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Corporate Participants

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

Other Participants

Tom Cauthorn White – Analyst, Macquarie Capital (USA), Inc.
Steve Ju – Analyst, Credit Suisse Securities (USA) LLC (Broker)
Heath Patrick Terry – Analyst, Goldman Sachs & Co.
Shelby Taffer – Analyst, JPMorgan Securities LLC
Michael Millman – Analyst, Millman Research Associates
Lloyd Walmsley – Analyst, Deutsche Bank Securities, Inc.
Tracy Young – Analyst, Evercore Partners (Securities)
Deepak Mathivanan – Analyst, Susquehanna Financial Group LLP
Andrew D. Connor – Analyst, Piper Jaffray, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good day ladies and gentlemen. Thank you for standing by. Welcome to Expedia, Inc.'s Second Quarter Earnings Conference Call. During today's presentation all parties will be in a listen-only mode. Following the presentation the conference will be opened for questions. [Operator Instructions] I would now like to turn the conference over to Alan Pickerill. Please go ahead.

Alan Pickerill, Vice President-Investor Relations

Thank you. Good afternoon and welcome to Expedia, Inc.'s financial results conference call for the second quarter ended June 30, 2012. 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 July 26, 2012 only and 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'll 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 you to 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 2011. And with that let me turn the call over to Dara.

Dara Khosrowshahi, Chief Executive Officer & Director

Thanks, Alan. Expedia's second quarter proved to be another good one coming in ahead of our expectations. On the top line gross bookings growth of 13% and revenue growth of 14% were driven primarily by strength in our hotel business with global room nights growing a robust 22%, 24% including the AirAsia/Expedia joint venture.

Adjusted EBITDA grew 18% to $223 million aided by better than expected top line and lower than expected expenses. It's worth noting that second quarter results were helped by the acquisition of VIA Travel which we completed in late April and contributed roughly 2 percentage points of growth in gross bookings and revenue, and 3 points of adjusted EBITDA growth for the quarter.

VIA Travel is a leading travel management company in the Nordics and we are happy to have them as part of the Egencia team. In addition, we had an out of period adjustment of $8 million that helped both revenue and adjusted EBITDA that Mark will explain in his remarks.

We continued to see healthy results across virtually all of our brands with Brand Expedia also improving sequentially but still down year-on-year. Our technology migration remains on track and standalone hotel room nights for Brand Expedia accelerated again and grew faster than 10% on a booked basis for Q2 compared to mid single-digit growth in Q1.

The air product has been moved to the new platform as planned and work continues on the packages path, which should be substantially complete by year-end. You'll see more product innovation from us in the hotel and air path in the second half of the year and we'll be ready to roll out packages as we move into 2013.

As previously indicated, we plan to increase selling and marketing for Brand Expedia as we move further along the technology migration, and just recently launched a brand marketing campaign in the U.S. called Find Yours, featuring 100% user-generated content from consumers explaining how travel has transformed them. Though very early for the campaign but initial response has been quite good.

Now to be clear, Brand Expedia continues to face certain environmental challenges outside of our control. Airline load factors and air ticket prices continue to grow year-over-year which is not good for the leisure traveler. Hotels continue to report tighter occupancies and higher rates, which make it more difficult for us to grow our package business. These factors are likely to remain as headwinds for our air and package products for the foreseeable future.

Over the past few years, we've talked about our key brand re-platforming efforts. In addition to these efforts, we're also actively improving our entire technology stack from front-end, to middleware to supply services, to customer service, as well as our financial systems. Part of these efforts will allow us to introduce new technology to our hotel supply partners, which will enable much closer integration of the agency hotel product with our core merchant offering.

Specifically, for participating hotels, we'll be able to offer customers the choice of whether to pay Expedia in advance or pay at the hotel at the time of the stay. So far the reaction from our suppliers has been positive, and our initial testing indicates that customers really like this flexibility. We believe that these innovations, if and when rolled out on a broad basis, would be likely to drive faster growth in our agency hotel business, which could result in our blended hotel margins as well as our merchant hotel float trending down over time.

With that said, we remind you that in general our suppliers pay us based on the considerable scale and breadth of our distribution platform and not based on the specific model under which we do business. As we introduce further innovation into the global hotel business, we expect the current bright line between agency model and the merchant model to blur over time.

