FINAL TRANSCRIPT

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PRESENTATION

Operator

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

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

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

Thanks, operator, and thank you to everyone for joining us today for Tree.com's Q2 2011 earnings conference call. First, a quick disclaimer.

During this call we may discuss Tree.com's plans, expectations, outlook, or forecast for future performance. These forward-looking statements typically are preceded by words such as we expect, we believe, we anticipate, we are looking to, or other similar statements. These forward-looking statements are subject to risks and uncertainties, and Tree.com's actual results could differ materially from the views expressed today. Many, but not all, of the risks we face are described in the periodic reports we file with the SEC from time to time.

We will also discuss non-GAAP measures, EBITDA, and adjusted EBITDA. I refer you to today's press release for all comparable GAAP measures, definitions, and full reconciliations of adjusted EBITDA and EBITDA to operating loss.

As we do each call, I will first address the overall results for the quarter and then turn it over to Tamara for a more detailed financial review. However, before we begin the discussion of Q2 results, let me first highlighting a few key events that are driving our decision making and, ultimately, our results.

As we announced last quarter, we have an agreement to sell the operating assets of our Home Loan Center mortgage business to Discover Bank. Transition teams from both companies continue to work diligently toward the completion of the sale, and we have a meeting of our stockholders scheduled for August 26 to approve that sale.

As part of this transition, during Q2 we made the decision to close some of the branch locations of our mortgage operations which allows us to concentrate the mortgage efforts on our most profitable teams and locations. We are now a lean mortgage operation, better prepared for the transition from Home Loan Center to Discover.

In our remaining continuing operations we took a few actions that we expect will put the Company in a stronger position going forward. We reduced headcount by 8% and reduced salaries by 20%. Much of this reduction was in our corporate staff, which is now scaled more in line with the size of the Company that we are becoming rather than what we have been. As a pure-play lead gen business we can operate efficiently with fewer people in our corporate department.

Also, we are concentrating our efforts going forward in the verticals that we believe have the greatest potential; these are mortgage, education, and home services. It is in these verticals that we can best utilize our lead gen expertise and our incredible brand to generate value for consumers, for our partners, and for our stockholders.

Now with this in mind, let's review the high-level results. In Q2 we posted a net loss of $17.8 million. This is a dramatic improvement over the $39.5 million loss we posted last quarter.

There are a lot of components in these results that Tamura will walk you through in a few minutes. Before I hand it over to her though, let me highlight a few key happenings in the quarter.

As a result of the pending sale of Home Loan Center assets to Discover, we reported our LendingTree Loans operations as discontinued operations and we recast all prior periods discussed in the earnings release to confirm this presentation. All of the following financial highlights are those of the Exchanges business only, which is now our sole reporting segment.

We reported revenue of $17.2 million, which is a $3.1 million increase over Q1 and a $2.1 million increase over Q2 of last year. As you can see in our release, mortgage interest rates dropped 40 basis points within the quarter. Logically as this happens we see increases in mortgage refinance activity. In fact, we estimate, based on the Mortgage Bankers Association Application Index, the total mortgage market grew approximately 7% in Q2.

At the same time, on our lending exchange, in an environment where a portion of our volume still goes to LendingTree Loans, the number of consumers being matched to our network of mortgage lenders increased 39% over Q1, driven by a 75% increase in match refinance consumers. This gain in share is a clear win for us.

In our non-mortgage business, the number of consumers matched to service providers was virtually flat quarter over quarter. There were over 155,000 non-mortgage consumer matches in Q2, which was nearly 45% of the combined mortgage and non-mortgage totals. While this percentage has been above 50% for the last several quarters, it dropped in Q2 because of the surge in mortgage volume rather than any weakness in our non-mortgage lead volumes.

Combined the number of matched mortgage and non-mortgage customers was over 351,000 in Q2, which is a 10% increase over Q1 and an 11% increase over Q2 of last year.

On the marketing front, we continue to test new volume sources as we always do. As we talked about in our last call, we learned a lot in Q1 and in Q2 we put that learning into practice. We maintained greater flexibility in our ad buys with short term outs which allow the team to take quick action to exit or enter an ad buy.

Also as I have already mentioned, we drove more mortgage consumers to our network and we did so more efficiently. The average cost of acquiring each mortgage consumer dropped nearly 35% from the highs we experienced in Q1. As expected, in a market with more consumers lender demand was lower and average fees we were able to charge dropped by about 9% compared to Q1.

This is the intended function of the market-based pricing engine we have discussed for the last several quarters. And just as we see prices declining in times of higher volume, we have seen the opposite happen when mortgage volume goes down.

Looking at the bottom-line operating results from our continuing operations, operating loss was $8.3 million. Adjusted EBITDA was a loss of $5.9 million, which is a $3 million improvement over the last quarter and a $2.3 million decline from the same quarter last year.

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

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

Thanks, Doug, and good morning to everyone on the line. Since Doug already hit many of the high-level results for the quarter, I will dive into some details not already covered. But first, a quick comment about the changes in the structure of our financial reporting.

Due to the pending sale of the operating assets of Home Loan Center to Discover Bank, starting this reporting period we have begun reporting the operating results of the LendingTree Loans mortgage originations business as discontinued operations. Previously we have reported our business in two distinct segments, LendingTree Loans and the Exchanges.

Now, with LTL in discontinued ops, we have one reporting segment representing all remaining continuing Exchange operations and the corporate headquarters. All prior periods discussed in the earnings release have been recast to conform to this new presentation.

