PARTICIPANTS

Corporate Participants

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

Other Participants

Tom Cauthorn White – Analyst, Macquarie Capital (USA), Inc.
Rohit Kulkarni – Analyst, Citigroup Global Markets (United States)
Bo Nam – Analyst, JPMorgan Securities LLC
Herman Leung – Analyst, Susquehanna Financial Group LLP
Ross Sandler – Analyst, RBC Capital Markets Equity Research
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Paul Judd Bieber – Analyst, Bank of America Merrill Lynch
Mike J. Olson – Analyst, Piper Jaffray, Inc.
Kevin Kopelman – Analyst, Cowen & Co.
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Tracy Young – Analyst, Evercore Partners (Securities)
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MANAGEMENT DISCUSSION SECTION

Operator: Good day ladies and gentlemen, thank you for standing by. Welcome to the Expedia Inc. First Quarter Earnings Conference Call. [Operator Instructions] This conference is being recorded today, April 26, 2012. I would now like to turn the conference over to Alan Pickerill, Vice President of Investor Relations. Please go ahead, sir.

Alan Pickerill, Vice President-Investor Relations

Thanks, Erin. Good afternoon and welcome to Expedia Inc.'s financial results conference call for the first quarter ended March 31, 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 question reflects management's views as of today, April 26, 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'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 exclude stock-based compensation and all comparisons on this call will be against our results for the comparable period of 2011.

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

Dara Khosrowshahi, President, Chief Executive Officer & Director

Thanks, Alan. Expedia is off to a solid start this year, with $102 million of adjusted EBITDA generated in the first quarter, exceeding our own expectations. On the top line, gross bookings and revenue growth were again driven by strength in our hotel business with global room nights growing 24%, a nice acceleration from the 19% we saw for Q4. Including room nights from Expedia's joint venture with AirAsia, room nights would have grown by 27%.

As we mentioned last quarter, all of our major brands other than Expedia continue to perform well with combined revenue growth of 27%. Results for the Expedia brand are still not where we want them to be, but they did show improvement. Standalone room night growth has improved over the last few quarters from a slight decline year over year in the third quarter last year prior to the launch of the new platform, to mid-single digit growth in the first quarter. While it's clearly too soon to declare any type of victory, the Expedia brand team is starting to execute effectively and we're beginning to see tangible evidence that our focused product-led game plan is working.

It is also important to note that the technology projects on the Expedia brand remain on track. We're pushing a significant percentage of US traffic through the new air platform and testing its performance. Optimizations are being implemented and we'll continue the rollout of the new platform in the second quarter. The work on packages is ongoing and we expect it to be substantially complete by year-end. We continue to innovate on the new hotel platform and those of you that visit the site regularly can undoubtedly see some of these improvements. Having the capability to test quickly and broadly, deploy new features, are keys to success and we've already run more tests on our new platform so far in 2012 than we did all of last year. We expect the most pronounced overall benefit to come when consumers can enjoy the best shopping experience in online travel seamlessly across all of our product lines.

International revenue growth accelerated in the quarter versus the prior quarter and we continue to aggressively scale our international businesses, most notably with our recent acquisition, or recent announcement that we intend to acquire VIA
Travel, a leading corporate travel company in the Nordic region of Europe. As of today the deal hasn't closed, so our comments will be limited, but suffice it to say that this transaction is almost entirely complementary to our existing corporate travel business and gives us a strong position in that region. We're committed to driving scale for Egencia and are pleased to be able to use our international cash for this purpose.

Also in regard to international travel, we've recently partnered with Brand USA promoting travel to America by matching advertising dollars for any travel brands that promote their destination or product to an international audience. We're also featuring participating brand partners on a DiscoverAmerica landing page. Brand USA is a terrific public-private marketing organization that works with the travel industry to promote travel to the US, creating jobs in our domestic travel sector.

Lastly in terms of capital allocation, we've repurchased 8.8 million shares so far in 2012 for $291 million, exhausting our previous share repurchase authorization. Since our spinoff from IAC, we've allocated $2.7 billion towards the repurchase of our company stock, retiring approximately 36% of our share capital. And we've returned another $168 million to our shareholders through dividends since initiating that program a couple of years ago. We will continue to look to add value for our shareholders through strong operational execution, as well as smart capital allocation.

