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Dara Khosrowshahi – President, Chief Executive Officer & Director
Mark D. Okerstrom – Executive Vice President & CFO

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by. Welcome to the Expedia Inc. fourth quarter earnings conference call. During today's presentation, all parties will be in a listen-only mode. Following the presentation, the conference will be open for questions. [Operator Instructions] This conference is being recorded today, Thursday, February 9, 2012.

I would now like to turn the conference over to Alan Pickerill. Please go ahead, sir.

Alan Pickerill, Vice President-Investor Relations

Thank you, Joe. Good afternoon and welcome to Expedia, Inc.'s financial results conference call for the fourth quarter and year ended December 31, 2011. I'm pleased to be joined on the call today by Dara Khosrowshahi, Expedia's CEO and President; and Mark Okerstrom, our CFO.

The following discussion, including responses to your questions, reflects management's views as of today, February 9, 2012 only. We do not undertake any obligation to update or revise this information.

As always, some of the statements made on today's call are forward looking, typically preceded by words such as we expect, we believe, we anticipate, or similar statements. Please refer to today's press release and the company's filings with the SEC for information about factors which could cause our actual results to differ materially from these forward-looking statements.

You will find reconciliations of non-GAAP measures to the most comparable GAAP measures discussed today in our earnings release, which is posted on the company's IR website at expediainc.com/ir. I encourage to you periodically visit our Investor Relations site for important content, including today's earnings release.

Finally, unless otherwise stated, all references to cost of revenue, selling and marketing expense, general and administrative expense, and technology and content expense excludes stock-based compensation. And all comparisons on this call will be against our results for the comparable period of 2010.

With that, let me turn the call over to Dara.

Dara Khosrowshahi, President, Chief Executive Officer & Director

Thanks, Alan.

The fourth quarter wrapped up a solid year for Expedia. As promised, we completed the spinoff of TripAdvisor in the fourth quarter, unlocking significant value for our shareholders. This was a significant effort from a lot of folks in our organization, and we're happy to have successfully completed the transaction. We are now completely focused on our standalone travel transactions business and eager to prove that we can achieve healthy and meaningful top line and profit growth in the years to come.

We're investing in key technology projects on modern platforms that will allow us to innovate much more quickly. Additionally, we're investing in international expansion in order to position the business well for long-term growth. As such, although we saw transaction growth of 11%, gross bookings growth of 12%, and revenue growth of 14% for the full year, these investments led to cost deleverage, with adjusted EBITDA growing just 1%. For the fourth quarter, gross bookings grew 10%. Revenue grew 7%, while adjusted EBITDA was down 4% year on year. Mark will have more to say about this after my remarks.

Our key technology projects are on track and proceeding as expected. As we mentioned last quarter, the Expedia brand hotel product is on the new platform, and the team is testing and rolling out new innovations that are showing early signs of success.

While the overall Expedia brand performance for the quarter was unsatisfactory, its standalone hotel room night growth, as measured on a booked basis, improved for the quarter compared to what we saw in Q3, and conversion is headed in the right direction. Air and packages continue to perform poorly, however, and are weighing on that business. We believe that air and packages are key to the Expedia brand value proposition, and we'll continue to invest appropriately.

We successfully tested the new air product for Expedia brand sites and will roll it out through Q1, with a majority of traffic expected to be on the new platform, end-to-end air path, by the end of the quarter. We also moved portions of the package product onto the new platform, but we still don't expect to have the end-to-end packages product finished until the back half of 2012.

To be clear, we don't expect the improvements from this platform work to have a meaningful impact on Expedia brand's financial returns until the back half of 2012, but it is one of our top priorities and we're optimistic we will see things begin to turn.

We continue to progress on our international expansion, with hotels.com in particular seeing healthy room night growth across all regions. Our Expedia brand is six months into its joint venture with AirAsia, and we see excellent growth rates and progress in that new business. Although we don't consolidate the results for the JV, including it would have contributed roughly 200 basis points of total room night and revenue growth for the fourth quarter.

Importantly, the Expedia brand launched 11 new points of sale in 2011, representing a new record for that brand. And this week marks the full consumer launch of Expedia Mexico, which now features our full air product.

Mark will spend more time on the quarterly results but I did want to highlight our robust 19% room night growth, 21% if you include the AirAsia joint venture, this quarter. With the exception of the Expedia brand, all of our major brands delivered year-on-year room night growth this quarter as good or better than what we saw in Q3. Overall room night growth in APAC accelerated nicely, while room night growth for the EMEA and Americas region was roughly similar to what we saw last quarter. Importantly, we continue to grow room nights at a healthy pace in the U.S. despite its relative maturity, showing that there's still plenty of growth to be had here in what is our most mature market.

We spent a total of $134 million on increased investments in eLong during 2011. We believe that China represents a unique and extremely sizeable opportunity, and we're happy to be able to continue investing in that market.