We reported a net loss from continuing operations in the second quarter 2011 of $8.5 million. This is a significant improvement over the $21.5 million loss from continuing operations posted in Q1 and it's a slight decline from the $6.9 million loss from continuing ops in the second quarter 2010.

We reported a net loss including both continuing and discontinued operations of $17.8 million, or $1.62 per share. This compares to the first quarter 2011 where we reported net loss of $39.5 million or $3.63 per share, and also to the second quarter 2010 where we posted a net loss of $800,000 or $0.07 per share.

The $17.8 million net loss in the second quarter 2011 is comprised of several contributing factors. First, $9.3 million of the net loss was from discontinued operations, which is primarily the Q2 bottom-line result of what we had previously reported as the LendingTree Loans segment. Within the discontinued ops number is $3.9 million in restructuring expense related to the closure of some of the LTL branches in the quarter and $4.3 million in reserves for future loan losses.

Net loss from continuing operations was $8.5 million for the second quarter of 2011.

I would like to walk through some unusual or non-repeating items that contributed in the quarter in order to put our continuing ops results into context as well. First, as we review detailed results in relation to our near-term expectations, we see improvements in marketing efficiencies across several of our marketing channels suggesting approximately $3 million of expense in Q2 that we don't expect to continue going forward. Furthermore, investments in marketing tools and technologies that aren't continuing beyond Q2 contributed $900,000 to the loss in Q2.

And there was also $400,000 restructuring expense in the quarter related to severance for headcount reductions in the corporate department that Doug mentioned earlier. Additionally, we expect savings after Q2 related to the realignment of costs as we sharpen our focus on fewer verticals.

Finally, a portion of our leads are being monetized in the LendingTree Loans operations which are now reported as discontinued operations. We do not presently record revenue in our Exchanges business for those leads provided to Home Loan Center. Following completion of the sale to Discover Bank, we will have revenues in the Exchanges business from these previously exclusive leads that would then be monetized by the lender exchange. We therefore expect the sale of Home Loan Center assets to Discover Bank to be accretive to the Exchanges revenue once the transaction is completed.

Of course, completion of the transaction remains subject to various conditions, as discussed more fully in the proxy statement we filed with the SEC on August 2.

Now back to our Q2 operating results. As a result of more efficient marketing highlighted by the lower cost per lead compared to Q1 that Doug mentioned earlier, we were successful in reducing our marketing expense as a percentage of revenue in Q2 versus Q1. Operating expenses were virtually flat quarter over quarter. As a result, the $3.1 million increase in revenue over Q1 resulted in a $3 million improvement in adjusted EBITDA.

Looking year over year, operating expenses grew in Q2 2011 by $4 million over Q2 2010. This was primarily driven by $3.9 million of greater selling and marketing expense when compared to Q2 of last year. That higher marketing expense is the result of comparing to a quarter where we didn't spend as much to drive volume. Last year we were coming off a significant volume surge in Q1 and in Q2 2010 we did not spend as much as we did in Q2 of this year to drive the volume.

In addition, Q2 2011 includes the non-variable marketing expense associated with expanding the marketing team and investing in marketing tools and technologies that began in late 2010.

Now turning briefly to the balance sheet, we ended the quarter with approximately $34 million in unrestricted cash plus $10 million of restricted cash. The unrestricted cash balance is down approximately $19 million from the end of Q1. The change from last quarter principally reflects normal business operations in the quarter as we just highlighted. We ended the quarter with 11 million common shares outstanding with another 1.1 million options and 651,000 RSUs outstanding.

We did not repurchase any shares in Q2, so we have approximately $4.3 million in share repurchase authorization remaining. Looking into the future, we are not prepared today to give guidance on future quarters. But in general, pending the successful close of the sale of the mortgage assets to Discover, we do expect to realize improvements to our bottom line as we monetize leads in the exchange business that we had previously been monetized only in the LendingTree Loans business. And we realized other efficiencies I previously discussed.

That said, we are currently in the process of developing our post-close financial plans and we expect to provide guidance for the remainder of 2011 and 2012 when we report on Q3. With that I would like to turn it back over to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Mark Mahaney, Citi.

Neil Doshi - *Citi - Analyst*

This is [Neil] calling in for Mark. Couple questions. Doug, I remember back in 2008 we had seen interest rates fall pretty sharply and there was kind of an awkward phenomenon where the rates were so low that banks were getting a lot of direct leads coming to them. And as a result it kind of impacted business.

Do you think we are at risk of seeing that sort of trend again with rates coming so low that banks will get those leads directly? (multiple speakers) And I have another question after that.

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

Great. The answer is absolutely, yes. Now that will work out net positive for the Company, but not as net positive as it did in 2008 and that is basically for the following reasons. Let me just talk you through it.

So volume floods in, which it is the last couple -- certainly this week. Lenders go in and take less volume, cut their pricing back, and, therefore, we monetize those leads less effectively to the lender network. At the same time then to balance that out, you go in and you reduce your marketing spend so that saves you some money, because you are out of balance between supply and demand of leads.

But at the same time, since we own LendingTree Loans, that becomes a bit of a release valve for the business. What you typically see is their conversion rates improve and margins expand. And you saw that this week with mortgage rates spread over Treasury was actual -- spread over treasuries was actually very wide, so you are starting to see increased margins at the mortgage business.

Now it's not going to benefit us as much as 2008 because we are running LTL in, call it, the ordinary course whereas -- as we get ready to sell it to Discover so we are very focused on the integration. If that were not ready to be sold to them, we would be actually expanding that business pretty dramatically right now, but we are basically sizing that for the size that Discover wants it.

So it's a net positive for us. It's net good but it's not as ragingly net good as it would be in a normal refi [bill].