In summary, I'm encouraged with our progress in brand Expedia and with the continuing results of our other brands. Our strategy is on track and our efforts are beginning to show signs of payback.

With that, I'll turn it over to Mark to talk about the financials.

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

Thanks, Dara. From a financial perspective, the first quarter came in better than we'd expected driven by underlying strength in our global hotel business. Of course we did have some tailwinds this quarter with the favorable comps on airline ticket volumes, an extra day from leap year and FX improving slightly since the last conference call. As Dara mentioned, room night growth was robust at 24%, 27% including the results from the AirAsia joint venture and accelerated from Q4 growth rates across all major geographies. Of particular note, total room nights in the United States were up 18%, accelerating versus Q4, solid evidence of our ability to grow our domestic volumes and share.

Hotels.com, our largest hotel business as measured by room nights, led the charge with room night growth of 37% and sequential acceleration again across all major regions. Revenue per room night was down 6% on flat ADRs. The gap between the two metrics was driven by similar trends as last quarter. Also keep in mind that growth in our APAC hotel business continues to outpace the other regions and APAC represented a high teens percentage of global room nights in the first quarter. Since ADRs and revenue per room night are much lower in APAC, this will put downward pressure on per-room metrics for the foreseeable future. With that said, we believe APAC represents a great long-term growth opportunity for us, which we're targeting with our diversified set of key assets including eLong, the AirAsia/Expedia joint venture, Hotels.com, Egencia and our growing affiliate business.

Revenue from our air business represented 11% of our total revenue for the quarter and although we grew ticket volume 5%, revenue per ticket was down 20% due primarily to reduced ticket economics combined with lower volume-based incentives. We expect revenue per ticket to continue to be down year over year for the duration of 2012 with the impact easing as we move through the year.

Other revenue grew 15% for the quarter on a combination of nice growth across car rental, ad and media and corporate travel fees.

Running through key expense categories, cost of revenue grew just a touch faster than revenue this quarter as credit card fees grew along with the growth in our merchant gross bookings and as we added head count to support our growth. This was partially offset by lower debit card fees and an increase in credit card rebates. Selling and marketing grew at rate quite a bit slower than revenue growth, driven by decreased online spending for our Expedia brand. We have been systematically pulling out inefficient spend at Expedia and have been generally less aggressive on the marketing front for that brand given where we are in the technology migration projects. Excluding the Expedia brand, selling and marketing grew more in line with revenue. For Expedia Inc., we do not expect to see the type of leverage that we saw in Q1 as we move forward in 2012, and we are forecasting full year selling and marketing to grow broadly in line with revenue.

Technology and content grew 26% for the quarter and though a bit lighter than we had expected, we continue to see the year on year impact of the prior period build-up of head count needed to complete our key technology projects. While we expect year over year growth of our cash spending on technology and content to decrease as we move through 2012, we expect that the recorded growth rate in future quarters will be broadly similar to what we saw in Q1 due to the relative levels of capitalization of these costs and related depreciation.

G&A grew 10% for the quarter, largely due to head count cost to support the overall growth in the business.

From a capital allocation perspective as Dara mentioned, we repurchased 8.8 million shares for $291 million so far this year, and the board has authorized an additional tranche of 20 million shares for repurchase. We also paid our $0.09 cent per share quarterly dividend. Lastly, we announced the VIA acquisition, which we expect to close imminently, and assuming it does, you will see its impact on our Q2 cash flow statement.

In terms of our financial expectations for full year 2012, we continue to expect adjusted EBITDA growth in the mid-single digit range. Remember that Q1 represents our lowest adjusted EBITDA quarter for the year, so while we're happy with the outperformance in the first quarter, it does not have a large impact on full year adjusted EBITDA. Consistent with prior practice, we are not giving guidance for Q2, but we do want to note that the top line comps get tougher and at current rates, foreign currency translation is a bigger headwind.

While we're quite pleased with Q1 performance and are incrementally confident about our ability to deliver these full year results, note that the majority of our annual adjusted EBITDA growth is expected to build in the back half of the year and as such the real story of our full year results is very much yet to be told.

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, sir. We will now begin the question and answer session. [Operator Instructions] And our first question is from the line of Tom White with Macquarie. Please go ahead, sir.

