PARTICIPANTS

Corporate Participants

Alexander Mandel – Chief Financial Officer, Tree.com, Inc.
Douglas Robert Lebda – Chairman, Chief Executive Officer & Founder, Tree.com, Inc.

Other Participants

John Campbell – Analyst, Stephens, Inc.
Shawn Rassouli – Analyst, Needham & Co. LLC
Nick Zamparelli – Equity Analyst, Zeke, LP
Vahid Khorsand – Analyst, BWS Financial, Inc.
Jim J. Fowler – Managing Director, Harvest Capital Strategies LLC
Josh R. Goldberg – Founder & Chief Investment Officer, G2 Investment Partners Management LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the Tree.com Fourth Quarter 2013 Earnings Conference Call. At this time, all participants are in a listen only mode. Later, we will conduct a question-and-answer session and instructions will be given at that time. [Operator Instructions] As a reminder, today's conference is being recorded.

Joining us today are Alex Mandel, Chief Financial Officer; and Doug Lebda, Chairman and CEO.

I would now like to turn the conference over to Alex Mandel.

Alexander Mandel, Chief Financial Officer

Thanks, operator, and thanks to everyone for joining us today for Tree.com's fourth quarter and full year 2013 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 are typically preceded by words such as we expect, we believe, we anticipate, we are looking to, or other similar statements.

These forward-looking statements are subject to risks and uncertainties, and Tree.com's actual results could differ materially from the views expressed today. Many, but not all of the risks we face, are described in Tree.com's periodic reports filed with the SEC.

On this call, we'll discuss a number of non-GAAP measures, and I refer you to today's press release available on our website at investors-relations.tree.com for the comparable GAAP measures, definitions and full reconciliations of non-GAAP measures to GAAP.

To put my remarks in context, today, in the fourth quarter, total mortgage originations industry-wide declined by 47% year-over-year, and refinance share total origination volume declined to 51% in the quarter putting it roughly on par with purchase share as compared with 74% refinance share in the fourth quarter of 2012 .

In contrast to this 47% decline in total industry originations, our mortgage products revenue in the quarter grew significantly by 49% to $31.2 million. This also marked our fifth consecutive quarter of company outperformance relative to the market.

In the fourth quarter, we generally saw a strong monetization trends, both in terms of the efficiency with which our leads matched with lenders as well as pricing.

Our non-mortgage products revenue also grew year-over-year by 112%, to a record $5.2 million in the quarter, benefiting particularly from the contribution of our reverse mortgage, home equity, rate payable and personal loan offerings as well as our Auto business.

All in, consolidated revenue of $36.4 million in Q4 was up 52% over Q4 2012 and exceeded our prior guidance. This top line outperformance relates primarily to the month of December where our business did not decline to the degree anticipated, thanks to continued interest in our offerings on the part of both consumers and lenders.

From a profitability perspective, the company delivered $16.3 million of Variable Marketing Margin, representing a fifth consecutive quarter of new record levels. As a percentage of revenue, VMM improved notably to 45% from 40% in the preceding third quarter.

VMM dollars and margin benefited from several factors including both strategically throttling back our television ad spend in the quarter, as well as the completion of the expensing of the production cost for the new brand campaign, early in the quarter.

We know however that we recently completed shooting a new set of TV spots which are anticipated to air before the end of Q1. The airing of these new spots would likely trigger recognition of significant production expenditures in the quarter as well as involve additional media spend, and these considerations are reflected accordingly in our guidance for Q1 VMM, which calls for a sequential decline.

In addition to these media spend factors, there was an approximate $600,000 benefit to VMM in the quarter, attributable to the reversal of certain expense accruals at year-end, a significant portion of which derive from third-party lenders reporting to us.

Adjusted EBITDA of $5.9 million in the quarter also reflected a new record for the company, and was up 115% year-over-year.

Touching briefly on our discontinued operations, which primarily represent our former mortgage origination business, the loss of approximately $800,000 is largely comprised of legal fees related to the continued wind down efforts at HLC.

From a full year perspective, our business scaled significantly in 2013 with full year GAAP revenue of $139 million, reflecting 48% growth over full-year 2012 Adjusted Exchanges Revenue. And it's worth noting, this growth was entirely organic or internally generated.

At an adjusted EBITDA level, the company achieved $18.7 million in 2013, reflecting a margin of 13.4% and growth of 32% over 2012's adjusted exchanges EBITDA of $14.2 million. We believe the increased scale of our business is helping to raise its profile and visibility in the marketplace.

From a balance sheet perspective, our unrestricted cash grew to $91.7 million at year-end, and our working capital position grew to $72.7 million, which we calculate as current assets, including unrestricted and restricted cash, minus current liabilities including loan-loss reserves.