Neil Doshi - *Citi - Analyst*

Okay. And then, Doug, can you talk a little bit about the non-mortgage leads, which sectors did you see growth, which sectors were a little bit more challenged than you would have liked? It seems like the education leads, at least for the for-profit ones, have been a little bit under pressure these days. Just wanted to get your thoughts on the non-mortgage leads.

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

Sure. Basically on the non-mortgage side the two businesses you focus on are education and home services. Home services we see a lot of opportunity but, quite frankly, it's just way too early there. We are just beginning to grow that business with online marketing.

But EDU is up nicely and really doing great. One of the nice things in the for-profit education market -- now we are still small compared to some of the big guys, but we have a reputation -- LendingTree -- Tree's entire reputation is based on very high lead quality. What is being regulated away right now by the government is doing things like saying we will be able to get you a Pell Grant if you go to school here and you won't have to pay for it, etc.

We have never engaged in those kind of marketing tactics. We have never engaged in driving a lot of low quality affiliate traffic. Therefore, the schools, we see them actually increasing caps with us, not decreasing caps with us and we have built a really great quality reputation there. So we actually see this, the regulations -- and plus we are, quite frankly, smaller so we can grow share in this market and not lose it.

So I feel bullish about that. It will be interesting to see whether we can make it a material contributor to EBITDA going forward. We are going through 2012 planning right now but I have a lot of confidence in that team and our clients really like us.

Neil Doshi - *Citi - Analyst*

Okay. And just one more question. In terms of the marketing spend this quarter, what areas were you testing? What areas do you think could add a nice group of customers and leads from your different marketing channels?

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

We have done a lot in marketing this year or this quarter, and I got to tip my hat here to Gabe Dalporto, who is our new CMO, and the team that he has brought in. Search for us has never been more profitable and we are seeing great returns on search.

Interestingly enough, we are actually not increasing spend there. We are actually being able to decrease spend because we are just much better at it. They have brought a whole new, call it, mathematical approach to that and so I am really thrilled with the work they have done.

We basically went dark on display and are building that back and testing that back very slowly. We also did a lot of work in testing the last couple months with e-mail. Quite frankly, we didn't like a lot of that. It drove a lot of lower quality traffic in for us and the margins were not very good. We have pulled that back significantly and kind of returned to our roots to high quality leads.

The nice thing is now we will just be able to scale up those businesses or those channels. We also believe, still believe in off-line, although we have pulled back spent recently there in recent weeks just because volume is so hot. We are working on new creative, getting pitches from some agencies that are just fantastic, and believe that we can go back into the off-line game here going forward as well.

Neil Doshi - *Citi - Analyst*

Okay, great. Thank you, Doug.

Operator

Nick Zamparelli, Chartwell Investment Partners.

Nick Zamparelli - *Chartwell Investment Partners - Analyst*

Thanks for taking my call. First question is on the revenues in the quarter from the LTL business. I know it's in discontinued ops, but can you talk about what that segment generated in revenues for the quarter?

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

We are going to provide details of discontinued operations in the 10-Q that is going to be filed on Monday, Nick.

Nick Zamparelli - *Chartwell Investment Partners - Analyst*

Okay. I guess just one more there. Are there thresholds that need to be met in order for the deal to get done? Is that something that you consider potentially prohibitive or are those thresholds kind of easily going to be met?

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

They are actually easily met. We have got a whole range of covenants with that in terms of loan origination volume, number of employees that need to go with Discover, etc., etc., and right now we are well in line with everything and feel really good about it.

Nick Zamparelli - *Chartwell Investment Partners - Analyst*

Okay, great. In terms of the leads that are currently going from Exchange to LTL, I am curious as to if you have started to work with Discover on the rate for those leads post deal, kind of margin structure?

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

Sure, it's actually -- normally I wouldn't talk about discussions between us and them, but they are -- and by the way, I believe the marketing services agreement wouldn't surprise me if it was actually filed as part of the documents. I am not sure; it might not be.

But in any event, they are going to be just like every other lender on the network. We gave them, I believe, some credits for lead flows so they get some that they can kind of use to test and learn. But, broadly speaking, they are just like any other lender on the network and the pricing will mirror that of the lender network.

Nick Zamparelli - *Chartwell Investment Partners - Analyst*

Okay, great.

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

Another thing on that which is an interesting phenomenon to manage through, the leads that LendingTree Loans gets today are among the highest quality leads of all the LendingTree leads. When they join the network -- right now those leads go to LTL on an exclusive basis and we operate on what is called the choice model where we give customers multiple options.

When they switch over to a network lender that will increase the lead flow to the entire network pretty dramatically and we are modeling this out now. It will be interesting to see what the environment is, because volume is going to flood in. Lenders in this environment may not want it all because they are flush, and then we have to -- the opportunity there is to potentially pull back on marketing.

Now it's not something we would want to do, so what we are doing to counteract that is right now we are putting kind of a couple of things. One, we are aggressively signing up new lenders to the network. Number two, we recently put in a promotion as late as literally yesterday to basically tell our existing lenders that if they hold caps, which is the amount of leads they want to buy, through normal filters we discounted what we call the overflow filters pretty aggressively. That has had a great response.

So the long and short of it is, we expect that lenders will basically be able to say, hey, if I can get all the LendingTree leads I want why do I need to buy leads from other aggregators. And we think it's a good opportunity for us to gain share.

Nick Zamparelli - *Chartwell Investment Partners - Analyst*

Okay. And what are the margins on kind of -- the variable marketing margins on your highest quality leads?