Before handing it over to Mark, a bit about what we're seeing in Europe. We can see incremental weakness in Southern Europe relative to what we saw last quarter. Broadly we see Europeans traveling to the U.S. less and traveling to European destinations more. We see some evidence of shortening length of stay and in some markets shorter booking window, all of which could be attributed to market conditions.

We'll keep a close eye on these trends, but for now, our growth rate in Europe is still healthy and we believe we can continue to grow in this economic environment. Mark?

Mark D. Okerstrom, Chief Financial Officer & Executive Vice President

Thanks, Dara. From a financial perspective, the second quarter came in better than we expected, and was driven by the underlying strength in our global hotel business. As Dara mentioned, we were helped by the addition of VIA Travel, as well as an $8 million out-of-period hotel revenue adjustment that we made in the quarter related to the reversal of an over accrual for certain local taxes. Excluding the VIA acquisition and this adjustment, adjusted EBITDA grew 11% for the quarter.

As expected, foreign exchange was a headwind this quarter and hit us harder than anticipated, given the strength of the dollar relative to the euro. In total, we estimate that foreign currency cost us 300 to 400 basis points of growth in gross bookings, revenue and adjusted EBITDA. This was 100 to 200 basis points worse than we expected when we talked to you last quarter.

Hotel revenue represented 74% of total revenue for the quarter and grew 16%. Room night growth continued to be healthy at 22% for the quarter, 24% including the results from the AirAsia/Expedia joint venture. Domestic room night growth remained strong at 16%, while international room nights grew 29%, or 35% including the AirAsia/Expedia joint venture.

ADRs were down 1% for the quarter while revenue per room night was down 5%. The decrease in revenue per room night was again driven by hotel product mix, the impact from foreign currency, discounting at Hotwire, and the loyalty program accrual comparables. As we noted last quarter, we have a very fast-growing hotel business in the Asia Pacific region, where ADRs and revenue per room night are much lower than in other geographies. Of course, we're happy to take the lower per unit economics in APAC given the sheer volume growth prospects for that region. Consistent with Q1, Asia Pacific represented a high teens percentage share of the global room night mix in the second quarter.

Revenue from our air business represented 9% of our total revenue for the quarter and was down 8% year-over-year. Ticket volume grew 3% for the quarter, helped by the VIA Travel acquisition. Revenue per ticket was down 11% due primarily to lower net supplier economics. We continue to expect revenue per ticket to be down year-over-year for the duration of 2012, with the impact easing as we move through the year. Other revenue grew 17% for the quarter on growth in corporate travel fees and advertising revenue.

Running through key expense categories, cost of revenue grew faster than revenue in the quarter due almost entirely to the addition of VIA Travel. Excluding that business, cost of revenue grew largely in line with revenue on higher credit card costs associated with the growth of our merchant hotel business and additional head count to support our global customer operations. These were partially offset by lower debit card fees and higher credit card rebates.

Leverage in selling and marketing expense was driven by a combination of factors, including the addition of VIA Travel, as they have very low selling and marketing expense as a percentage of revenue, as well as some deferred spend for both Brand Expedia and Hotels.com.

Looking forward, we expect selling and marketing to grow quite a bit faster and deleverage significantly in Q3 and, to a slightly lesser extent, in Q4, as Expedia and Hotels.com increase their spending and as we invest more in Asia Pacific and emerging markets.

Technology and content grew 24%, which was a bit lighter than our expectations. Looking forward, including the addition of VIA Travel, we now expect Q3 and Q4 growth rates to accelerate compared to the first half of the year.

General and administrative expenses grew 13%. As we have said in the past, will continue to look for leverage in G&A over the long term.

Lastly, in terms of capital allocation, on a year-to-date basis, we have deployed over $520 million against the combination of share repurchases, M&A and our dividend. I'm pleased to say that we've decided to increase our dividend to $0.13 per share for the next quarterly payout as a sign of our continued confidence in the long-term prospects for our business.