<Q – Tom White – Macquarie Capital (USA), Inc.>: Great, thanks for taking my question. Just a follow-up on the delta between the ADR growth and the revenue per room night, again a pretty big difference. Understand the commentary about Asia-Pacific. Can you just remind us about the other moving pieces and any chance that that delta might narrow over the next few quarters in any meaningful way? And then just a quick follow-up, can you make some color or comments on the ADR environment in Europe, US and Asia-Pac? Thanks.

<A – Mark Okerstrom – Expedia, Inc.>: Sure. So again the trends that we saw in the delta between ADR and revenue per room night were similar to what we had seen on prior quarters. Those were the impact of our loyalty programs, primarily at the Expedia brand. This time last year Expedia did not have a loyalty program. They do this year, and so there is really a tough comp there. In addition, the Hotels.com loyalty program expanded internationally during the last quarter and so again we've got a tough comp on that front.

The second impact that we mentioned on the last call, which was also happening this quarter as well, is competitive pricing actions, primarily at Hotwire, where Hotwire is having some pretty nice success pushing volumes through taking lower margins essentially. The third item was the impact of foreign exchange. That again was a factor this quarter and then we also continue to see just mix shift in our hotel business, the chains and to otherwise less margin accretive products. So those were by and large the big delta drivers between ADR and revenue per room night.

If you look across those four things, on the loyalty front, you will start to hit clean comps as we move throughout this year. I think the Expedia program was launched through the end of Q1 and through Q2, so Q3, that gets to be a clean comp. Hotels.com, it's probably not going to be until Q1 of 2013 until you clean that comp. On the Hotwire actions, they've been doing that for a number of quarters now, so I suspect Q2, Q3 you might get a clean comp on that. And then it's always hard to say with FX and the mix shift issue on hotel is just something that's really hard to predict.

I think your second was in terms of ADRs in various regions. We continue to see decent strength in ADRs. I think if you look at how our hotel partners, the ones that have reported, the trends that they are seeing, broadly ours are consistent with what they have reported. There is some pockets of ADR weakness in Europe that we have seen and the rest of the world is by and large looking fairly healthy.

<Q – Tom White – Macquarie Capital (USA), Inc.>: Very helpful. Thanks.

Operator: Our next question comes from the line of Mark Mahaney with Citigroup. Please go ahead.

<Q – Rohit Kulkarni – Citigroup Global Markets (United States)>: Hello, this is Rohit Kulkarni filling in for Mark Mahaney, hi. Can you please remind us where you are in the technology upgrade process as in particular as hotels and air is concerned? Are you satisfied with what reserves you are seeing there? And then can you share any metrics or anything along the lines as to what improvements you see over the last three months on the technology upgrade project that you are doing?

<A – Dara Khosrowshahi – Expedia, Inc.>: Sure, Rohit. We're satisfied with the technology upgrade and our progress there. The Expedia hotel path has been on the new technology platform for the past couple quarters and while we won't share specific metrics, our room night volume, standalone room night volume on Expedia accelerated nicely in the first quarter over Q4 of last year, which was faster than Q3 of last year. So on a sequential basis our standalone room night volume is improving. We think that we're just getting started here and the key here is just translating the new platform into actually new product to consumers that converts better, and then marketing more aggressively against that product. So we are I would say early in that program, but we're already starting to see benefits of that program and we expect to see further benefits in the back half of the year. Again, similar to what we saw in Hotels.com although Expedia is somewhat disadvantaged because of its multi-product nature.

We are also right in the middle of rolling over from our old air platform to our new air platform and are actively testing single tickets, different types of transactions on the new platform versus old platform and we're actively in the middle of that testing. We expect to see good results from that testing. We will then start rolling over all of our air ticketing on a worldwide basis to new platform which will then enable us to start really testing out new feature functionality and hopefully driving conversion.

So the platform upgrade is happening as planned and then hopefully the feature functionality will follow suit, just as you have seen in hotels. And on package, that's going to happen really in the back half of the year. It's going to happen sometime in the fourth quarter. All of the work being done is on schedule and you will see benefits of that hopefully next year.

<Q – Rohit Kulkarni – Citigroup Global Markets (United States)>: Okay. Thanks, Dara. If I may add one quick follow-up about so how does that concert to your technology spend, you've achieved some nice leverage in Q1. And so would it, so how should we think about your technology staffing spend going forward? I would assume you are already behind a majority of what you were planning to be spending on and is that [ph] right, everything (17:26) you have?