Through Egencia, we're also pleased to have completed the acquisition of Traveldoo in the fourth quarter, a leading European provider of corporate online booking tools to enterprises and TMCs. The acquisition addresses a new segment of the managed travel market that we don't capture with Egencia's integrated solution. And although the business operates under Egencia, we'll run Traveldoo on a completely standalone business. In many cases, Traveldoo will compete with Egencia in the same way that our leisure brands compete with one another today. We're excited about the corporate travel space, and this acquisition adds to our portfolio of leading companies as we continue to position the business for long-term growth.

In closing, with 2011 behind us, we're squarely focused on executing our 2012 plans. All of our brands are doing quite well with the exception of the Expedia brand. We know we have to turn that business around and we have a good playbook and the teams are executing. As we move into 2012, we'll face some really tough expense comps early in the year, but those will abate as the year progresses. By the end of the year, we'll have completed our key technology projects, setting us up for faster profit growth in what we think will be an excellent 2013. The business continues to generate significant annual free cash flow, and we'll be disciplined in our capital allocation and our stewardship of that cash.

With that, let me turn it over to Mark.

Mark D. Okerstrom, Executive Vice President & CFO

Thank you, Dara.

From a financial perspective, Q4 came in largely as we expected. Strong room night growth was the gross bookings and revenue driver for the quarter. Room night growth was broadly strong across all regions, with mid-teens growth in the Americas and EMEA region and much faster and accelerating growth in APAC. Revenue per room night, however, was down 5%. And the gap between 2% growth in ADRs and the decrease in revenue per room night was driven primarily by four key factors, each of which I would roughly equal weight.

We had a year-on-year headwind from the foreign exchange book-to-stay impact. Note that although this depresses revenue per room night, it is largely offset from an economic perspective through our hedging program and has relatively little impact on adjusted EBITDA. Mix also pushed down the revenue per room night. As we saw last quarter, we saw faster growth in our chain hotels versus independents.

The cost of our loyalty programs also had an impact. For the Expedia brand, this is a relatively new program which we did not have in place this time last year. And for hotels.com, this is a program that we recently rolled out to all of our international markets. Note that we manage this item more like a selling and marketing expense, but we do record it as contra-revenue. And as we mentioned last quarter, we continue with certain competitive pricing actions designed to ensure that we are putting the best possible deals in front of our customers.

As expected, our air business was down sharply in the quarter due to an 8% decline in ticket volume combined with an 11% decrease in revenue per ticket. The revenue per ticket pressure came from a combination of lapping the change to our merchant air accounting, we described last year, and lower overall unit economics from recently negotiated contracts. These were partially offset by higher interline fees and consumer fees on certain international points of sale. Generally, we are expecting continued pressure on the air business in 2012.

From a brand perspective, we once again saw strong revenue performance pretty much across the board with the exception of our Expedia brand, which was down 9% year on year. Revenue growth for the total business excluding the Expedia brand was 21% for the quarter.

Running through key expense categories, we saw nice leverage in cost of revenue this quarter, which was aided by an easier comp for Q4 due to an acceleration of some non-refundable merchant fees and some one-time adjustments in Q4 2010. As expected, selling and marketing grew faster than revenue, driven largely by mix shift into our Expedia Affiliate Network and hotels.com businesses. This impact was partially offset by a reduction in selling and marketing for Expedia. In addition, selling and marketing head count grew across most of our brands as well as within our supply organization.

Technology and content grew 29% for the quarter as we continued to see year-on-year impact of the buildup of head count needed to complete the key technology projects which we have discussed previously.

Growth in G&A expense was much higher than we certainly are striving for on an ongoing basis due to a number of factors which are individually insignificant but when combined with growth in people cost drove deleverage. These included a tougher year-on-year bonus comp, consulting costs for the reorganization of our supply group, and increased expenses related to our efforts to turn the Expedia business around. Also, as we mentioned last quarter, we did have one-time expenses of roughly $7 million in Q4 related to our London office move. This item is spread across multiple expense categories.

Moving on to taxes, our GAAP effective tax rate was lower than expectations for the fourth quarter and certainly lower than we can expect going forward. This was primarily due to a higher proportion of international earnings and favorable adjustments to our valuation allowances. Please note that our go-forward blended tax rate will be lower than it was when we owned TripAdvisor since the travel transaction business has a higher relative proportion of earnings in international regions with lower tax rates. Though precision can be difficult on this one, we would expect our effective rate to be in the range of 25% to 28% in 2012. We've had some favorable adjustments in the last couple quarters, and the obvious caveat here is that these can sometimes go the other way.

Free cash flow totaled $618 million for the full year and grew a robust 32%. We used a portion of that free cash flow to make acquisitions and investments totaling just under $200 million, including the Traveldoo acquisition and the eLong transactions mentioned earlier.

During the year we also repurchased 10.6 million shares on a pre-split adjusted basis of Expedia for just over $280 million. And we paid out a total of just over $75 million in dividends. As we've said consistently over the years, we generate robust cash flow, and as such can invest appropriately in the business while making opportunistic acquisitions and returning cash to shareholders. As you may have seen in our earnings release, our quarterly dividend is now $0.09 per share effective for the March payout.