In terms of our financial expectations for full year 2012, we are now expecting adjusted EBITDA growth in the high-single digits with the possibility of low double-digit growth. Key changes since last quarter include the addition of VIA Travel and the second quarter outperformance, partially offset by a much larger headwind from foreign currency, some additional marketing spend we've decided to deploy in Asia Pacific and some slowdown in certain European markets, due to the tenuous global economic environment.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And the first question comes from the line of Tom White with Macquarie. Please go ahead.

<Q – Tom White – Macquarie Capital (USA), Inc.>: Great. Thanks for taking my question. I guess I was hoping you guys give a little bit more color behind the decision to cross-promote the agency inventory with the your merchant stuff. Is that kind of in response to stuff you were hearing from your suppliers? Or is that in response to any sort of competitive dynamics that you're experiencing or expect to experience? And then just maybe a little bit more color on VIA Travel. If you can give us any color as to kind of what that business is growing at? It looks like the revenue take rate might be a little bit higher than Egencia, is that sustainable? Any color you can give there, as well as were there any contribution to the hotel room night growth from VIA in the quarter?

<A – Dara Khosrowshahi – Expedia, Inc.>: Sure, Tom. On the first, on agency and merchant, it's – what we're doing is responding to the marketplace and responding to consumer behavior. Obviously, the European markets are very important to us. They are quite fragmented, the European travel markets are actually larger than that of the U.S. and we have seen that, in Europe, the agency model is quite popular, which is what led us to the acquisition of Venere a few years ago. And we have been working in and integrating agency inventory along with our merchant inventory, but what we really wanted to come up with is a product that was better.

There are certain consumers who like to buy merchant, they like pay upfront, they want to pay in their local currency, they don't want to leave their credit card with a small hotel etcetera, at the front desk, and there are some consumers who do like to pay at the hotel. And we are just simply following that consumer behavior. We think that giving consumers the flexibility to choose is a good thing. We've tested it, and consumers seem to like it. And what we'll do is carefully rollout this program on a worldwide basis. And this is a rollout that we can measure, and we will – our intention is to roll it out pretty quickly but we can pull back on the rollout etcetera, based on the results that we see. Mark, you want to talk about the second question, VIA?

<A – Mark Okerstrom – Expedia, Inc.>: Sure. So VIA is a leader in the Nordic markets. It is -- it's much more of a traditional corporate travel business, than certainly Egencia is. And traditional corporate travel businesses generally charge higher fees to consumers and take more phone calls off-line than certainly Egencia does. So that results in essentially a different P&L structure from that which you see at Egencia, which is higher growth. Egencia is doing the corporate travel what the Expedia business did to leisure travel back in the late 1990s, as they're a higher grow business, higher spend on technology but a much lower cost business from the perspective of the clients in that they don't have to pay fees and they're able to transact online.

So over time, I would expect that that combined business and the Egencia business as we build it, to continue to scale and to continue to drive meaningful growth to our business. But the P&L will start to merge to be a combination of essentially those two P&Ls.

<A – Alan Pickerill – Expedia, Inc.>: Next question, please.

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

<Q – Steve Ju – Credit Suisse Securities (USA) LLC (Broker)>: Hi, guys. So ADRs being down 1% year-over-year, it's a bit outside expectation. Is that purely due to an increasing mix from eLong or are there other factors that play here, that it's not currency? And second, in terms of your revenue per room night, looks like the year-over-year decline moderated a bit this quarter. Is that a trend that you expect to continue? Well I guess the real question I'm asking is, whether you think the loyalty programs and couponing gets you better ROI versus straightforward marketing expenses because this is the second quarter in a row that you're demonstrating leverage on the marketing line. Thanks.

<A – Mark Okerstrom – Expedia, Inc.>: Sure. So with respect to ADRs, there's a couple of factors there. The biggest one is – the biggest two are probably eLong/the Asia business and foreign exchange. Domestic ADRs continue to be healthy and I think that our ADRs would be consistent with what – broadly consistent with what you'd see in the larger domestic market.

With respect to the delta between ADRs and revenue per room night, we did see a little bit of moderating this quarter. As I said last quarter, we did start to comp over the competitive pricing actions or discounting that Hotwire was doing. So that's what you're starting to see in those numbers. Q3 should be largely a clean comp on the Hotwire piece, so that impact should lessen. And then we will also start in Q3 to comp over the Expedia Loyalty launch. And there was a little bit of help from that this quarter but not much. You'll see that abate more so in Q3. And then you had a second question. Yes.