<A – Dara Khosrowshahi – Expedia, Inc.>: Yes, I think on the platform type investments, we now have the kind of head count that we need to drive through those platforms, the increases that you are seeing are increases, year over year increases based on the increased head count that we brought on last year. So from a cash spend view, our technology spend comp should get better as the year progresses, but then some of the capitalized numbers there are going to start coming through on the depreciation side. So from a P&L standpoint based on what Mark said, you're going to see pretty significant increases for the balance of the year.

<Q – Rohit Kulkarni – Citigroup Global Markets (United States)>: Okay. Thank you, Dara.

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

Operator: 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 and I'm on behalf of Doug Anmuth. I just had two quick questions. First of all, are you expecting any positive impact from the London Olympics this summer? And then secondly, can you kind of go over some of your mobile strategy and how it differs from some of your competitors? Thank you.

<A – Dara Khosrowshahi – Expedia, Inc.>: Sure, Bo. So as far as the London Olympics go, we certainly do expect to see positive impact for London and the UK in general as a destination. I can't say that we've really worked it into our numbers or our forecast. The demand profile and the supply profile of the business are so global now that particular Olympics in a particular place isn't going to really move the needle too much. But the market management team is prepared and we've got good inventory in London during those times.

As far as our mobile strategy goes, it is really moving along all fronts with Hotels.com really leading the charge there on the mobile side. One of the feature sets that we have are exclusive kind of same-day only type booking functionality for Hotels.com on a worldwide basis. And then we're also tying in the welcomerewards loyalty program into our mobile products as well, which is a very popular program for Hotels.com on worldwide basis. On Expedia, we have rolled out the Expedia Hotels app, which has been built by a combination of our teams and the Mobiata teams and later in this year, we are going to launch an air product that we're very excited about. And then Hotwire of course we've relaunched on the mobile basis as well. So I think mobile right now is at the stage of consistent execution across all of the brands. It is starting to become a channel that we're quite focused on and it's clearly one of our fastest growing channels. And we're very hopeful that the volumes are going to increase and the kinds of volumes that we're seeing are incremental to our base business.

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

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

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

<Q – Herman Leung – Susquehanna Financial Group LLP>: Great, thanks. Great quarter, guys. Two quick questions for you. First, I would say on the hotel conversions that you have seen, I think you noted on the fourth quarter that conversions, you started to see some improvement and you saw probably a little bit more than that testing. Can you give us update on how that has progressed in terms of better conversion rates and potential for increased marketing on just that hotel platform specifically?

And then second is on some of your chain hotels, I know some of the contract negotiations sort of gave up a little bit of margins, but a little bit more brands are now – the Expedia brands are now working with some of the chain hotels. Wondering if you saw an increased volume as part of that change and I have a very quick follow-up.

<A – Dara Khosrowshahi – Expedia, Inc.>: Sure. As far as hotel improvement, we are seeing continuing strong conversion on the hotel side. I think that we will see more. And we are, when I talk about the acceleration of the A/B testing that we're seeing in Expedia has significantly accelerated in the first quarter versus where we were in fourth quarter, fourth quarter or third quarter last year. So while some of the improvement that we're seeing in the Expedia hotel volume is because of stronger conversion along with better strength on the variable marketing side, I'm certainly expecting more. The more tests you do usually the more tests succeed and then you pick the successful ones and you roll them out worldwide and we're kind of right in the middle of that process.

And then you can obviously see from the strength of the Hotels.com brand is that that's a fly wheel that you can continue with for some period of time. So Hotels.com conversion in particular, now that it's rolled over kind of the one year anniversary or the platform, continues to get better as we roll out more and more products and as we optimize the sites better, get rid of bugs, et cetera. So we're hoping to see that conversion clock continue and I think Expedia is early in the path and the Hotels.com team and the EAN teams, et cetera, are well down the path and I think are proving that hopefully this is something that we can keep going for some period of time.

As far as the chain negotiations go, we are seeing very healthy volumes with the chains. Our relationships continue to be quite good and we have and will have some pretty significant negotiations coming up this year. We're confident that we'll continue to work with our major chain partners, but other than that, we're not going to get into the specific details of the relationships one way or the other.