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

It varies. The best way to look at it overall is just revenue minus marketing cost on the exchange. And it [would] vary all of the time based on channels. So we have some that we run really thin and some that we run really fat, quite frankly, depending on quality and supply and demand.

Nick Zamparelli - *Chartwell Investment Partners - Analyst*

Okay.

And on --

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

By the way, just to that, generally speaking, we target about a 40% margin overall, is kind of where we like to be. So we will spend about 60% roughly of revenue back on marketing.

Nick Zamparelli - *Chartwell Investment Partners - Analyst*

Okay. So margins then should be trending up significantly once you start getting paid for these leads.

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

Yes, and in this environment it should trend up too, because we are cutting spend.

Nick Zamparelli - *Chartwell Investment Partners - Analyst*

And what percent are going to LTL now, what percent of leads?

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

We have never really disclosed that. It is less than 50% and more than 10%, and it bounces around a lot.

Nick Zamparelli - *Chartwell Investment Partners - Analyst*

Okay, okay. If we could move on to the moving ahead to next year, assuming the deal goes through. Kind of what are you expecting on G&A needed to run just the Exchange business?

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

First off, let me tell you just the process we are going to go through. We are very focused right now on getting the deal done and dealing with the current environment. People around here, quite frankly, never worked harder.

Then what we are going to do is breathe for about a day, and we're also going to -- and then we're going to do a very detailed planning exercise on what the Company can do in 2012. We are going to convince ourselves of that first. Then we are going to convince our board of that, and then we are going to share it with you all.

I'm not quite sure if we do that at investor day or a conference call or what have you. But I want to get you guys all confident once we get ourselves confident. If we are not confident, we will tell you that, too. So that is the process.

The G&A in Q2 was about $5.6 million. I am guessing the right answer is a little over $1 million a month, give or take. So probably it is about $4 million a quarter, but I have to see where that shakes out kind of post deal. We took a pretty big haircut to G&A this quarter and expect that to continue. That said, you always have outside legal fees and things like that that sometimes can get you.

Nick Zamparelli - *Chartwell Investment Partners - Analyst*

Okay. And then one last one for me. Just from a cash burn perspective, for the rest of the year how should we think about it? Should we look at Q2 and kind of extrapolate that for the remainder of the year, or are you expecting cash burn to come down?

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

I sure as heck hope we don't extrapolate that. And I don't expect --

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Nick Zamparelli - *Chartwell Investment Partners - Analyst*

So what is the right cash burn number to model?

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

Well, let me tell you what I am targeting and what I have told our team, which is I don't want to burn a nickel ever again. It's too -- it's just no fun. So I think what has happened -- and it's just not right. So we have had to burn cash this year because we basically have had to restructure the operations, keep LTL pretty flush with the leads and so therefore marketing expense was pretty high, revenue was decreased. We basically saw what we saw in 2007/2008 as the markets were correcting and you try to catch the falling knife.

Loan losses have been high clearly, etc. So I don't want us to burn any more cash. Now what you can't do though is just take the cash balance and assume that is the cash balance sort of post deal. We of a lot of cash coming in, but we are going to have some costs to wind down that business. And obviously we have got a lot of loan losses on the books at Home Loan Center that we are still going to need to work through and a variety of other items.

So what I would like to do is -- we will give 2012 guidance, and when we do that we will give you cash and we will tell you where we are going to land post-deal on cash and walk you through that in a very detailed way. But my charge to the team is we are not burning another nickel, so knock it off.

We will see if we can get there; that is a challenge, but that is what we are trying to do. Now July was a good month. We did burn cash in July, but we are working like dogs in August to put a plug in the leaky bucket.

Nick Zamparelli - *Chartwell Investment Partners - Analyst*

Okay, great. Thanks for taking my questions.

Operator

Josh Goldberg, G2 Investment Partners.

Josh Goldberg - *G2 Investment Partners - Analyst*

Just a couple things on the transaction with Discover. If you are sitting down with your investors or your shareholders at the end of August are you expecting the deal to close September 1?

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

No, no, no. I did not -- we are not going to sit down with investors at the end of August. I think that will be into Q4, maybe late Q3 or early Q4 I think. So, no, we are not doing it that soon.

I don't want to -- I can't really speculate on the closing time except to say that there are a number of approvals and things like that that they need to work through, except to say that everybody is working feverishly to make it happen as soon as possible. But I don't think that date that you referenced is very likely.

Josh Goldberg - *G2 Investment Partners - Analyst*

Okay.

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

I know what you are talking about -- the sitting down with your shareholders; that is the August 26 meeting. No, that is the special meeting of shareholders to approve or deny the deal. I would fully expect that will get approved, particularly given the voting agreements that they got which are all disclosed with myself, Liberty, and Second Curve. But that is just one -- that is one hurdle to clear but it's not the only one.

Josh Goldberg - *G2 Investment Partners - Analyst*

Okay. And can you just remind everyone how much money you are going to get at closing and then the additional amount next year so we have the total amount?

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

Sure. It's $36 million at closing and then $10 million in two payments tied to a marketing services agreement where we are providing marketing consulting services at the end of year one anniversary of the closing and then at the end of year two at the anniversary of closing.

We also have to escrow $15 million of that cash to settle potential loan losses. That may not -- if you look at our loan-loss reserves that may not be enough, so there could be more cash that you use on top of that. But those are the terms.

But, again, what I don't want everybody to do is to start just adding those numbers to today's cash balance. That wouldn't be the right math to do that, but let us take you through that once we get a little clearer picture.

Josh Goldberg - *G2 Investment Partners - Analyst*

Okay. Just in terms of when the deal does close, does your restricted cash become unrestricted?