In terms of our financial expectations for full year 2012, we are expecting adjusted EBITDA growth in the mid-single-digit range. As a reminder, our revenue is significantly more seasonal without TripAdvisor, and our expense comps are quite tough in the first and second quarters, with easing expected as we move throughout the year. As such, we expect most of our adjusted EBITDA growth to build in the back half of 2012. Note that we are basing our guidance on the foreign currency rates that we can see now and we don't try to forecast any future FX fluctuations

Before I wrap up, a few quick housekeeping items; as we mentioned last quarter, you'll see from our recent disclosure that we switched to adjusted EBITDA as our primary operating metric. It's effectively OIBA [Operating Income Before Amortization] plus depreciation with one other primary difference being the additional exclusion of reserves for occupancy tax litigation settlements. Occupancy tax settlement reserve items are now outside of our core non-GAAP operating measure and outside of G&A. Going forward, they reside in the legal reserves, occupancy tax, and other line item of our GAAP financials, and I would encourage investors interested in these matters to read the related disclosures in our SEC filings. You can see the complete definition of adjusted EBITDA in our earnings release along with the reconciliation to GAAP measures.

Further, for Q3 we had estimated that our international gross bookings grew 6% on a currency-neutral basis. Since then, however, we have taken another look at this and now estimate that international gross bookings actually grew 14% in Q3 on a currency-neutral basis.

Lastly, as part of the TripAdvisor spinoff, we retired our 8.5% notes. The expense associated with this is just under $40 million and will be recorded in the first quarter of 2012. The expense will be recorded in discontinued operations, and as such will be excluded from adjusted EBITDA and adjusted net income.

With that let's turn to questions. Operator, would you please remind listeners how to ask a question?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of Tom White from Macquarie. Please go ahead.

<Q – Tom White – Macquarie Capital (USA), Inc.>: Great, thanks for taking my question. I had a quick follow-up on the ADR growth versus revenue per night. Thanks for the extra color there. On the couponing and loyalty piece in particular, how should we think about that over the course of 2012, any change to the way you guys are going to be doing that, I guess maybe based on macro factors? Thanks.

<A – Mark Okerstrom – Expedia, Inc.>: Sure, I think there are two pieces of that question, one on couponing, the other on loyalty. If it's couponing, if you're talking about the competitive pricing actions, I think listen going forward, when we see ADR and ATPs such as they have been, you can expect to see that happening. Now, ADR growth has slowed down a little bit, so it's potentially in 2012 you could see that item easing, but it's tough to say. You'll have to see how things unfold.

On loyalty, the thing that's really impacting that item in this quarter and last quarter is the fact that we didn't have the Expedia program last year at this time, so you've basically got a really difficult comp. Now that program was rolled out in probably Q1, early part of Q2. And so as we roll through 2012, the comps on that front will get easier. We also saw an expanded rollout of the hotels.com program which, again, is to some extent, a one-time item. That happened basically in Q4. So again, you'll see that with a little bit tougher comps throughout 2012. I will say with loyalty, it's one of those items that as these programs mature, they start to harden up. Until that happens, you can sometimes see fluctuations in the loyalty accruals, which certainly we did see last quarter.

<Q – Tom White – Macquarie Capital (USA), Inc.>: Great, thank you.

Operator: Thank you very much. Our next question comes from comes from the line of Naved Khan with Jefferies. Please go ahead.

<Q – Naved Khan – Jefferies & Co., Inc.>: Thanks, it's Naved Khan from Jefferies. If you look at Europe and you were to comment about the environment you saw in Q4 and you're seeing today in terms of major bookings, can you give us some more color as to what's going on in the different markets there, especially between Northern Europe and Southern Europe?

<A – Dara Khosrowshahi – Expedia, Inc.>: Hi, Naved. We haven't seen too much change. Last time we talked to you, we said we saw some spotty weakness in Southern Europe as far as economies and the effect on travel spend, and we haven't seen much change here. I think the significant change in Europe between Q3 and Q4 are foreign exchange rates that really started going against us fairly significantly in Q4 with all the news coming out of Europe. But operationally, European room nights, et cetera, generally were stable. I'd say Expedia in Q4 had a bit of a weaker quarter in Europe than what you saw in Q3, but I think that was more of an Expedia issue versus a macro issue.

<Q – Naved Khan – Jefferies & Co., Inc.>: Okay, good. And then about the revenue per room night coming down, I think one thing you mentioned was the mix. And when you think about the mix, what's driving the shift towards – I want to say the larger hotels versus the independents?

<A – Mark Okerstrom – Expedia, Inc.>: Sure, so there are a couple of things driving that. One is we have seen, particularly with hotels.com, exceptionally strong growth in the U.S. And the U.S. is a market that is much more chain-heavy than Europe, so that's one driver. We've also seen pretty strong performance by the chains in Europe. But I think – listen, if we could pin it on something, it would probably be growth in the U.S. and those good partners of ours utilizing our channel effectively.