<Q – Herman Leung – Susquehanna Financial Group LLP>: Got it. And then just a quick follow-up. I know TripAdvisor launched a very, an early competitive product on the hotel side called Tingo. I know they are using Expedia's affiliate inventory to build that business. I mean, because you guys spent a lot on TripAdvisor, was wondering how you feel about TripAdvisor launching their own sort of similar OTA-like business or do you just see it as an affiliate business? Thank you.

<A – Dara Khosrowshahi – Expedia, Inc.>: Yes listen, our philosophy on the affiliate business is, we're opening up our systems for anyone to innovate on top of. We've got internal brands that are incredibly strong, are very innovative. But we welcome other brands and other ideas using our inventory because it benefits both of us. It pushes hotel volume down to our hotel partners. We have obviously economic share in that transaction as well. And we think innovation in the travel business is a good thing. So we're working very closely with TripAdvisor on Tingo. We think it is a cool new product. And you are right, in some ways it's a competitor, but in a bigger way we think that it is a partner. And that kind of open philosophy of having a completely open marketplace is something that is pretty fundamental to what we believe and it's not something we're going to change.

<Q – Herman Leung – Susquehanna Financial Group LLP>: Great. Thank you very much, guys.

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

Operator: 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>: Thanks. Hey, guys. I just want to reconcile the comment about the full year guidance. So you said mid-single digits, the majority of the EBITDA growth coming in the second half, which given the 24% that you just put up would imply a pretty material decline in either 2Q or 3Q. So can you just give us a little more color about that or is that just some conservatism baked into the guidance? And then the second question is the 18% domestic room night growth accelerating, can you just parse that a little bit between Expedia.com and Hotels.com, where is the acceleration coming from, and is any of it from the platform? Thanks.

<A – Mark Okerstrom – Expedia, Inc.>: Got it. So in terms of full year guidance, all I'll say is it's just way too early to tell. Q1 is just such a small quarter for us. We do have some much harder comps going into Q2, so we're just really not at a point in the year where we can start taking up guidance. So I don't want to get into much more in terms of sort of how we think the year is going to unfold. But again, I think it's just too early.

With respect to domestic room night growth, we've had help really across all of our major businesses, so I wouldn't even be able to isolate for you a particular laggard or winner. It's been strength across and I think as Dara mentioned, some of the benefits from having the new hotel path out and seeing some of the conversion uplift are starting to show through on the Expedia numbers and that's really happening globally and it's happening in the US as well.

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

<Q – Mike Millman – Millman Research Associates>: Thank you. Two questions. One to follow-up a previous question, particularly regarding mobile which seems to be moving the industry into one day or almost same day. The question is what is the long-term effect likely to be on the OTAs and on the hotels and the rental cars regarding their pricing and in fact how they market? And my second question are what signs are you seeing that in fact the US rental car fleets have tightened? And maybe you can talk about any particular geographies that stand out one way or another.

<A – Dara Khosrowshahi – Expedia, Inc.>: You know, as far as the question on same-day bookings, et cetera, I think, listen, the effect on the hotels and suppliers is going to be that they need to be much more careful on the revenue management front and they also need to be able to balance those short-term bookings with the book of business, kind of a long-term book of business which for example on the Expedia side is really the packages business that we offer to those hotels. So the more they can balance that short and long-term, the better off they are. But they do have to I would say revenue manage more aggressively and also take advantage of different consumer channels kind of more appropriately.

The parity pricing everywhere I think is going to be tough to pull off when you have got mobile channels, you have got maybe Facebook channels, when you can market specifically to consumers let's say in Japan and Germany differently from consumers in other countries. So I think that there is going to be a real change in how hoteliers and our partners revenue manage and hopefully we will help them with a balanced book of business, leisure, corporate, package, standalone, desktop and mobile and also deliver to them lots of intelligence on where the demand is coming from and where the demand is weak on a relative basis.

As far as the rental fleets go, the volumes that we saw in the first quarter were healthy, but pricing was somewhat less healthy. Pricing was a little weak. But we have seen the fleets get tighter and we are expecting pricing to tighten up a little bit, although I can't give you specifics on kind of the result in pricing. I think we'll see those results coming in Q2 more than we saw in Q1.

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

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

Operator: Our next question 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. First, congratulations on a good quarter. Given the strong performance of Hotels.com, by how much do you think the room night growth can improve on Expedia.com when we look out one to two years of the new tech platform? And then secondly just on the competitive landscape, in the US are you seeing any impact from Booking.com's efforts in the US or Google's Hotel Finder product that they are experimenting a lot with?