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

Some of it does but not all of it. There is still restricted cash that we need to maintain here for surety bond purposes for state licensing. I believe the restricted -- we will still need about $6 million of cash restricted, I believe.

Josh Goldberg - *G2 Investment Partners - Analyst*

Okay. And maybe because you have been in this business so long, can you just remind some people what was matching revenue four or five years ago before LendingTree Loans became a big part of your business? Just to get a sense. And I know that is before even the higher education and other (multiple speakers). Just to give us a sense of what the size of the matching revenue was back a few years ago.

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

It's an apple and an orange because we had a different pricing structure back then. Basically what we did then is we had a transmit fee and a closing fee. The transmit fees used to range between $5 and $20 depending on the lead type, and then we had a closing fee on mortgages that ranged between $200 for pretty small and somewhat undesirable loans up to over $1,000. And then you obviously had a conversion rate impact.

We have moved now to a pure transmit fee basis and that number now, given the market-based pricing, bounces all around. We saw that number last year in the refi boom be as low as about $30, $25 to $30 for kind of good, solid refi leads, and we have seen of this year as high as $90, $90-plus. And then you get that from multiple lenders. If it matches four or five times, you are getting significant revenue there.

So it really depends on the market and depends on the amount of demand for your leads. So that is why we are putting in place the big sales effort. Another technology thing I failed to mention is what we call automated lender set up where lenders can come in -- this is going to launch very soon -- and basically sign up for the lender network on an automated basis.

What you try to do, similar to what Google and other companies have done, is you try to get an active bidding environment for your leads and try to make them really high quality. And, hopefully, the prices rise over time.

Josh Goldberg - *G2 Investment Partners - Analyst*

Okay. Maybe if you can just help with just sort of the strategic vision of the Company now. I know that when you guys came back public you wanted to build out both the real estate side and the LendingTree Loans and the matching side. Now it looks like those two are going to kind of, are going away and what you are left with is a matching business that is similar to what you had 10 years ago.

I just want to kind of hear what you are kind of looking at in terms of is that how you look at the company 12, maybe 18 months from now.

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

Yes, we -- let me just comment on each of those businesses that are now in disc ops and then talk about the other ones.

We got into the LendingTree Loans business as a vertical integration play to increase revenue, improve the borrower experience, and then be able to reinvest that back in marketing. And that worked phenomenally well for a lot of years. We reached a point with that business where it either had to be scaled up or it had to be put in somebody's hands who can scale it up.

And the big swing factor there was, quite frankly, loan-loss reserves. When I came back here three years ago I think we had a $10 million or $12 million reserve on our books. I thought that was the right number and we were all pretty darn confident of it. We settled out a lot of deals Q4 of last year -- I want to say that was $15 million or $20 million -- and we have been adding $1 million-plus on the books every month for a couple of years now. So we were, needless to say, that number was wildly off.

So the depth of the housing issues have really made that business more challenging and the loan putbacks and the mortgage crisis, etc. So that got to a point with that business where to stay in it, which is -- honestly, it's a business I love, but to stay in it gives requires lots and lots of capital. It's just a different business and it has made -- it's a financial services business.

In addition, because of the new regulatory structure that none of us saw coming either, it's much better to be a bank in the mortgage business than it is to be an independent mortgage company. Just to give you the absurdity of that, we have to, literally, have our call center reps licensed in every state where they actually take leads. So we actually have a test and training department, if you can imagine that, and it complicates the lead flow.

Banks are exempt from that licensing. And as crazy as that sounds, people who can't pass the test sometimes they go work at the banks.

So long story short, it's better to have a bank charter, it's better to have a cost of capital advantage, and that business is just better off with a bank. Discover can do great things with it and that is why they want it. And we look forward to having them as our largest client. So that is that one.

Real estate, we have pumped a lot of money in real estate over the years. And that is another one where, if housing prices have not declined and commissions along with it, that business would be profitable today and we would all be talking about growing it and scaling it. But I just don't have the stomach for losses anymore. So that basically, as much as I would love to be scaling that up, that takes you down a path where you have to return to your roots, so to speak.

Now the vision of the Company has never been centered around being in real estate or in lending. It basically is to build -- to help consumers at major decision points in their lives by giving them choice and convenience and a great experience. And that will be the business and we will be in the verticals that makes sense. Right now that is home services, education, mortgage, and the other loan products, but we could add verticals over time as we scale these profitably.

The vision also is to do that around a centralized marketing department where we feel like we can now get scale and leverage and efficiencies across the verticals. And I feel that Gabe and his team are well on their way to doing that.

So the vision of the Company, we are going to be a smaller company; I believe in my heart of hearts we are going to be a profitable company. But I think between us, QuinStreet, Bankrate, and a couple other guys -- there is three or four major players in lead generation and comparison shopping for services, and we think we can be one of the major players.

Sorry for that long answer.

Josh Goldberg - *G2 Investment Partners - Analyst*

So just to finish my last question would be if you are not waste a nickel right now when you don't even have the LendingTree Loan leads back into the matching business, I mean it is fair to say that, all things being equal, you should expect a profitable company on the other side of this.

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

Look, if we can't be profitable our goose is cooked so to speak, so we darn well better make it profitable. That would be my expectation. And I would hope -- but if we can't make this thing profitable, we owe it to you guys to sell it to somebody who can. But I believe in our team and I believe we can.

Josh Goldberg - *G2 Investment Partners - Analyst*

Got you. Okay, great. Thanks so much.

Operator

Ed Antonian, Chartwell.