<A – Dara Khosrowshahi – Expedia, Inc.>: Naved, I'd also add that when we get in early into markets, for example, the Asia-Pacific markets, because we have global deals with chains, we have instant chain inventory and very high quality chain inventory in those markets. And then typically, we go into the market and we fill out not only the chain inventory with independents, et cetera. So when we talk about the Asia Pacific markets, for example, and we're seeing lots of acceleration there and we're adding inventory there, the chains do get a good bit of market share in those marketplaces. Then we'll look to fill out the independent hotels as well. So right now we've got very good relationships with the chains. They merchandise quite effectively in our marketplace. And we find that the supply partners who have the closest relationships with our market managers on the ground tend to merchandise pretty effectively and they get an unfair share of our demand, and the chains are doing a really good job of that.

<Q – Naved Khan – Jefferies & Co., Inc.>: Okay, great. And then the last question is about the Groupon partnership and how that might have contributed to – especially around the – on room rates -
room nights, sorry.

<A – Dara Khosrowshahi – Expedia, Inc.>: The Groupon partnership at this point is too small a contributor to the full business. We're very happy with our partnership with Groupon. I think they announced pretty amazing results maybe yesterday. But at this point, it's just too small to move the needle overall. I would say eLong, for example, in China, as it gets to be a larger percentage of our overall volume, could move the average ADRs. And in general, we are also working on other flash sale-type products. Expedia has a great product called ASAP, which is A Sudden Amazing Price. Travel-Ticker is a nice business as well. Those businesses I think are already at a larger scale and over time could affect the balance of ADRs going forward. So Groupon isn't significant yet. Hopefully, it will be.

<Q – Naved Khan – Jefferies & Co., Inc.>: Great, thank you.

<A – Dara Khosrowshahi – Expedia, Inc.>: You're welcome, next question.

Operator: Our next question comes from comes from the line of Mark Mahaney with Citi. Please go ahead. Your mic is open, please go ahead.

<Q>: So this is [ph] Eric (22:05), one of Mark's associates, calling from his line. We were interested in knowing if the competitor pricing actions happened in the U.S. or internationally. Thanks.

<A – Mark Okerstrom – Expedia, Inc.>: Hi, Eric. Sure, it is a mix. Generally, the biggest driver there is Hotwire with their opaque rates. Again, they have got a very price-sensitive customer. And in environments like this, they do drive significant volume through discounting, so that would be the primary driver. There are a few other things scattered around the world, but it's mostly the U.S.

<A – Dara Khosrowshahi – Expedia, Inc.>: We're also in general, we're testing customer sensitivity to package pricing. And in general, we're working on our revenue management with packages pretty aggressively, so that's a worldwide endeavor. It's in the U.S. It's in Europe, and it's in the Asia-Pacific regions as well.

<Q>: Great, thanks.

<A – Dara Khosrowshahi – Expedia, Inc.>: You're welcome, next question.

Operator: Thank you. Our next question comes from the line of Doug Anmuth with JPMorgan. Please go ahead.

<Q – Bo Nam – JPMorgan Securities LLC>: Hi, this is Bo on behalf of Doug. I just had two quick questions. One is can you give a little bit more detail about hotels.com's performance in APAC and Latin America; and then secondly, if you can provide any color on your plans for buybacks going forward in 2012? Thank you.

<A – Dara Khosrowshahi – Expedia, Inc.>: Mark is going to answer that question on behalf of me.

<A – Mark Okerstrom – Expedia, Inc.>: Thank you, Dara. Listen, I don't want to get into specific by brand, by region performance. What I will say, though, is that hotels.com has got a pretty effective formula that works around the world. I think they're growing significantly in the U.S, a pretty mature market. They're seeing very healthy growth rates in Europe. They're seeing really nice growth rates in Asia-Pacific and have had a lot of success in Brazil and other parts of Latin America.

So I would say that the hotels.com business, although certainly growing faster in Asia-Pacific, it's faster in Latin America than the other regions, has really got a formula that's working globally. And I think if you look, just to give you a few numbers, in Asia-Pacific that growth is triple digit. So it's pretty significantly and they have seen acceleration quarter to quarter. So there's still plenty of opportunity there, lots of headroom, big markets. They've got a formula that just seems to be working.

<A – Dara Khosrowshahi – Expedia, Inc.>: As far as the buyback question, I think, listen, look at what we've done in the past. I think our capital philosophy as a company hasn't changed, which is we create very significant cash flow. We will allocate that cash flow to the best use of cash. And over the past couple years, because of the health of our cash flow, that has been a mix of M&A and buybacks. We very much believe in reducing our share count over the long term, and that should not change on a go-forward basis. We'll be opportunistic, but over the long term I think you should expect to see buyback activity from us.

<Q – Bo Nam – JPMorgan Securities LLC>: Great, thank you.

<A – Dara Khosrowshahi – Expedia, Inc.>: You're welcome.

Operator: Our next question comes from comes from the line of Michael Millman with Millman Research Associates. Please go ahead.

<Q – Michael Millman – Millman Research Associates>: Thank you. It seems that the chain hotels are working very diligently to disintermediate themselves from OTAs and others. It looks like, on the other hand, that that's a large part of your business. The biggest growth you had was in merchant. I wonder how much risk you see in – I don't know if putting all your eggs in one basket is appropriate, but something like that.