<Q – Steve Ju – Credit Suisse Securities (USA) LLC (Broker)>: I think that was my second question.

<A – Mark Okerstrom – Expedia, Inc.>: That was it. Okay.

<Q – Steve Ju – Credit Suisse Securities (USA) LLC (Broker)>: If you're seen better ROI from I guess couponing and loyalty programs versus the straightforward marketing?

<A – Mark Okerstrom – Expedia, Inc.>: Right. Okay. Well, yes, I don't want to comment on specifically the ROI we see for specific programs. Obviously, we are looking to grow our loyalty programs at both Expedia and Hotels.com. We think they're great programs for consumers on both brands and we'll continue to look to drive membership in those programs going forward.

<Q – Steve Ju – Credit Suisse Securities (USA) LLC (Broker)>: Thank you.

<A – Mark Okerstrom – Expedia, Inc.>: You're welcome. Next question.

Operator: The next question comes from the line of Heath Terry with Goldman Sachs. Please go ahead.

<Q – Heath Terry – Goldman Sachs & Co.>: Great. I was wondering if you could give us a sense of what you're seeing specifically in the mobile area, in terms of traffic and conversions and how that might be trending and if to any degree that kind of usage is affecting the leverage that you're getting on marketing?

<A – Dara Khosrowshahi – Expedia, Inc.>: Hi Heath. On mobile, it continues to grow very quickly, triple-digit growth rates for essentially all of our brands. The mobile transactions are starting to become a bit more diversified. They used to be essentially iPhone only, iOS only. We're seeing significant iOS, we're seeing significant mobile web. Tablet is starting to become a big player in mobile transactions and in traffic as well. So the traffic is broadening a bit.

The handset business tends to be short-window, 70% or so of the transactions are within a day. The tablet transactions look more like desktop behavior. They're not necessarily short-window. And as far as marketing goes, we are still at the point where we're trying to establish an installed base for mobile, and typically when we market for an app download, it takes 6 months to 12 months for the download of that app to essentially pay for itself in transactions over that app.

So as long as the app downloads are growing for us, and they're growing very quickly, you tend to pay more in marketing upfront and then you tend to get that marketing money back over time. And we're at that growth stage right now, where we're really not seeing any marketing efficiency as a result of mobile. But I think we're going to be in that stage for a couple of years. I think we're going to be net investors in mobile over a period of time. We want to establish a user base in mobile, in loyalty, so that we get users coming direct to us as well as through indirect channels like Google, TripAdvisor, metasearch as well.

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

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

Operator: The next question comes from the line of Doug Anmuth with JPMorgan.

<Q – Shelby Taffer – JPMorgan Securities LLC>: Hi this is Shelby Taffer calling in for Doug. Can you give us the Hotels.com room night growth and also just some color on the performance by region, specifically in Europe and APAC?

<A – Mark Okerstrom – Expedia, Inc.>: Sure. So I'd just say that Hotels.com room night growth continues to be healthy. They're – we did see some impact from Southern Europe on their growth and, of course, they did defer a little bit of marketing spend this quarter into the third quarter, so it moderated somewhat. But it continues to be very healthy.

On a regional basis, I think you can see the numbers. We this quarter posted 16% year-on-year room night growth domestically, which was pretty strong, 18% last quarter. The delta between those could be explained entirely by leap year. So we continue to see strong growth domestically. As we've mentioned, there's a little bit of softness in Europe, and APAC continues to be strong. So across the board we're feeling pretty good about what we're seeing globally.

<Q – Shelby Taffer – JPMorgan Securities LLC>: Great, thanks.

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

<Q – Michael Millman – Millman Research Associates>: Thank you. Could you talk a little bit about the sequential, I guess, decline in leisure from 15% last quarter to release from the first quarter 10% in the second quarter? And also, on car rental, I guess a couple of things, you signed some new contracts with ERAC and Hertz. Could you talk about to what extent they might differ from existing? And then related – we're now at peak season, peak travel season, at least, in the U.S. and probably Europe as well, can you talk about, on car rental business, what the peak looks like in terms of availability, in terms of revenue and in terms of fleet? Thank you.