In conclusion, we believe our fourth quarter demonstrated strong performance as we exceeded prior guidance on all financial metrics, achieved record Variable Marketing Margin and adjusted EBITDA results and gained market share.

That said, recognizing some of the contributing factors I noted, along with our outlook for Q1's anticipated brand advertising efforts, our profitability guidance for Q1 reflects the sequential reduction, although we anticipate the investment to support continued top line growth.

I will now turn to Doug for his perspective.

Douglas Robert Lebda, Chairman, Chief Executive Officer & Founder

Thanks Alex, and thanks to everyone for joining the call. Having capped off 2013 with yet another fantastic quarter, I'd like to touch on a couple of the Q4 highlights, reflect on our accomplishments throughout the year, and finally touch briefly on our Q1 expectations.

First, looking at Q4, we worked through seasonal challenges and a continuing declining mortgage market to produce our highest levels of VMM and adjusted EBITDA on record. That record profitability is a testament to a number of factors.

First, in our mortgage business, we were able to selectively dial back our marketing spend in certain channels with minimal impact on revenue. Additionally, our mortgage revenue benefited from improved monetization as demand for our leads continued to increase and lenders consequently bid up pricing. To put that into perspective, mortgage originations industry-wide declined 26% quarter-over-quarter, while revenue from our mortgage products declined a mere 4% and our variable marketing expense was down 10%.

Second, and most importantly, we saw real gains in our non-mortgage products. Revenue from these products was $5.2 million, up 10% from Q3, and a remarkable 112% from the same period last year. Auto finance in particular, continues to scale profitably, and revenues from our new and recently re-launched personal finance offerings all saw impressive growth in the quarter.

And finally, as Alex discussed, we benefited from the one-time true-up of accruals, which was largely driven by reporting of expenses to us by certain marketing partners. I'd caution you all to keep that one-time benefit in mind as we discuss our expectations for the first quarter in a moment.

With that color on Q4, I'd like to reflect a bit on what we've accomplished in 2013. To help frame our performance, I'll give a few notes on what transpired in the mortgage environment this year. First, the inevitable increase in interest rates we all knew was coming began in earnest in May of this year – or last year. As a result, total originations dropped from $1.1 trillion in the first half to $700 billion in the second half according to MBA, a decline of roughly 30%. The decline in refinancings was almost 50%.

As we've discussed on the last few calls, we took several steps in 2012 and early 2013 to combat these trends and I cannot be happier with the foresight and execution of our team to drive truly outstanding results in the face of these market pressures. First and foremost, the purchase mortgage strategy we laid out at the beginning of the year has absolutely paid off. The number of lenders on our network taking purchase leads has more than doubled since the end of last year and our revenue from purchased mortgages in Q4 was up nearly 200% from the fourth quarter of 2012.

In addition to our purchase mortgage strategy, we launched a number of new and improved offerings in related personal finance verticals. In Q1, we launched a reverse mortgage product which has contributed meaningful revenue since inception. We launched LoanExplorer, our rate-table marketplace which continues to scale as we add third-party publishers. And in early Q3, we announced our revamped personal loans experience which has enabled us to partner with some of the industry leaders in that emerging space.

In other businesses, auto revenue grew by more than 75% and more than doubled its adjusted EBITDA contribution. And under new management, our HomePros and education businesses each improved at an EBITDA level. Also extremely importantly was the launch of our national brand campaign in Q2 of last year.

The LendingTree brand is without a doubt one of our biggest competitive advantages, and this year, we took it upon ourselves to reinvest in the strength of our brand and in doing so, establish the brand platform that we can leverage in the years to come. The campaign has yielded excellent results to-date and you can expect to see another round of fresh creative coming out soon.

In closing out 2013, all of this hard work resulted in annual revenue of $139 million. That represents growth of almost 50% over last year's Adjusted Exchange figures in a mortgage market where total originations were down 13% for the year. We converted that revenue into $18.7 million of adjusted EBITDA, up 32% over 2012 and we accomplished that remarkable growth while still managing to invest heavily in our product and our brand.

With that I'd like to briefly discuss our expectations for Q1, but first let me caveat our Q1 guidance by pointing out that we are reaccelerating our brand investment and in somewhat at Q2 of last year will be expensing a good portion of the production costs associated with new commercials within the quarter.

Additionally unlike our digital channels, the off-line effort generally take some runway to begin materializing. So the upfront production expense along with the ramp in off-line media placement in mid to late March will likely weigh on our financial performance in Q1, but should set us up for continued growth in future periods.

That said, for revenue, we anticipate growth of 30% to 40% over first quarter 2013 continuing the trend of growth in the face of market contraction. Variable Marketing Margin is anticipated to be $14 million to $15 million in Q1 and adjusted EBITDA is projected at $4 million to $4.5 million.