And secondly, given that it looks like enplanements have been soft in the last couple months, airlines reducing capacity; same thing looks like it's happening in car rentals. Could you talk about what you see happening going forward in pricing and availability in both airlines and car rental? Thank you.

<A – Dara Khosrowshahi – Expedia, Inc.>: Sure, sure. As far as the chain hotels, listen, they're working on their own initiatives, but our relationships with the chain hotels on the ground remain very, very strong. And obviously, our volume remains quite strong. I think that the chain hotels view their business very similarly to how we view our business, which is you want to make sure that you have a balance of direct business, and you want to make sure that you are getting as much share as you can from the large marketing channels out there.

So would I rather have a direct booker than a booker from Google? I'd rather have a direct booker. But I am doing everything that I can to build a relationship with Google, make sure we're great at search engine marketing, make sure we're great at SEO, et cetera. And then I think the chains are doing the same thing with us, which is we're seeing very good work with them. We have great merchandising partnerships with them, and we run terrific promotions with them, and we don't see that changing. And I think they're doing exactly what they should be doing, which is making sure that they've got a good balance of direct business as well.

This is a very, very large industry. It is a global business. And I think during this recovery, you're seeing businesses like ours grow and you're seeing the chains grow. And the point is that in this kind of economic recovery, travel is a great place to allocate capital, and travel companies are going to grow. So I don't see a significant risk there as long as we do what we're doing, which is provide a great product for our consumers everywhere and being great partners for our suppliers.

<Q – Michael Millman – Millman Research Associates>: So you see a significant risk in profitability from that business?

<A – Dara Khosrowshahi – Expedia, Inc.>: Not as long as we grow volume, as long as we build great service for consumers. I think we've demonstrated to you that we've been able to grow room nights at healthy rates. And as long as we grow room nights at healthy rates, I think the revenue will follow.

As far as your second question as far as enplanements being soft at airlines, in general we are seeing some pricing softness from our car partners. The good news is that we're seeing very, very strong opaque inventory on the Hotwire side, and that business is really doing quite well. We're also seeing a lot of competition from what I would call Tier 2 and Tier 3 vendors as far as pricing against the top brands out there, which is hitting pricing to some extent. The car companies, I think the fleets are at an appropriate size, but I think the car companies have to be a bit more aggressive on pricing in order to get the utilization of the fleets to where they need to be. So those are the trends we're seeing on the car business. We don't expect those trends to change going forward.

<Q – Michael Millman – Millman Research Associates>: Thank you.

<A – Dara Khosrowshahi – Expedia, Inc.>: You're welcome, next question?

Operator: Thank you. Our next question comes from the line of Herman Leung with Susquehanna. Please go ahead.

<Q – Herman Leung – Susquehanna Financial Group LLP>: Great, thanks, two quick questions for you guys. First is you talked about some contra – the cost of the loyalty program that you just launched in Expedia and hotels.com. I just wanted to be clear, so that's a contra-revenue item. So I was wondering how much revenue was understated because of some of these new loyalty programs.

And then second, I was wondering if you're also, given that FX declined from third quarter into the fourth quarter, if you're seeing a little bit higher demand from U.S. travelers over to the European site. Thanks.

<A – Mark Okerstrom – Expedia, Inc.>: Got it. So on the impact of loyalty contra-revenue, I don't want to get into specific numbers. But if you thought about that for the quarter as call it high single digits, low double digits, you'd be in the right ballpark. So not a massive number yet, but in low periods like this as the programs are building, it can have a pretty significant impact.

In terms of FX declines impacting U.S. volume, we haven't seen a lot of that yet, and I think it's tough to tell. The FX rates were just so, so volatile that it's difficult to see where things will settle out and what will happen, but we haven't really seen that impact.

<Q – Herman Leung – Susquehanna Financial Group LLP>: Great, thanks.

<A – Dara Khosrowshahi – Expedia, Inc.>: You're welcome, next question.

Operator: Thank you, sir. Our next question comes from comes from the line of Justin Post with Bank of America Merrill Lynch. Please go ahead.

<Q – Paul Bieber – Bank of America Merrill Lynch>: Hi, this is Paul Bieber for Justin Post. Thank you for taking my question. I was hoping you could provide some color on the ADR growth in Europe, North America, and Asia. And then secondly, how would you characterize the overall CPC environment? And then I have a quick follow-up your question afterwards.

<A – Dara Khosrowshahi – Expedia, Inc.>: Sure. I think in general, ADR growth has been fairly healthy in both the U.S. and Europe. I would say low single-digits growth, and it has been fairly consistent. European ADRs did take a negative – the growth rate in European ADRs slowed down because of FX, foreign exchange. The same went for APAC. So I would say on a same-currency basis, things didn't change. But on a U.S. currency basis, the international ADRs that were quite strong at the beginning of the year became less strong in Q4. But again, that's not a fundamental issue. That is purely a foreign exchange issue.

As far as CPCs go, we've seen CPCs. In general, we haven't seen very significant movement on CPCs in most of our different marketing segments. In general, we've seen CPCs move up and down with ADRs, and we're not seeing a significant change in that area.