Ed Antonian - *Chartwell Investment Partners - Analyst*

Just a few follow-ups if you don't mind; some of the numbers were kind of fast and furious. I kind of remember on the call you said $3.9 million for LTL branch closures and $4.3 million for future loan losses. I am trying to look at what were the one-time costs in Q2 in the continuing ops versus the discontinued ops. So were those two numbers in the continuing ops segment or the discontinued ops?

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

No, those are in the discontinued operations.

Ed Antonian - *Chartwell Investment Partners - Analyst*

All right. And I have got those numbers right?

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

Yes, you do.

Ed Antonian - *Chartwell Investment Partners - Analyst*

All right. Was there any other numbers that were -- I don't want to call them pure one-time because future loan losses won't be necessarily one time, but bank branch closures will be.

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

You have got the restructuring in the other side of the business which was, call it, $400,000. We impaired an asset for $300,000 and that is kind of about it.

Ed Antonian - *Chartwell Investment Partners - Analyst*

Okay. And then you also talked about $3 million of marketing costs that didn't sound like it would be repeated. What was that again?

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

Yes, that is basically the -- there is a number of things in that number, but let me just try to unpack it for you. Essentially what we do is this. First off, as your -- we have to prebook some advertising based on where we expect the revenue is going to land with LTL and you are never precisely right. So as revenue was declining you basically were upside down on some of your marketing spend and you just learn.

The other effect in there is the fact that we have got leads going to -- that we are paying for that we are sending to LTL where we could make more money if we sent them to the network, so there is sort of an opportunity cost in there as well. And that is kind of what is in that number.

So the nice thing going forward is, particularly that we are on pure lead-based pricing, we will know our marketing costs the minute we buy it and we will know our revenue the minute we transmit the lead. And so we can make adjustments in real time, as opposed to having to make them based on where you think things are going to land.

Ed Antonian - *Chartwell Investment Partners - Analyst*

This might be a hard question to answer, but I will give it a whirl. Of the $17 million in revenue what was the gross profit margin on that business for the leads that you actually monetized. I am trying to strip out the leads that you sent to LTL out of -- I am trying to strip the cost of the leads, or just tell me what the cost of the leads that you went to LTL was that were in cost of revenue.

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

Yes, that is all continuing so none of the cost of those leads is in there. We have -- you have pure continuing ops (inaudible).

Ed Antonian - *Chartwell Investment Partners - Analyst*

When I look at the selling and marketing expense of $15 million that doesn't include leads that you sent to LTL?

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

No, it does not.

Ed Antonian - *Chartwell Investment Partners - Analyst*

And then let me ask the --

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

Now, by the way, so you will see $17 million and $15 million; that would not look good. You can't fund the business that way (multiple speakers) in there --.

Ed Antonian - *Chartwell Investment Partners - Analyst*

But that $15 million includes the $3 million we just talked about?

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

Yes.

Ed Antonian - *Chartwell Investment Partners - Analyst*

And what else is -- and then you also talked about $900,000 of some kind of one-time marketing costs. What was that?

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

We are running that down. And while we are looking at that I think it was a technology -- it was a tech contract that we basically -- was one that we canceled; it was a one-time thing. It was working with some contractors that did some work for us that was expensed in the quarter.

Ed Antonian - *Chartwell Investment Partners - Analyst*

All right, okay. Go back -- if you don't mind, Doug, take a little liberty and kind of tackle the $15 million. So I yank out the $3 million, I yank out the $900,000 because those were both in that number, but that still gets me to an $11 million number. That is still too big.

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

Yes, the number needs to be $8 million or $9 million, if you do your $4 million number. Keep in mind I talked about how we had -- for Q3 we had a bunch of kind of breakeven-ish/slightly unprofitable marketing, particularly in the e-mail channel. That is all -- that is in there to the tune of a couple million bucks.

And it just, quite frankly, the fact that your -- as your revenue per lead is falling and you are learning you are never quite sure where it's going to land. And you are also long advertising that you have already bought and that you just need to run.

What we are seeing now is better search efficiencies, better volume, lack of sending those leads to LTL, higher converting leads that will come over, and that is what gives me -- and just, quite frankly, better marketing capability. That is what is giving me confidence going forward and I think you are going to see these numbers in Q3 be a heck of a lot better than you saw in Q2.

Ed Antonian - *Chartwell Investment Partners - Analyst*

Okay. All right, thanks.

Operator

[Kevin Hanrahan], KMH Capital Advisors.

Kevin Hanrahan - *KMH Capital Advisors - Analyst*

Thanks for taking my questions. I had a question about share buyback. I know you bought back some stock in Q4 and you did a Dutch auction at a higher price, and you bought no shares this quarter. Was that because you are unable to or was the window open, would the window be open in Q3 or are you restricted by the sale to Discover?

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

Yes, we have got too much non-public information given that sale and where it stands and what is happening at any given time that till that deal is done we have to -- we got to get that deal done.

Kevin Hanrahan - *KMH Capital Advisors - Analyst*

So you are on the sidelines because of that?

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

Absolutely.

Kevin Hanrahan - *KMH Capital Advisors - Analyst*

Okay, that is good.

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

By the way, I think I would sideline us anyway just given -- I want to see our plan. I want to go through that process, see where things land, show our Board -- I want to work through that process. And with that, if we are bullish, we will be buying.

Kevin Hanrahan - *KMH Capital Advisors - Analyst*

Right. Well, we appreciate the support you have given to the stock in the past and going forward.

You made a few comments on the call today. You said that cash burn is just not right; you said you would be a smaller company going forward. Obviously you said you were clearly in a transition and the current shareholders are suffering through that transition.