For the full year 2014, we are maintaining our previously provided guidance. Revenue growth is anticipated to be 10% to 15% over full-year 2013. VMM we believe to be $62 million to $66 million, and adjusted EBITDA is expected to fall in the range of $20 million to $21 million.

With that let's begin questions and answers.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] The first question comes from John Campbell from Stephens Inc.

<Q – John Campbell – Stephens, Inc.>: Hey, guys. Congrats on a great quarter and a great year.

<A – Doug Lebda – Tree.com, Inc.>: Thank you.

<Q – John Campbell – Stephens, Inc.>: Could you guys, just maybe help us guide a little bit with just kind of growth trajectory of that non-mortgage rev? Is that more of a kind of slow grind upwards in 2014, or is that more – or approximately – a little sharper growth given the new products are still relatively new.

<A – Doug Lebda – Tree.com, Inc.>: I don't think we have given guidance specifically in mortgage and non-mortgage, but I think it's – we would expect that those businesses would grow faster than mortgage as I think the trends have been over the last couple of quarters, and I think that that should continue. The number of those new products are starting to hit good scale and we are seeing some really positive results there. So I think growth rate there should continue to be faster than normal.

<Q – John Campbell – Stephens, Inc.>: Okay. Great. Thanks for that. And then just second question here. Just trying to – maybe size up that purchased related rev. So I mean do you guys breakout the mortgage rev by purchase versus refi?

<A – Doug Lebda – Tree.com, Inc.>: We don't and there is a good reason for that. I can say that purchase is continuing to grow. It's continuing to grow both in volume and monetization. And refinance is definitely contracting as the trends have been. So as lenders demand more purchase leads as the refinance volume goes down, they bid up the price of purchase and we step on the marketing gas to produce it.

I think the better way to look at the business of the overall VMM, but I can't say that anecdotally. I feel that the risk of sort of being refinance-centric has passed us. And this is now a business where it's much more balanced between purchase refinance and then non-mortgage revenue.

<Q – John Campbell – Stephens, Inc.>: O0kay. Great. And maybe if I can just squeeze in one more here. I know you guys are or we're – we are still very much in the early innings of the Tree story, but just given you guys are – how quickly you are scaling the business and some of that OpEx should you see some efficiencies over time. Could you guys just give us just a general idea of where you think maybe adjusted EBITDA margins could go over time?

<A – Doug Lebda – Tree.com, Inc.>: I'm looking at Alex and thinking about deferring that. I don't know that we've ever given specific guidance about that in the past. But I can say and Alex should speak for himself too, that 20% or more north of that is not crazy. And I believe it should be in line with other Internet companies. Anybody in the media and tech space over time should see – we should see margins that are comparable with the leaders in our category, maybe adjusting for the fact that we do have a good bit of paid marketing expense or traffic acquisition cost as it will be called in most Internet companies. But we should be on par with them and I would think over time north of 20% operating margin.

<Q – John Campbell – Stephens, Inc.>: Okay. Great. Thanks for taking our questions, guys.

Operator: The next question comes from Shawn Rassouli from Needham & Company.

<Q – Shawn Rassouli – Needham & Co. LLC>: Hi. Good evening, guys. It looks like another solid quarter, congratulations.

<A – Doug Lebda – Tree.com, Inc.>: Thank you.

<Q – Shawn Rassouli – Needham & Co. LLC>: I had a few questions. So just thinking about your revenue guidance for 2014, on the mortgage side, kind of appreciating how non-mortgage is expected to grow faster. We're kind of focusing on the mortgage side, can you give us a sense for the assumptions you are making around volumes and pricing?

Your expectations for volume growth or lack there-of reflect industry-wide projections by Fannie and Freddie and others, or are you forecasting better volume trends given the success you've had adding new lenders? I would assume it's the latter, but we'd love to get more color on how you're thinking about volume growth in 2014?

<A – Doug Lebda – Tree.com, Inc.>: So I think I hit on this in the last call, I think it's important to note and I've talked it, I think I've said at investor conferences. If you look – I think the best way to look at 2014 is off of the second half of 2013, which is, I think Alex said it was $700 billion originations in the second half. And I don't have on my fingertips the MBA forecast for the full year, but I believe it's roughly consistent with that second half number annualized.

I think the full year, it was – is $1.2 trillion forecast for 2014 and Q4 was $312 billion, so roughly the Q4 run rate is what the industry is currently saying of next year is going is to be. So if you look at year-over-year numbers, you're certainly going to see mortgage originations going down from 2013 to 2014, however, if you look at the back half of 2013 as a run rate, you're going to see the full year and 2014 not declining very much.

And if you take Q4 as a guide and you believe the MBA, we're essentially of where we're going to be. So I'm feeling confident about 2014 in origination volumes. In terms of purchase and refinance, obviously purchase come with a lower expected value because of the lower natural conversion rates on the Internet. And that's okay, we know that, and we know lenders aren't going to bid up pricing to an unprofitable level.