<Q – Paul Bieber – Bank of America Merrill Lynch>: And then I just wanted to make sure. Did you say that the European room nights were stable quarter over quarter with the growth?

<A – Dara Khosrowshahi – Expedia, Inc.>: Yes.

<Q – Paul Bieber – Bank of America Merrill Lynch>: Okay, thank you.

<A – Dara Khosrowshahi – Expedia, Inc.>: You're welcome.

Operator: Thank you, sir. Our next question comes from the line of Ross Sandler with RBC Capital Markets. Please go ahead.

<Q – Ross Sandler – RBC Capital Markets Equity Research>: I have, Dara, a couple questions. Where do you think hotel room night growth can go once the Expedia.com upgrade kicks in? I think you start to comp the acceleration at hotels.com mostly in the first quarter, if I recall correctly. So can you maintain this current level or potentially accelerate into the back half?

And then, Mark, the merchant revenue margin declined a little more than expected, 240 basis points year on year. Is that from the same factor that impacted revenue per room, or is there anything one-time that impacted that margin, including some of the renegotiations with partners, or is that mix, a little color there? Thanks.

<A – Dara Khosrowshahi – Expedia, Inc.>: Hi, Ross. On the room night growth, listen, all other things being equal, when E3 is complete, I would expect to see room night growth accelerate for Expedia, not only standalone room nights but especially package room nights that have been a negative factor, and I would hope to see that in the second half of the year. Again, we haven't done it, but that's why we're investing the way that we are on the technology side.

We're not going to make predictions on where hotels.com room night growth and our private-label room night growth are going to go other than saying that they have been healthy. Hotels.com has already lapped the big increase in acceleration in room nights that it experienced, so the lapping has already happened. And hotels.com has continued to maintain high revenue – sorry, room night growth. And hopefully with execution, we'd expect to see that continue on a go-forward basis. But again, we know that we have to prove that out to you. I think the Q4 room night number was really healthy, and I think it was really healthy without Expedia hitting on all cylinders. So if we can hit on all cylinders, we could see things get better. But those are a lot of ifs at this point. Mark, do you want to talk on...

<A – Mark Okerstrom – Expedia, Inc.>: Sure. So, Ross, on the merchant revenue margin decline of 240 basis points, on a year-on-year basis there are a few things going on there. One is you've got essentially the same impact from the revenue per room night decline, so the same drivers that I mentioned on that front. You've also got a tough comp on the air side because in that number is also the Q4 2010 essentially pull-in of revenue that you're comping over. So those things basically hit it. So there are certainly some one-timers in that decline, nothing significant to report on actual like-for-like margin declines in terms of renegotiations with partners, pretty good on the hotel side. There is obviously some headwind on the air side, although generally that has been less probable in the merchant air side of the thing.

<Q – Ross Sandler – RBC Capital Markets Equity Research>: Okay. And if I can just follow up, I think you guys, you're comping the American Airlines quarter next quarter. So taking that in context with the comment on the EBITDA growth for the first half versus second half, is there any additional investment that you're making, or is it just that the seasonality is a little more accentuated now that TripAdvisor is not in the mix?

<A – Mark Okerstrom – Expedia, Inc.>: The big thing is the seasonality combined with the fact that in 2011 we brought on a significant number of technology heads through the quarter. So you've got the confluence of two things conspiring against us in Q4, which is our lowest seasonal revenue, combined with really tough expense comps. So that's the biggest really impact, if you want.

<Q – Ross Sandler – RBC Capital Markets Equity Research>: Okay. Thanks, guys.

<A – Mark Okerstrom – Expedia, Inc.>: Thanks, Ross.

<A – Dara Khosrowshahi – Expedia, Inc.>: Thank you.

Operator: Our next question comes from comes from the line of Brian Nowak with Nomura. Please go ahead.

<Q – Brian Nowak – Nomura Securities International, Inc.>: Thanks, I have two quick questions. First of all, are you seeing any changes in market share in any of the larger U.S. metropolitan areas where it seems Booking.com has been getting access to more inventory? I'm just curious about any competitive updates.

And then the second one is also semi-related to the U.S.; any updates at all on the Marriott negotiation they mentioned a few months ago, then any other key contracts coming up for renewal? Thanks.

<A – Dara Khosrowshahi – Expedia, Inc.>: As far as market share in the U.S., it's tough to tell. What we can say is that our U.S. room night volume remains quite healthy, and we haven't seen any change in the growth there. So to the extent that Booking.com is taking share, they're either taking share from supplier direct or offline or some of the other players. We're certainly not feeling it. We take them very, very seriously. They're a major, major competitor of ours, not only here in the U.S. but worldwide.

But as we said before, there's plenty of room in this marketplace, especially as long as we've got the tailwind of Internet penetration behind us. And I will add that, again, when you step back and you look at the U.S. market, our share of the U.S. lodging market has grown from low single digits to 5% over the past few years, and it continues to grow. And to us, that's the most important factor as far as market share goes.