And I know you are a large shareholder, and we appreciate that fact, but to me it seems like if the company is going to be smaller going forward it looks to me like the pay for the executive team is extremely exorbitant. If you are going to be a smaller company, the pay package just looks wildly out of proportion. I have been an analyst for 20 years, been looking at the market for 20 years and I don't think I have ever seen anything so egregious. If you can make a comment about that.

And I would say, because you will probably cut me off, I would just say that the shareholders expect the directors to exercise their fiduciary duties.

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

No, listen, I completely agree with you on the premise. I actually disagree with you on the conclusion. I would love to have an off-line conversation with you of who you see as comps and things like that.

A lot of our pay is in equity -- I can speak for my own compensation. I actually recently reduced my salary to $275,000. The Company is not paying bonuses this year because we missed our plan, and I think is fair to be running an Internet company through a turnaround. And --

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Kevin Hanrahan - *KMH Capital Advisors - Analyst*

When did your pay -- when was it reduced?

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

I think it was about a month ago.

Kevin Hanrahan - *KMH Capital Advisors - Analyst*

I haven't seen that in the filings.

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

There was an 8-K on that about a month ago and then as I go through our other executive -- you can look at the NEOs. Our guys who are running the mortgage business, actually some of them make more money than the people running the Company, and that is because that is the market for that and they are running a pretty darn big mortgage company and doing a heck of a job.

But I am looking at my finance staff around the table and I can tell you I don't think they necessarily share your judgment. That said, I am always happy to -- we do comp studies and look at all this stuff. I would love, love, love your feedback off-line. Feel free to give me a call anytime.

Kevin Hanrahan - *KMH Capital Advisors - Analyst*

I will call you.

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

Great.

Operator

[Dan Weston], Westcap Management.

Dan Weston - *Westcap Management - Analyst*

Thanks for taking the questions. Most have been answered at this point; just a couple of follow-ups.

Back to the commentary about the expenses that you thought may not recur again on the marketing side, the $3 million and then the additional $900,000, I guess, one-time expense that we are trying to get a handle on. If I am looking at the Exchange business on its own at an adjusted EBITDA loss of about $6 million, are we saying that we can strip those costs directly out of that EBITDA loss?

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

I think so.

Dan Weston - *Westcap Management - Analyst*

Okay, fine. Was there any other one-time costs that -- in addition to the $3 million and the $900,000 that we could extract out as well?

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

I guess you could also the run rate of the -- not just the restructuring charge, but we took -- we reduced our run rate of corp expenses by, call it, $0.05 million a month. Was it that much? $0.5 million for the quarter, so that will come out going forward. That happened fairly -- and some of that, by the way, has not been taken.

We gave people some notice that once the deal closes we don't -- we wanted to give them advanced notice so that they could go start planning transitions and things like that. But once the deal closes we will take -- expenses will come down about another $0.5 million a quarter there.

Dan Weston - *Westcap Management - Analyst*

Okay, good. And I appreciate that. Then in terms of the loan-loss reserves, the $4.3 million, so did you give us what exactly the aggregate loan-loss reserve you have on your books after Q2 was?

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

I want to say it's $24 million.

Dan Weston - *Westcap Management - Analyst*

$24 million.

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

That will be in the Q on Monday.

Dan Weston - *Westcap Management - Analyst*

Got you. Okay, so as we move towards a potential closing, the way we should look at it is the $36 million of cash paid at closing will come to you minus whatever your loan-losses turn out to be?

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

Yes, the way technically it will work is actually this. So they have bought assets of Home Loan Center Inc. so Home Loan Center Inc., as an entity, will still be there. I will have to -- so on the day after closing there will be a corporate entity that will have a bunch of cash, the $36 million, it's going to have a bunch of liabilities and loan-loss reserves, and it's going to have some other assets in loans held for sale.

Basically the pipeline that is closed but not -- that is funded but not sold will be ours and then we need to wind that pipeline down over the coming weeks and months. We will have office leases and some other things that Discover didn't take, and then we got to wind -- we got to go through kind of an asset wind-down process.

And on the loan-loss side that will be a reserve. There is several ways those things normally get played out. You could either settle with those with your investors or you could just let loans come in and debate loan-by-loan over the coming years, and that is going to be a process that we will have to deal with post-closing.

Dan Weston - *Westcap Management - Analyst*

So post-closing the loan-loss reserves may not be alleviated or worked through, we are talking about for the next maybe two-plus years?

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

Theoretically. That is not the way I plan to do it, but theoretically you could leave that reserve around forever and just deal with it loan by loan. And by the way, our investors, they may think this is where you get into the cash discussions. They might think that the number should be more.

The $23 million is based on our math of what comes in and the way we do reserves. They may have a different view of that and they may think that number is high or they might think that number is low. And that is a big -- that is why I want everybody to be cautious on the cash balance.

Really the way I think of the business is cash will be what it will be. We will have enough of it, but we are not going to be so flush that the valuation is really going to be based off the cash. It's really going to be based off of the, hopefully, very profitable nature of the business going forward and putting up -- and growth and that is where we want to be.

I mean, basically, what I want to be going forward is real top-line growth, real bottom-line growth, and get a fair valuation on top of that as a growth Internet lead gen leader with a great brand. And if we can't do that I owe you guys the service of giving it to somebody who can.

Dan Weston - *Westcap Management - Analyst*

Fair enough. So just a couple of more quick follow-ups. So the sales and marketing expense, obviously there is some one-time non-recurring costs there but post-transaction normalized should sales and marketing expense be somewhere in the 50% of revenue range?