And because we have that closed loop of reporting, we are confident right now that our lenders are pricing our leads appropriately in the market, and we're seeing some really great signs there. We're also working on a number of product improvements this year, which I'll be able to talk about in the next call, such that as we release them, that we'll take that even further and help improve conversion rate as well as help to drive volume which we've talked about before that's not dependent on paid marketing.

<Q – Shawn Rassouli – Needham & Co. LLC>: I appreciate the color there. And I totally understand sort of the dynamics around industry wide volumes. So I am assuming that the volumes you're seeing, the volume trends you're seeing internally within the company are kind of moving in lock step with sort of industry wide trends?

<A – Doug Lebda – Tree.com, Inc.>: So on the volumes – I mean I think we're – I think we're seeing a bifurcation of it certainly on the revenue side, we're definitely seeing higher revenue as the industry declines we're seeing on a revenue basis, but we're also seeing that on a volume basis too. And that's not necessarily indicative because all volume has not created equal. I could produce a lot of quality that's "lower quality" but that's not our game, but we're definitely seeing lending through gaining share on a volume basis. We're seeing the most significant gain on a revenue basis.

<Q – Shawn Rassouli – Needham & Co. LLC>: Okay, that's very helpful. And then in regards to the new regulations that went into effect earlier this year, namely QM and APR, are you seeing any impacting your business, any sort of high level thoughts on the regulatory environment and how that's affecting your business?

<A – Doug Lebda – Tree.com, Inc.>: I think so far it's actually been – it was a big risk and I think though, it's a non-event. QM was already baked into lender guidelines well into last year and so that coming out hasn't really had an impact. And I think the regulations overall were more industry sensible than they really could have been. So I feel fine about the regulation front.

And if anything, I'm starting to hear in the industry some signs of things that could give another boost. So for example, lenders are starting to at least talk about doing some non-QM loans and you're starting to hear a little bit more about private securitization. And in some of the bank meetings I'm having and our sales team are having, we're starting to hear about home equity loans coming back which used to be a real big profit driver for the company, but pretty much died in 2008. So I'm feeling good on the regulatory front and I am feeling that it might actually be a little positive for us.

<Q – Shawn Rassouli – Needham & Co. LLC>: Okay, great. And one last question from me, on going back to VMM, obviously it was better than what we were expecting and what you were expecting, I guess, in your guidance. And kind of excluding the impact of the $600,000 benefits you got as well as sort of throttling back television ad spend, in the traditional sort of channel, namely Display/Search, can you call out – can you talk about the trends you're seeing? Are you seeing more efficiency there or how would you describe the pricing environment in search and display?

<A – Doug Lebda – Tree.com, Inc.>: I wouldn't call out specific things because I think you've always got in any given month or quarter, even week or quite frankly, day, some channels outperform others. Sometimes it's because you catch tailwinds, sometimes it's because you got to keep getting better at it. And, but I would say directionally all of the channels are showing improvement and I'm not feeling pressure in any one channel or seeing that we're topping out.

Now, again, a lot of that is because we're getting better at it. I think we will see in search, lenders start to do more of that directly. And we're seeing some signs of that, but we're also seeing that even though they're doing it, we can still bid very effectively, given a very high Google quality score and given on our ongoing performance there.

The other thing I would say is in 2014, we're starting to push in social advertising for the mortgage and financial products, whereas before it was only really in our education verticals. So, that's a whole new channel for us. But it's early, but we think we will be a winner on social ads just like we are on other ad formats. And so that opens up a whole new avenue for us to get more growth.

<Q – Shawn Rassouli – Needham & Co. LLC>: Thank you so much. Congrats on a great quarter and good luck.

<A – Doug Lebda – Tree.com, Inc.>: Thank you.

Operator: The next question comes from Nick Zamparelli from Zeke, LP.

<Q – Nick Zamparelli – Zeke, LP>: Hey, guys. Thanks for taking the questions, a few here. First, do you break out – I guess not so far – but could you breakout the EBITDA contribution from the non-mortgage lines of business?

<A – Doug Lebda – Tree.com, Inc.>: We don't and – but we do, sort of, in the Q – I'm sorry in the 10-K and the Q. It's a little different take on it – so I caution you about that – because it groups some of the other and this gets a little wonky, but the way the SEC requires us to report in the Q is how it with segments, how we're organized internally. And so, because all of our financial products including reverse mortgage, and credit cards and the other products we've launched that aren't a mortgage, because they report up to our GM of mortgage, they're lumped in with mortgage. And then the non-mortgage in the Q is only home services and education.

