011.

First, let’s look at the mortgage market. The MBAA is forecasting the total mortgage originations in 2011 will be $966 billion, down 36% from 2010 and 52% from 2009.

To illustrate the steepness of this shrinking market, total originations in Q1 are expected to be down 32% from Q4 and another 26% lower by the end of the year. This market contraction impacts all of our mortgage-related businesses, some positively and some negatively.

In marketing, our cost to get each new customer goes up with each market contraction. We could react to this with aggressive marketing cuts, like we did in 2007, but while that would increase profits in the short term, we would lose share and our market position.

So we are being cautiously aggressive in 2011 with our marketing and taking the following actions. First, we have invested in new technology, including new analytics tools, a new search platform and a new ad server. All of these are in place and will have an effect in Q1.

Second, we are in the process of implementing a new CRM platform, which is enabling us to retarget our existing customers much more effectively.
Third, we are judiciously increasing spend in search, offline and through performance networks, using direct-response techniques and better creative.

Fourth, we are significantly ramping up a business development and an affiliate strategy.

The sum of all of this work should be increased market share of leads, but we are very cognizant of the fact that marketing costs are going up, so we’ve got to grow despite significant headwinds.

At LendingTree Loans, a declining market means the conversion rates go down and margins shrink. To continue to grow, here is what we are doing at LTL.

We have aggressively diversified our lead sources, now taking not only LendingTree longform leads, but ramping up short-form, 800-number leads, direct business development relationships and lead aggregator volume.

We are ramping up new loan officer teams to specialize on aggregators that purchase mortgage volume. And the SurePoint acquisition should also help in this regard.

Lastly, our technology investments over the last couple of years are paying off with increased efficiency, helping us to counter a declining refinance market.

The net of where we are with LTL is that we recognize that mortgage is increasingly a scale play, and we need to be big or go home. We intend to be big. We’ve got the best brand in the mortgage industry, arguably the best management team, fantastic processes, and great people up and down the organization. This business can scale much larger than it is today.

In the Exchange, the market headwinds are actually positive in some respects. Given our technology investments over the last couple of years, we are now on a real-time bidding platform for leads. Lenders, facing declining volume, are bidding up lead pricing to record levels across all of our mortgage products. This, in turn, increases margin on each lead, enabling us to spend more marketing dollars to grow share, in turn kicking off a marketing flywheel of higher lead costs, more spend and greater lead flow.

In our nonmortgage verticals, our focus there is on profitable revenue growth and product buildout. We’ve now got great GMs staffed in education, home services, insurance, RealEstate.com and Tree.com. Each is executing against a plan of aggressively growing and taking share. It is working. Except for real estate, which we have discussed, we are currently seeing great revenue growth and positive margins on our marketing spend.

As we continue to now scale customer acquisition and advertiser sales, we fully expect that our nonmortgage business will be a meaningful contributor to our Company by the second half of this year.

On the cost side, like we always do, expect to see us to continue to ratchet down our cost structure, particularly in corporate. We are fully committed to operating this business at a cost structure that is in line with our revenues.

So to sum this all up, it is safe to say that our operating posture right now is to get through the market transition and then to focus on long-term growth. We are going to be much more like a venture-backed startup than a mature company throwing earnings to the bottom line. We are going to grow share and continue to invest in our products and growth instead of focusing on short-term earning optimization.

I am very bullish on the strategy. Everything I am seeing in the business today shows me that LendingTree is uniquely positioned to win in a changing mortgage market. That will not create great financial results in the short term. As we have always said, when this transition happens, and it is happening now, we will have to lose money for a quarter during the transition, and that will be the case in Q1.
For the rest of 2011, we will have better financial results than Q1, but believe that this market is a once-in-a-decade opportunity to significantly grow share, and thus are going to focus on growth and not drop a lot to the bottom line.

Simply put, we've got the best brand in the mortgage industry, which gives us higher lender monetization and better marketing conversion than our competitors, which sets us up for success and share growth.

Our new verticals are gaining traction and leveraging everything we built at LendingTree in the past 15 years as a competitive advantage over the relatively unknown competitors in these verticals. And we are very well capitalized, giving us more than enough runway to invest and grow when others are retrenching and ducking for cover.

Even as we cope with a very volatile and changing mortgage market, I've never been more bullish about our long-term prospects. And with that, I would like to open the line to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Mark Mahaney, Citi.

Neil Doshi - Citi - Analyst

This is Neil speaking for Mark. A couple of questions. On the development of the ad platforms and search strategy, are you guys going to be doing that in-house, or are you guys going to be partnering with someone? And if you are going to be building out the ad platforms and search strategy in-house, will that be more than a Q1 hit to costs? And I have a couple more questions.

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

Sure. No, the ad platforms, ad server, and search analytics and platforms are all outsourced. We went through an exhaustive process last year and landed on a new search platform and a new ad server, and both of which are being implemented as we speak.

Neil Doshi - Citi - Analyst

Okay. On the Exchange side, it seems like you guys have made decent traction on the nonmortgage verticals. How can we continue to track your success there? I know it has been kind of roughly over 50% of your leads have been coming from nonmortgage. At what point do you think that hits a tipping point in which you're not as reliant on the mortgage side and the leads from the other verticals really start to kick in for revenue growth and profitability?