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

It should be about 60% of revenue. We target a 40% margin.

Dan Weston - *Westcap Management - Analyst*

60% of revenue, okay.

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

(multiple speakers) the revenues grow, so you are going to get -- that is how you -- the way I model the business in my mind is I am hoping to get revenue growth, spend 50% to 60% on marketing and have a nice lean overhead staff on the rest of it, and start dropping some to the bottom here.

Dan Weston - *Westcap Management - Analyst*

Fair enough. Did you quantify how much of the exchange revenue was booked into your discontinued operations during the quarter or can you?

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

None of it.

Dan Weston - *Westcap Management - Analyst*

Let me ask it a different way. I thought that there was some revenue that gets, some matched revenue that gets booked into LTL while the deal is still in motion, and then post to deal you will be able to get some of that money back that was previously reported in LTL. Is that not true?

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

Hold on one second. Let me do a little research here.

There is absolutely no exchange revenue in that number that represents the marketing expense for the exchange. When we were talking about the fact that there is that $3 million at LTL that basically is the fact that we could make more money if those

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leads were sent to the network and we could then reduce marketing expense. But that is all factored into the disc ops section, not the continuing ops section.

Dan Weston - *Westcap Management - Analyst*

Got it, thank you. A couple quick ones. The closing itself, do you have any better clarity at this point if you will be able to structure this as a tax-free sale?

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

We have talked about this previously I believe. I do not expect there to be any tax leakage whatsoever.

Dan Weston - *Westcap Management - Analyst*

Okay, fine. And then is there any commentary you can give us in terms of just what you have heard from either Discover or yourselves in terms of the conditions that are still out there? For instance, do you know if Discover at this point has obtained approval for the FDIC bank merger application?

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

It wouldn't be -- I don't think it would be appropriate for me to talk about that. I think I got to let Discover comment on those types of things.

Dan Weston - *Westcap Management - Analyst*

Okay. And lastly, I just want to make sure I understand this. You burned about $20 million in cash from Q1 to Q2 and should Q3 look materially different on a cash basis than it did in Q2?

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

It better or you should fire me.

Dan Weston - *Westcap Management - Analyst*

Okay. I think that is all I have for now. Thanks very much.

Operator

Mark Mahaney, Citi.

Mark Mahaney - *Citi - Analyst*

Just a quick question on some trends that you are seeing in July and August. Bankrate was out saying they have seen very strong trends for July and August is even stronger. Just wanted to see what you are seeing out there in terms of the lead business and where the strength is coming from.

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

The answer is absolutely, yes. The volume right now -- volume was up in July, although we still had some of that unprofitable kind of marketing stuff in July that we wound down. August is very, very strong.

The flipside is revenue. As I kind of said, before it's net positive but it's not crazily net positive. We reduce our marketing spend, the leads come flowing in. They don't all match lenders and so a Bankrate -- lenders with us can kind of come in and out of the market a little differently and our pricing adjusts. So I think you might see on a Bankrate, for example, their pay per click business is probably going to be strong, plus they had zero marketing. They don't do a lot of marketing expense.

So my guess is, for example, everybody -- if you go to a Bankrate rate table everybody gets quote match. You click on a thing and they get to bill you. With LendingTree you fill out a form and if I don't have demand for leads at that moment you may not get matched and my demand for leads is way down. So I only get money if I can actually match you, which is why we cut price to try for overflow to try to make sure there is demand for leads.

Mark Mahaney - *Citi - Analyst*

Got it. Thank you.

Operator

Nick Zamparelli, Chartwell Investments.

Nick Zamparelli - *Chartwell Investment Partners - Analyst*

Thanks, guys. Just a real quick one, the current balance for loans held for sale?

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

I think we just said it was $24 million.

Nick Zamparelli - *Chartwell Investment Partners - Analyst*

It's $24 million now?

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

I am sorry, that was loan losses. Loans held for sale is $114 million.

Nick Zamparelli - *Chartwell Investment Partners - Analyst*

$114 million. How should we think about at closing from here, I don't know if there is any kind of seasonality, but should that number trend up or down or kind of stay the same?

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

I think it will trend up, but I am not sure. It's the -- because what is happening right now the market is so strong, so theoretically that number should be higher. But -- by the way, that number -- I just got corrected -- is actually $126 million held for sale.

That number will probably trend up just given the strength of the market. At the same time the way the deal works is we get the funded pipeline and they get the unfunded pipeline, and we got to watch our warehouse lines, etc. So we want to manage that number to not get too crazy because, quite frankly, I don't want to be in the loan sale business post closing.

Nick Zamparelli - *Chartwell Investment Partners - Analyst*

Understood. And then your current line of credit balance?

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

I believe we got a total of $150 million between the two.

Nick Zamparelli - *Chartwell Investment Partners - Analyst*

And what is drawn on it?

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

Well, it's basically -- let me get a number, hold on one second. Tracking it down here; it will be just a second.

Nick Zamparelli - *Chartwell Investment Partners - Analyst*

Okay.

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

$114 million.

Nick Zamparelli - *Chartwell Investment Partners - Analyst*

Okay, okay. That makes --

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

We turn that sucker a couple, few times a month. We are really good at turning that.

Nick Zamparelli - *Chartwell Investment Partners - Analyst*

Understood. Okay, great. Thanks, guys.

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

Thank you very much.

Operator

We have no further questions at this time.

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

Well, thank you all very much. I know there is a lot to digest here for a company in transition. We are working hard and look forward to giving you results in just a few months from now. Thank you very much.

Operator

Ladies and gentlemen, that does conclude today's conference. We thank you for your participation. Have a good day.