And auto – so you got to think through that a little bit and I expect our Q's will start to change, because the reality is from the investors' standpoint, they care about mortgage concentration and then there is non-mortgage concentration. Investors don't really care if credit card reports to Gabe Dalporto or not, and unfortunately the accountants make us show it that way. But long story short, we do track that in the Q.

<Q – Nick Zamparelli – Zeke, LP>: Okay. And then, the upfront ad production expense related to the new TV campaign in the coming – or in Q1 – can you size that for us or how much should we kind of have budgeted for that?

<A – Doug Lebda – Tree.com, Inc.>: So, it's reflected in the guidance, let's call it $0.5 million-ish and of what will probably be expense, maybe up to $700,000. And part of the reason I can't give you a perfect answer on that is, because we go produce let's say five spots and you expense the production and when you run the spot the first time, I'm not quite sure we had some spot first more produced than others I'm not quite sure which will be run, but we'll – so we're not exactly sure, but call it $500,000 to $700,000.

<Q – Nick Zamparelli – Zeke, LP>: Okay. And then in terms of return hurdles for your TV campaign, how do you guys think about that internally? What would mark successful TV campaign from an unsuccessful TV campaign?

<A – Doug Lebda – Tree.com, Inc.>: So, we do track and have ways of doing was known as attribution modeling and we track the VMM of not only every channel and offline is a channel, but also each ad and really each placement online and offline and we do that with some pretty sophisticated tracking technologies and we want to see positive VMM from offline.

Now you do start off every year, for a few months you'll be slightly negative VMM as the campaign builds and as what's known as the reach and frequency of an ad gets out there. So it will start-off a little negative, but then it gets very positive and we expected those are on a dollar basis, we look for every dollar VMM.

On a percentage basis, offline will have a lower percentage VMM, but than an online ad, but there is – you can run a lot more of them, so you can go get a lot of dollars, a lot more VMM dollars, and really what we do is focus on the return on overall spend, but we do track VMM at a channel level and at an ad level. And we expect that to be – expect offline to be positive and we expect it produce a lot of variable margin dollars and we expect that halo effect will also improve results of the other – on additional channels as well.

<Q – Nick Zamparelli – Zeke, LP>: Great. Thanks, guys.

Operator: The next question comes from Vahid Khorsand from BWS Financial.

<Q – Vahid Khorsand – BWS Financial, Inc.>: Hi guys, just a clarification. Did you say you expect EBITDA growth of 20%?

<A – Doug Lebda – Tree.com, Inc.>: I think we said $20 million to $21 million of EBITDA for 2014. That was our guidance which right now we're sticking with.

<Q – Vahid Khorsand – BWS Financial, Inc.>: Okay. Do you think that's going to ramp anytime soon, beyond 2014?

<A – Doug Lebda – Tree.com, Inc.>: I think – listen, here's what – I'll repeat what we did in 2013 and what we did the years before. It's always nice to beat your guidance. At the same time, this is a business now that we've got it right; it's very, very predictable. So what we always like to do is deliver very solid growth, now quite frankly as Q4 came in so strong, the growth to Q1 or 2014 probably looks lower than it did when we issued our guidance, we get that, and it's still early in the year. And hopefully that will continue to improve as it's done in prior years.

But at the same time, because the business is so predictable, I like to give investors what they need in order to say, wow, they're performing very well, they are consistent, they can deliver, I can rely on them. And then we reinvest above that back in the business. And we do that in product, we do it in marketing, we do it in technology and we do it in other ways. And so right now, I do the same thing. So I think you should see us this year, in 2014, have revenue growth, that's more robust than EBITDA growth, but that's because we're still taking a balanced investment approach.

You're never going to hear us like a lot of companies out there saying we're in major investment mode, we're not going to produce bottom line results, but trust me, we'll get the top line. We want to put on solid top – very solid top line growth and very solid EBITDA growth, but be very EBITDA positive and be very credible with you all and so you can actually see the results. And we still like to invest above and beyond that.

<Q – Vahid Khorsand – BWS Financial, Inc.>: Okay. And you briefly touched on the changes in the mortgage rules; do you expect that's going to have any positive or negative effects going forward?

<A – Doug Lebda – Tree.com, Inc.>: I don't think it will have a negative effect, because I said, the rules have been baked in, and – into all the lenders' guidelines. So there is not going to be any further tightening of what lenders want based on regulation. And I think what I would say that specifically attributed to regulation but now that a qualified mortgage is defined, now that the rules that they are playing with, you've got some lenders that are talking as I said about doing private securitization.

So for example, QM put a real freeze over the private securitization market until it was actually known if there was going to be a Safe Harbor in those rules. Now the people know there is, people are going, okay, and now I can maybe do a private securitization, doesn't meet Fannie and Freddie guidelines, but it will be a qualified mortgage. Now I understand the rules for non-qualified mortgage, maybe I'll do some non-QM originations and keep those on my portfolio. It's not as big of a deal, maybe I can do some Alt-A tuff, maybe I could even do, God forbid, some sub-prime stuff, we've seen great growth for example in the sub-prime auto space, it's been fantastic.