<A – Dara Khosrowshahi – Expedia, Inc.>: Mark, you want to take on leisure first?

<A – Mark Okerstrom – Expedia, Inc.>: Sure. I think I'm not clear what you're talking about specifically in terms of the 15% to 10%. But if you're talking about top line growth, we did again, we saw some impact from FX in the quarter. It was more significant than what we'd seen in the past. But again on an FX adjusted basis, we're seeing pretty consistent – consistently nice growth there as well. So again, that's looking at the gross bookings line.

<A – Dara Khosrowshahi – Expedia, Inc.>: Yes. I think most of the gross bookings line, the delta that you see there, is really air trends. Air tends to drive gross bookings. And you can see that the tickets sold growth was 3% in Q2 versus 5% in Q1 so that might've been the difference.

As far as the car business, the deals that we've signed with our supply partners are – tend to be broadly in line with the deals that we have signed historically. So, not much has changed there. In terms of fleet, etcetera, we are seeing the car rental companies compressing their fleets this summer. Fleet sizes are tight. But we're not seeing retail pricing increase quite as much as we expected. So that's good for the leisure customer. But in general, availability is a bit lower than what we want it to be. And when the fleet inventories gets tight, the percentage of transactions that we process through opaque tends to be lower, and our retail part of the business tends to grow faster. So we're certainly watching the retail versus opaque balance as well.

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

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

Operator: The next question comes from the line of Lloyd Walmsley with Deutsche Bank. Please go ahead.

<Q – Lloyd Walmsley – Deutsche Bank Securities, Inc.>: Thanks. I was just wondering if you could comment now that the air business in the U.S. has fully transitioned to the new platform on what you're seeing in terms of improved conversions and up sales to hotel, car and packages? And then coming off of yet another transition on the platform side, do you feel like, when you finally get the packages done that the improvements you drive can be done faster than perhaps your typical guidance for kind of that 6 months to 9 months, I think you've said in the past, lag on conversion improvements?

<A – Dara Khosrowshahi – Expedia, Inc.>: Yes, I think on the air side, we are encouraged by the early trends that we're seeing. We have launched kind of what we call our air end-to-end platform in the U.S., and we are kind of cyclically kind of launching it internationally as well. The first conversion, the early conversion improvements that we are seeing are in the upsell to hotels, cars, etcetera. So we're seeing some numbers there, and we hope to keep that going.

And in a couple of weeks to a month, hopefully, you will see a new, a pretty new user interface for our air product. It's going to look pretty different from what it's looked like historically. We think it's absolutely great, but we'll let our users decide. We roll out the stuff, we test it with users and then based on user reactions, we'll roll out the things that work globally. But I think by the end of the year, you're going to see a pretty different air product for Expedia than what you have now and I think it'll be pretty different and much better.

As far as the package path goes, it's hard to predict. Our package business and the package technology in general is more complex than any other technology that we have on the site. So while we are getting better at these rollouts, we learn from our mistakes. And in general, the speed of iteration of the business is increasing. I never underestimate the complexity of the package product. And so what I will count on is what you see now, which is a gradual improvement every quarter getting better. And if we keep that going, I think we'll have a pretty good result for 2013.

<Q – Lloyd Walmsley – Deutsche Bank Securities, Inc.>: Thanks a lot.

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

Operator: The next question comes from the line of Tracy Young with Evercore Partners. Please go ahead.

<Q – Tracy Young – Evercore Partners (Securities)>: Yes. So two questions. One, can you just confirm when you expect the package's vertical to be completed? And also, I've noticed in some of the trades some comments about your ad agencies, that you've made some changes. Would you say that some of the difference that we're seeing in the advertising margin is related to some changes that you've been making on the advertising side? Or is it mostly related to Expedia.com? Thanks.

<A – Dara Khosrowshahi – Expedia, Inc.>: Sure. As far as packages goes, we think that we will be rolling over to the new package platform essentially towards the end of the year. So it might be plus a month, minus a month. And then as I've said before, a new platform is just that. Then you've got to start iterating on the front end and changing the user experience, and that is really going to get started in the first quarter of 2013 and it'll essentially roll forward throughout the year. We'll make small changes and we'll make big changes and we'll do lots of testing and learning, and I think we'll wind up with a much better package product. So 2013 will have a platform that we can play with. And then, sorry, end of 2012, we'll have a platform we can work with and that will be rolled in traffic in 2013.