As far as update on Marriott renegotiations, we don't comment on individual renegotiations with any of our large partners. At any point in time we are probably in discussions with a significant partner. We do have some key renewals this year. And once we're done with those renewals, we'll certainly report back to you on them.

<Q – Brian Nowak – Nomura Securities International, Inc.>: Okay, great. Thanks.

<A – Dara Khosrowshahi – Expedia, Inc.>: You're welcome.

Operator: Thank you, sir. Our next question comes from the line of Heath Terry with Goldman Sachs. Please go ahead.

<Q – Heath Terry – Goldman Sachs & Co.>: Yes, thanks. TripAdvisor spoke last night about declining CPCs. I was wondering if you're seeing any benefit to your marketing return on investment from that shift; and just more generally, where you're seeing the highest value or impact from your marketing spend online.

<A – Dara Khosrowshahi – Expedia, Inc.>: It's too soon to tell as far as TripAdvisor goes. We have taken some of our CPCs down from where we were when we were a combined company certainly, I say especially on the Expedia side. As Mark said, Expedia's marketing spend has come down year on year. But we are in the middle of measuring the relative volume effect relative to the increases or decreases in CPCs there. And we're right in the middle of it, so I think it's too soon to tell. I think our CPCs will settle out with TripAdvisor as the year moves on. They are an incredibly valuable partner to us. They continue to grow the channel. And with the amount of content that they have and their worldwide expansion, they are going to be a bigger partner of ours five years from now than they are today.

As far as our marketing ROI, the best ROI that we get on our marketing spend is bringing consumers directly to the site. It's the brand investments, it's investments that we're making in e-mail, et cetera. The difficulty in those investments is you don't see the direct ROI on those investments. So the strategy that we have is to keep investing in the variable channels, keep increasing our efficiency, hopefully, in those variable channels as we operationalize conversion improvements and just how good we are in those variable channels, and then try to convert more and more of those consumers through our loyalty programs and to direct consumers. It's a lot to do, but we think it's a sound strategy, and we're executing on it as we speak.

<Q – Heath Terry – Goldman Sachs & Co.>: Great, thank you.

<A – Dara Khosrowshahi – Expedia, Inc.>: You're welcome.

Operator: Thank you. Our next question comes from the line of Stephen Ju with Credit Suisse. Please go ahead.

<Q – Stephen Ju – Credit Suisse (United States)>: Good afternoon, guys. I wanted to dig a little bit more into the revenue per room night compression as it relates to eLong. I think that room night growth was around 40%. And it's my understanding that their commission rates are lower versus

Expedia overall, and I think their ADRs are lower as well. So is it conceivable that you may continue to see revenue per room night growth lag that of the volume growth, or is that impact too small to really discern? Thank you.

<A – Mark Okerstrom – Expedia, Inc.>: Sure. Steve, I don't want to get into eLong numbers because of course, they haven't announced yet. Of course, they were healthy through Q3, and they continue to be a pretty significant part of our overall room nights. I think, listen, generally that – and when we grow into APAC and LatAm regions, that movement into those markets could generally blend down our revenue per room night. And again, we're fine with that. We view those markets as very attractive. Generally, the marketing economics go with the revenue economics. So on a contribution basis, we're completely fine with that impact happening, and we're driving to the global opportunity and those markets are a big piece of that.

<A – Dara Khosrowshahi – Expedia, Inc.>: And we think it's almost like charging up a battery because over time, as those consumers move into more mid-market and higher market hotels, we will get the benefit of those revenue per room night increasing over a long, long period of time. So while short term it's pressure, long term we think it creates almost stored up earnings over a long period of time.

<Q – Stephen Ju – Credit Suisse (United States)>: Understood, thank you.

<A – Dara Khosrowshahi – Expedia, Inc.>: You're welcome.

Operator: Thank you. Our next question comes from the line of Kevin Crissey from UBS. Please go ahead.

<Q – Kevin Crissey – UBS Securities LLC>: Hi, thank you. Can you use your hotel partnership relationships with the airlines to encourage them to get Google to direct business to Expedia?

<A – Dara Khosrowshahi – Expedia, Inc.>: Explain that to me, again, Kevin, because it's an idea. I'm trying to understand what you're asking.

<Q – Kevin Crissey – UBS Securities LLC>: What I'm trying to ask is you're providing the hotel inventory for two of the largest U.S. airlines or two of the airlines in the world, actually the two largest, right?

<A – Dara Khosrowshahi – Expedia, Inc.>: Yes.

<Q – Kevin Crissey – UBS Securities LLC>: And at the same time, they're not directing you air traffic through Google Flight Search. Couldn't you provide economics that make that attractive to do?

<A – Dara Khosrowshahi – Expedia, Inc.>: We theoretically could, but those are two separate economic relationships and we're pretty pure about separating those businesses. Our private-label business, the business that powers Delta and Continental – United now, is essentially a standalone business of ours. It reports directly to me. It has its own technology team. It has its own profit and loss statement. It goes out and captures any and all business that it can, including business that could be competitive with the brands here versus the competition, which are often the ugly siblings of the brands.