On the personal loans is the other one we're seeing where now as people – the sub-prime is not so horrible in personal loans. As you're seeing all this institutional money comes through peer-peer platforms that are our biggest customers in personal loans.

Companies like Prosper and Lending Club and many more that are now coming into that market. So, I think that now that regulations are settled, people are willing to take more – lenders are going to take more appropriate risks inside of those guidelines and outside the guidelines.

<Q – Vahid Khorsand – BWS Financial, Inc.>: Okay. Thank you.

Operator: [Operator Instructions] The next question comes from Jim Fowler from Harvest Capital. Jim Fowler, your line is open. Please check your mute button.

<Q – Jim Fowler – Harvest Capital Strategies LLC>: I'm sorry I was on mute. Hey, Dough, how are you?

<A – Doug Lebda – Tree.com, Inc.>: Very good. How are you?

<Q – Jim Fowler – Harvest Capital Strategies LLC>: Good. Thank you. I'm on a cell phone, so hope you can hear me okay.

<A – Doug Lebda – Tree.com, Inc.>: We can.

<Q – Jim Fowler – Harvest Capital Strategies LLC>: And I just wanted to make sure that I caught some of the details you're giving. Did you say that you think, although at the upper end, the advertising spend that you expect in the first quarter could be in a range between $500,000 to $700,000; is that what I heard?

<A – Doug Lebda – Tree.com, Inc.>: No, what I was calling out is the one-time expense from production in Q1. So we spent call it round numbers, $800,000, $1 million, to produce spots and we expect to expense $500,000 to $700,000 of that production in Q1 with a little bit falling over to Q2, but it will depend on what ads actually run. I was only talking about the production expense.

<Q – Jim Fowler – Harvest Capital Strategies LLC>: Okay, got it. Great. So if I assume it's $700,000 expenditure in the first quarter and your first quarter midpoint of VMM is $14.5 million and if – I do kind of mid-point on the revenue I get to a sort of a core VMM of about 40.1% and your guidance implies just under 41% for the full year, how does that – any thoughts on how that goes throughout the following three quarters of the year or is it going to be fairly stable around the 40% to 41% or will it be something similar to last year where you had big first quarter, you mentioned the second quarter marketing campaign kind of the flattish and you're down third quarter and then a big fourth quarter. How would you think about it for the ensuing three quarters?

<A – Doug Lebda – Tree.com, Inc.>: Yes. I think Q1 is typically, so for Q2 last year, we have the production expense in the start of the brand campaign, that's now happening late in Q1, so it's going to be a little bit different.

So, the short answer to your question, I would expect that the VMM percentages would be lower in Q1 than it would be on the next three quarters on a percentage basis.

<Q – Jim Fowler – Harvest Capital Strategies LLC>: Okay.

<A – Doug Lebda – Tree.com, Inc.>: And may be on a dollar basis too because of that one time effect. Now that said the big media spend, the launch will be, it will be in the start of the March so we've got all the production expense, but the advertising expense will really be fundamentally still a Q2 event so it may not be huge growth Q1 or Q2.

And quite frankly, our Q1 earnings aren't so far away, so I'll be able to give you a really clear guidance on the Q2 not too long from now. But the only caveat I'd say a lot of that is – again, keep in mind, we can kind of land the plane where we want to land the plane, every quarter and for the year. So it wouldn't be out of character if in some future quarter, I said to you, listen, VMM percentages or dollars are less than you might expect, but that's because we launched a new social campaign and we really doubled down; our lenders really demanded something, so we let our percentages went lower or God forbid we screwed something up, and one thing you can only count on from us though, is that we'll be honest about the call-outs and the explanations of it.

But just please note that that managing this business is actually very intentional. We're always thinking do we step on the gas there or we pull back and a lot of is due to lender demand. If lenders are demanding leads, we aim to get them for them at profit at a VMM positive level, if they're really demanding them you might see a step on the gas percentages would go down, but we'd be able to explain it.

The flip side might be also true in any given month or quarter, maybe people get worried about something in the macro environment, mortgage rates fall, lenders get full again, and therefore gets pulled back on marketing spend. Or it's normal in Q4 – one thing I do want to mention, this so-called pullback of marketing spend, that's not something – that's something we do every year, like you just have to because of the holidays and shopping, et cetera. So rates go way up for advertising; it costs us more and lenders don't want as much in Q4 because they're taking vacations, too.