As far as the ad agency, etcetera, we did change ad agencies at Expedia. We have launched a new campaign that we're really excited about. But I think it's far too early for that campaign to have had a material impact on our results. So I think to the extent that we see material impacts, we'll be seeing that in Q3 and Q4.

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

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

Operator: Next question comes from the line of Herman Leung with Susquehanna. Please go ahead.

<Q – Deepak Mathivanan – Susquehanna Financial Group LLP>: Hi, great. This Deepak, actually sitting in for Herman. So I had a question about the hotel additions. I noticed that in the second quarter, you added about 5,000 hotels to the portfolio. I was wondering if you could discuss about what we could do probably to add more hotels going forward. Probably that would help the hotel room nights growth. Or what's the company's general strategy around increasing the hotel supply portfolio?

<A – Mark Okerstrom – Expedia, Inc.>: Sure. So we did add about 5,000 hotels. We're up to just over 155,000 now. I would just say generally that adding hotels for us is not a significant barrier. We're pretty strategic in where we add hotels. We're pretty deliberate where we do it. And it really depends on what we're seeing around demand on our websites from our users and where they're looking to go, where we are undersupplied relative to the demand we're seeing on our website and where we can benefit from adding more product for our consumers. So you could imagine where those hotels are coming from. It is in fast-growing regions like Asia Pacific, to some extent in Europe as well. And we're always looking to do infill in North America as well.

<Q – Deepak Mathivanan – Susquehanna Financial Group LLP>: Great. Thank you very much.

<A – Mark Okerstrom – Expedia, Inc.>: Okay, next question.

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

<Q – Andrew Connor – Piper Jaffray, Inc.>: Hi, this is Andrew Connor in for Mike. Would just like to hear you guys talk about what stage you see us in the overall travel recovery. Specifically within the U.S., we've been seeing RevPAR growth for two years now. So I'm just curious how important is RevPAR growth to your model and are we approaching a ceiling in terms of occupancy or ADR rates? Thanks.

<A – Dara Khosrowshahi – Expedia, Inc.>: Hi, Andrew. As far as RevPARs go, you're right. The numbers have been quite healthy and the occupancy rates are starting to hit peak season, kind of the 70% range, which is pretty high from a historical standpoint. And listen, I think our model is a model that performs quite well in up-and-down markets. We tend to be a little bit more countercyclical than the market. In a kind of a poor economy, poor market, we tend to gain share pretty quickly. We get hit by ADR weakness. And in up-markets, we tend to get the benefit of ADRs and some of the suppliers who can fill up their rooms directly kind of do so more aggressively.

As far as where the market is and where we think it can go forward, we do think that supply certainly does seem to be tightening up. And at this point, we're not feeling like we're hitting a ceiling one way or the other. We think our inventory quality in the U.S. is really good. The deals that we have signed with our strategic partners provide very strong inventory for us. And we think as long as the inventory is out there, we'll be able to sell it, and we've got products that can sell the inventory in very long lead times like packages. And then we've got products that can sell inventory in short lead times, such as the opaque model and with Hotwire and also the mobile channel as well.

So we're pretty comfortable with our product, and we think some of the technology investments that we made are going to give us kind of returns above market, which is certainly what we're gunning for and hopefully we can keep showing those returns going forward. Long-winded answer, I apologize.

<Q – Andrew Connor – Piper Jaffray, Inc.>: No, great, thank you.

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

Operator: And I'm showing no further questions at this time. I'd like to hand over to Alan Pickerill for any closing remarks.

Alan Pickerill, Vice President-Investor Relations

Okay. Thank you very much. Appreciate everybody jumping on the call today and for all your questions. The replay will be on the IR website, as usual, shortly after we finish the call. Appreciate your interest in Expedia and we'll talk to you again next quarter. Dara, do you have any closing remarks?

Dara Khosrowshahi, Chief Executive Officer & Director

No. Thank you for your interest and thanks to all Expedia employees for a good quarter, and we'll talk to you next quarter.

Operator: Ladies and gentlemen, this concludes the conference call for today. We thank you for your participation and you may now disconnect.