This is an independent team. They've got their own technology. They're building amazing technology out there. They're growing room nights really fast, accelerating through 2011, and we think that this strategy could be a unique differentiator for us in the long term. So what I don't want to do is get in the way of that team that's executing incredibly well and mix up their issues with other issues that we may be having with Google or airlines, et cetera. Frankly, I want to stay the heck out of the way of those guys because they're doing great. So I don't want to mix the two. And we have lots of different relationships with the airlines and Google, and hopefully we can resolve those relationships on their own.

<Q – Kevin Crissey – UBS Securities LLC>: Okay, thanks. And as a follow-up, I've got a separate question here. I struggle a bit understanding where we are in the cycle overall, the economic/travel cycle, because if I look at corporate travel, it looks relatively normal over the last three years. You've had a sharp V-shaped recovery in 2009 into 2010 which has continued for the next couple years, and it's showing up in your Egencia numbers, I imagine, as well. But then at the same time, the economy has been relatively weak and is just starting to recover from high unemployment. So when I think of the travel cycle, I think of a five, six-year horizon, after which there's another downturn. Are we three years in, or are we one year in?

<A – Mark Okerstrom – Expedia, Inc.>: Boy, that's a great question. You've got lots of great questions. Listen, it's tough to say. I think what I would say is that generally we do very well in call it a slack economic period, which is when it really hits the bottom we get a lot of volume, but we get lower revenue per transaction, so we do okay. And at the top, when the travel market generally is at high capacities and ADRs and ATPs are at their peak, again, we're not at our best. But in between those periods, we generally do pretty darn well. If I had to peg where we were right now, it's not the bottom. It's not the top, but it's certainly somewhere in between, and I think that's where we like to be.

<Q – Kevin Crissey – UBS Securities LLC>: Okay, thank you very much for your time.

Operator: Thank you. Our next question comes from comes from the line of Tracy Young of Evercore. Please go ahead.

<Q – Tracy Young – Evercore Partners (Securities)>: Yes, I just have an expense question as far as the stock comp. Could you give us some more clarification as to why – is that end-of-year, or is that something that's ongoing? Thanks.

<A – Mark Okerstrom – Expedia, Inc.>: You're talking about the growth in stock comp that we saw in Q4?

<Q – Tracy Young – Evercore Partners (Securities)>: Yes.

<A – Mark Okerstrom – Expedia, Inc.>: The big call it abnormal chunk of that related to option adjustments in connection with the spinoff of TripAdvisor.

<Q – Tracy Young – Evercore Partners (Securities)>: Okay.

<A – Dara Khosrowshahi – Expedia, Inc.>: Otherwise, trends would have been normal.

<A – Mark Okerstrom – Expedia, Inc.>: Yes, otherwise, trends would have been normal. Again, people that had unvested options essentially got doubled down in Expedia options when TripAdvisor spun off.

<Q – Tracy Young – Evercore Partners (Securities)>: Got it, thank you.

<A – Mark Okerstrom – Expedia, Inc.>: Yes, thanks.

<A – Dara Khosrowshahi – Expedia, Inc.>: Next question.

Operator: Our last question comes from the line of Mike Olson with Piper Jaffray. Please go ahead.

<Q – Mike Olson – Piper Jaffray, Inc.>: Hey, good afternoon. I apologize if this question was already asked, I got on late. But I just want to get the latest update on how you guys are thinking of metasearch as a friend or foe. And basically is it valuable lead generation tool, or does it ultimately end up becoming a path to competitive bookings on direct sites? Thanks.

<A – Dara Khosrowshahi – Expedia, Inc.>: It's a good question. I think we view metasearch as a complementary product to our product and ultimately friend. Our metasearch partners have been big partners for us for many, many years, including Kayak in the U.S., a number of metasearch players in Europe. They serve a different customer than our core customer who likes what we do and come back to us day after day after day. And they open us up to a set of customers that we can convert into repeat customers for Expedia.

Now again, it's similar to what I said about Google. Would I rather have a customer come to us directly? Yes, I would, but that doesn't mean I'm going to close myself off to millions of customers who come to metasearch sites on a daily basis. We want to have our unfair share in every single channel out there, and metasearch is a really important channel and we think will continue to be a growing channel for us.

<Q – Mike Olson – Piper Jaffray, Inc.>: Thank you.

<A – Dara Khosrowshahi – Expedia, Inc.>: You're welcome.

Operator: I'd like to hand the conference back over to Alan Pickerill for any closing remarks.

Alan Pickerill, Vice President-Investor Relations

Yes, thank, everybody, for joining us on the call today and for all your questions. We'll have a replay up on the IR website shortly after we finish the call here. Dara, did you have any closing comments?

Dara Khosrowshahi, President, Chief Executive Officer & Director

No, just a special thanks to our Expedia, Inc. employees. We had a tough year in 2011. A lot of people worked very hard, especially on the TripAdvisor spin, so thank you to everyone and looking forward to how we do in 2012.

Operator: Thank you, ladies and gentlemen. This concludes the Expedia, Inc. fourth quarter earnings conference call. You may disconnect. Thank you for using ACT Conferencing.