And then you have got fewer operating days. People take off for Thanksgiving, there's Christmas holidays, et cetera, et cetera. So that's a normal Q4 event. The only change this year versus last year is really moving that for – in addition to just doing better – is moving the production expense from Q4 into – I'm sorry from Q2 into Q1.

<Q – Jim Fowler – Harvest Capital Strategies LLC>: Yeah. And then – thanks for that. And then last question, in the non-mortgage area, you mentioned a few of the products. I am wondering specifically relative to auto, we've seen a lot of increased competition across both prime and non-prime auto. How much is auto as a percentage of total non-mortgage in the fourth quarter – or in the growth rate let's say – and how much has it been more recently versus say the prior two or three quarters?

<A – Doug Lebda – Tree.com, Inc.>: So, you probably won't like my answer, because I don't like to break them out and here's why. If I start to say autos x percent, then not only are – then people can say, oh now it's that many millions of dollars and then they start to – everybody's got their own model and our competitors quite frankly do it too. What I can say – and I know people watch and listen to these calls very carefully and try to discern what's underneath them, and by definition in the same way you couldn't get out of Google, what is Google's percentage of revenue on mortgage cost per click ads versus pharmaceuticals – we don't like to do that either because they vary and it's also competitive intelligence.

What I can say to you is increased competition in autos is actually helpful to us because the competition isn't coming from loan aggregators in the auto space where you can get banks to compete by filling out one form. It's coming from lenders moving into the mix and lenders willing to lend and so that is bringing more lenders onto the platform, bidding up our pricing on auto in ways that it hasn't before, which enables us to then go do the paid marketing and drive it in. So, what you're referring to as competition is actually very helpful to us.

<Q – Jim Fowler – Harvest Capital Strategies LLC>: Yeah, that's what I would assume – I would assume that the increased competition amongst lenders looking forward to more of those loans would be helpful. Okay. Well, great, thanks a lot Doug and Alex, appreciate it.

Operator: The next question comes from Noah Steinberg from G2 Investment Partners.

<Q – Josh Goldberg – G2 Investment Partners Management LLC>: Hey guys, this is Josh Goldberg. Congratulations on the strong Q4. I think it's even more remarkable when you think about some of the other guys in this space, some of your biggest competitors showing substantially down Q4 revenue numbers because of the weakness in the mortgage market. I really do believe you took a lot of share there.

Just a couple of quick questions, it would seem to me like at the beginning of the year, you obviously faced your tougher comps. The beginning of last year you had a much bigger mortgage market than you do at the beginning of this year and we're March 11 now, so pretty good visibility into the March quarter with the guidance of about 30% to 40% increase in your revenue.

It would seem like you're expecting pretty big deceleration as you go on through the year. And I just want to understand, is that just conservatism and see how the year develops or anything kind of on timing, a one timer in the first quarter that makes you feel like you're growing your revenue at this pace, but by the end of the year you won't?

<A – Doug Lebda – Tree.com, Inc.>: I think – speak a little bit out of both sides of my mouth – and I think you know. Number one, we are conservative in our guidance because we tend to be that way. And we like to put out a bar and beat it. I've also said that our internal plans on which we hold ourselves to are generally higher, but that's because we push ourselves and then not everything works perfectly and then we give guidance less than that.

So that's the conservative point. But the other point I would say it's like I've said before, which is we want to land the plane with very solid growth quarter-over-quarter, year-over-year and the same quarter in the prior years, and I agree with your comps comment and the quarter-over-quarter is going to get at some point harder to do, but at the very least, year-over-year, Q1-to-Q1, I think things will be fine. And we do try to reinvest.

So when I do my Q1 call, I'll talk about all the great stuff that we've launched in Q1 and it's probably more product there then we would have been baked in when we did our plan six months ago because that's what we try to do. And so it's a little bit of conservatism, but it's also a little bit of – I want to give ourselves some flexibility to invest as needs see fit.

And I think you're hitting exactly on the point. We're gaining significant share. Now, this is a very competitive market and guys like Zillow and Bankrate and others are – they're competitive people. And we want to win. So it's great we're gaining a lot of share; it's great lenders still love us. It's great that we've got a very credible product but we want to – we recognize and this is if I don't keep making it better it will stagnate. And I want to just keep – I want to give ourselves some flexibility to keep making those types of investments.

<Q – Josh Goldberg – G2 Investment Partners Management LLC>: Okay. Just two quick other things, if I remember correctly, your original guidance for 2013 was roughly around $110 million to $115 million, or about 15% to 20% growth, so obviously you did a good job of beating those early expectations. So when you talk about you EBITDA as you go into rest of the year, I guess how much do you think you're going spent in the second and third quarter just on TV advertising?

I know the preproduction stuff will cost you in the March quarter, but do you expect of date increase just on the advertising side like you did last year in the June quarter?