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

I don't expect any -- I don't expect it to be materially adding to our revenue until the back half of the year. Unfortunately, you can't really track that until we actually break it out. And until it's -- and for competitive reasons, we would rather not break it out. But once it becomes material, Chris Hayek will tell me that we're required to. And then we will break it out, and you'll get to see it every quarter.
Neil Doshi - Citi - Analyst
Okay. And then lastly, you have seen some pretty decent gross margin expansion on a year-over-year basis. What has been driving that, and do you think that can be sustained on a go-forward basis?

Doug Lebda - Tree.com, Inc. - Chairman, CEO and Director
Let me answer that in kind of a high level and then let Tamara take it. My -- I think it is sustainable. I think (technical difficulty). Somebody put us on mute there. I think somebody -- you might want to put us on mute there, Neil.

But in any event, I think the gross margins are sustainable, but a lot of that is also due to shifting volume from the Exchange to LTL. So I don’t expect much, necessarily, improvement, but we are certainly pleased with where they are.

Tamara Kotronis - Tree.com, Inc. - SVP of Financial Planning & Analysis and IR
Yes. I think where we could see some margin compression is at LTL. And in a rising interest rate environment, we will start to see compression of margins at LTL. So does that answer your question, Neil?

Neil Doshi - Citi - Analyst
Yes, that’s great. Thanks, Doug. Thanks, Tamara.

Operator
(Operator Instructions). Steve Rubis, Stifel Nicolaus.

Steve Rubis - Stifel Nicolaus - Analyst
Thanks for taking my question. Quickly, what portion of Exchange’s revenue did new verticals represent?

Doug Lebda - Tree.com, Inc. - Chairman, CEO and Director
I don’t believe we break that -- we don’t break that out. We talk about it as a percentage of leads, which was in the -- I believe it was 59%.

Steve Rubis - Stifel Nicolaus - Analyst
Okay. And then were any verticals stronger than others?

Doug Lebda - Tree.com, Inc. - Chairman, CEO and Director
Yes, I think we’re getting -- we are now getting significant traction, particularly on the EDU side, which is just correlated to the fact that we have been in it for a longer time, and the team there is executing very well, not only in search, but also in social media advertising.

We have a very -- we have a great -- we made an acquisition there and then made another small acquisition and brought in a team of several people and have kind of a unique niche in that we go very deep into the degree programs that people are
looking for. Schools are very pleased with our lead quality, and so they keep giving us increased cap month over month. And that is starting to get some real traction.

**Steve Rubis** - Stifel Nicolaus - Analyst

And a quick follow-up to that. Are you at all concerned about any of the issues that continue to go on between the government and some of the online education guys? Do you see this affecting your business in 2011, or do you think that this segment will continue to be strong?

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

I think the big effect from that -- the good news/bad news is we are still so small in the industry that we haven’t seen a huge -- that it’s not going to impact us overall. The big impact was last year. What we saw was that schools came into the search market very aggressively to get their own customers because they were being needled for outsourcing that to people like us.

So the schools cut down the number of aggregators that they work with and focused on higher-quality aggregators. The good news for us is we were one of them. So while we saw our search margins really contract for a while, we got that back on track in Q4. And I think it is pretty much smooth sailing going forward, as long as you’re really sending high-quality students to the schools that are actually going to enroll and that are actually going to pay their bills.

And so we don’t -- we are not just in this game for money. We want to build a real customer experience and a real advertiser experience and build -- and let them build real businesses. And so since we weren’t doing a lot of the junky stuff that other people were doing, it’s had much less of an impact, and the schools really like our volume.

**Steve Rubis** - Stifel Nicolaus - Analyst

Thank you for that information. And then lastly, my last question revolves around the interplay between marketing spend and a rising interest rate environment. Can you provide any color on how much marketing increases for every basis point of interest rates’ increases?

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

I can’t because it doesn’t correlate that closely. Basically, what I would look at over time is the percentage of our revenue that we have to spend on marketing. And so what you get is you get increases in -- there’s really three variables here. You get decreases in revenue at LTL as rates go up, because margins compress and volume is harder to come by. At the same time, you get increased revenue on the exchange side for every lead, but the leads are harder to come by, so you get increased costs to get every lead.

So the percentage of the net-net-net of that is, to get $1 of revenue, it’s going to cost us more marketing dollars to get that $1 of revenue because, obviously, the revenues are going down, but also, the costs of advertising are going up. And lenders, in a market like this, everybody ups their bids in Google and everybody scrambles around and tries to get the volume. So the price of that media goes up.

Now, we counter that a little bit -- this is where I am thrilled that we are better positioned than everybody else, but in many ways, that is great if you want to gain share. It’s harder if you’re trying to drop money to the bottom line. Because we’ve got a better brand, we get better click-throughs on our marketing, and we can, therefore, beat out the competition on the marketing side.
Because we have a better brand, we can also hold margins better at LTL that some of the other lenders can. And because we have a reputation for very high-quality leads in this automated bidding platform, lenders bid up the price of our leads, and we have huge demand for leads right now that is going unfulfilled.

So we are better positioned than everybody else. But that doesn’t help if you’re indexed to the mortgage market and the market is going down by 40%.

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**Operator**

(Operator Instructions).

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

All right, hearing none, I would thank you all for joining us today, and we really appreciate the time, attention and focus. We are going to keep navigating through this market and look forward to reporting results to you again in three months from now.

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**Operator**

Ladies and gentlemen, this now concludes our conference call for today. Thank you for your participation. Have a great day.