<A – Doug Lebda – Tree.com, Inc.>: I think it would be more Qs one and two. I don't think it would be substantially less than last year but I don't have the numbers right in front of me. And we don't think of it as a TV to TV. We really manage to overall VMM and then that supply and demand equation.

Lenders are – so I guess I have to answer this way, if we see lenders continuing to increase demand and begging us for lease more so than they have in the past, then you should expect that we're going to increase spending to get to that. And you should also expect that in Q2 that's the spring purchase season and so like last year when we launched in Q2.

Q2 versus Q1 and Q3 and Q4, Q2 is always typically a heavier spend as we're trying earn purchase volume than the other quarters.

<Q – Josh Goldberg – G2 Investment Partners Management LLC>: Right.

<A – Doug Lebda – Tree.com, Inc.>: But year-over-year, I'm not sure because I got to see what demand is on that time – at that time from the lenders. What I can tell you is whenever we're buying ads it's very-very flexible, so we're constantly optimizing everything to just maximize VMM, and make sure we deliver the right amount of demand that lenders are looking for.

I talked in the past quarters about the travel industry 2001 and I'll try to make that point again which is in 2001 after September 2011, that's when online travel started taking off. Prior to that, the big hotel companies, the big airlines did not put their excess inventory on Hotels.com and Expedia, Travelocity and everybody else. But once they couldn't fill those rooms, boy did they put that inventory in there and we had the next great decade of online travel that continues to this date.

I think we're in the very early innings potentially if something like that happening in lending where for example, our customers a couple of years ago were a lot fewer and were all correspondent lenders, now we have a lot more banks business in there, we have a lot more bank interests coming on in addition to our existing companies, taking share, as well as our existing clients taking share. And I think it was Q3 – it might have been Q4 – there's an industry report that started to show the big money center banks actually losing share for the first time. So our existing correspondents are taking share in their businesses and the big money center banks are doing a really good job of lending through the ones that are there and the ones that aren't there are talking to us, which is different than the past.

<Q – Josh Goldberg – G2 Investment Partners Management LLC>: And the peak time where the advertisers really want to advertise on your site now there's the second and third quarter, that's the peak season for the purchase, correct?

<A – Doug Lebda – Tree.com, Inc.>: It is the peak season for purchase, but keep in mind a lender wants to leads when they can't get them for free themselves, so if you're really a brave purchase lender and you got loan officers scattered around branch office all over the country, you might be able to keep all your bids, keep your business full by going around and making relationships with realtors and then you wouldn't need as much, you wouldn't have much excess capacity, he wouldn't to looking to buy as many leads from us, if you're getting them from here on. But generally yes, I think, but in those non-bank lenders, yes, they're not getting purchase volume on their own, it's us driving purchase volume in and particularly at that time and just matching the market.

<Q – Josh Goldberg – G2 Investment Partners Management LLC>: Okay, great. Last question just for Alex, okay. Obviously the DSOs down nicely to 32 days and your cash balance went up nicely this quarter. You talked about the final month being stronger than you expected. How come the DSOs came down so much?

<A – Doug Lebda – Tree.com, Inc.>: You mean our receivables? Are you talking about receivables?

<Q – Josh Goldberg – G2 Investment Partners Management LLC>: Day sales outstanding, yeah.

<A – Doug Lebda – Tree.com, Inc.>: Funny, I haven't looked at that. I guess we did a better job and getting paid. This probably be the answer. But let me get a better answer and let you know if anybody else wants to answer that. My guess is we did a better job at collecting the receivables. I don't think it's any, there's nothing that's sticking in my brain that would have said, oh, your major initiative or we're seeing – we're really, there was nothing like that, just normal variation.

<Q – Josh Goldberg – G2 Investment Partners Management LLC>: Okay. So outside that $600,000 accrual you had in the quarter you still had your EBITDA number well above your initial guidance for the fourth quarter?

<A – Doug Lebda – Tree.com, Inc.>: I should have made that point myself. So thank you for making it, you're exactly right.

<Q – Josh Goldberg – G2 Investment Partners Management LLC>: Okay. Good. Thanks so much.

Operator: I am showing no further questions. I would now like to turn the call back over to Doug Lebda.

Douglas Robert Lebda, Chairman, Chief Executive Officer & Founder

Thank you, I'll be brief, I appreciate all of your time and attention. Thank you for sticking with us. Thank you for all the support and thanks to all of our employees and lender partners for their continued belief in us.

We look forward to reporting Q1 very shortly and hopefully, we'll continue to put great performance on the board and hope to see you again in the industry conference near you soon. So as always reach out to us anytime with any questions or comments. We're always happy to engage with our shareholders and know what you're thinking and get feedback from you and answer any questions that you have. So thank you very much.

Operator: Ladies and gentlemen, that does conclude the conference for today. Again thank you for your participation. You may all disconnect. Have a good day.