<A – Mark Okerstrom – Expedia, Inc.>: Sure. So I will actually take the second question first. I think if you look at our domestic room night growth this quarter at 18%, accelerate it from the prior quarters, I think it's decent evidence of the fact that we can continue to grow even our domestic market. We are the largest in the US. We sell about 1 out of every 20 room nights that's sold on any channel in the US and we're the biggest. So there's lots of headroom in the US market. I think we have said it in the past, the global travel market is a very big opportunity. I think there is room for both ourselves and our competitor, our primary global competitor to grow on into the future before we really start bumping into each other.

So with respect to the growth expectations for Expedia relative to what we've seen with Hotels.com, you know it's really hard to predict. I would just say that we were pleasantly surprised with what we saw with Hotels.com and we are encouraged with what we've seen with Expedia. And I guess it is possible that we could see Expedia hit those growth rates. I do remind you though that Expedia is just a little bit more of a complicated business with it being multi-product. And so there is a little bit more complexity to it and it's a little bit larger in some markets like the US. But theoretically if we get this right, again it's a huge market with lots of opportunity and there's lots of room for growth for Hotels.com and Expedia and if we get the technology right, I think there is lots of opportunity ahead.

<A – Dara Khosrowshahi – Expedia, Inc.>: I think the structural disadvantage at least near term for Expedia is that the package business for Expedia counts for a fairly significant portion of Expedia's room night volume and a higher portion of Expedia's profitability. And with higher average ticket prices, capacity in general on the air side being down on a year on year basis and our package platform being on the old platform versus the new platform this year, our package volumes are going to be somewhat more muted than our air – than our standalone hotel volumes. Then when you look at Expedia on an overall basis, that is a relative disadvantage versus Hotels.com.

A fair amount of Expedia's hotel volume also comes from upsells from the air path, etcetera, and again with air being weaker than stronger this year, that's a bit of a headwind. Now when we move over fully to the new technology platform on air, packages, et cetera, we hope to get those businesses growing again. But the economics, the unit economics of those businesses are certainly going to be a headwind for us. So listen, we've seen nice progress on Expedia. We expect more progress going forward. We're certainly not counting on Hotels.com-like results, although we would be pleased as punch if we got them.

<Q – Paul Bieber – Bank of America Merrill Lynch>: Thanks and good quarter again.

<A – Dara Khosrowshahi – Expedia, Inc.>: Thank you very much. We appreciate it.

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

<Q – Mike Olson – Piper Jaffray, Inc.>: Hey, good afternoon, just one quick one. Can you just talk about the top one or two international markets that you are feeling you are gaining most traction in for the last couple quarters and kind of into the next couple quarters? So just which markets, narrowing it down to a couple, would you say you are most excited about? Thanks.

<A – Mark Okerstrom – Expedia, Inc.>: Yes, you know there are a number of attractive markets for us. Again, it's a global business and we are working to build the platform that crisscrosses people from anywhere to anywhere. From a call it point of origin perspective, China continues to be very exciting for us. And as you know, we own a significant portion of eLong and judging by their performance in prior quarters, we continue to feel good about eLong. Latin America continues to be exciting. It's still fairly small. Brazil is an interesting market and we are seeing traction there. And then with our Expedia/AirAsia joint venture, Southeast Asia, India, Japan, are all places where we are getting very nice traction particularly in that business that has a distinct competitive advantage given the exclusivity it has with the leading low cost carrier in that market. So I would say there are a bunch of opportunities and a bunch of pockets of growth that we're seeing in the business. We like China, we like Latin American and the rest of Asia is interesting and there is room and lots of room for us in Europe as well.

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

Operator: Our next question comes from the line of Kevin Kopelman with Cowen & Company. Please go ahead.

<Q – Kevin Kopelman – Cowen & Co.>: Hi, thanks a lot. You touched on it a bit, but could you just give us a little bit more color on the results you are seeing from the Google Hotel Finder platform, if you are seeing impact on advertising expense or conversion rates and has it changed the way you think about the paid search channel at all?

<A – Dara Khosrowshahi – Expedia, Inc.>: Hi, Kevin. Looking, at this point it's a pretty small channel for us, but growing nicely. It's a nicely efficient channel, but the volumes compared to the overall search volumes or the volumes in other parts of the business are pretty small. So I think in short, it's really too soon to tell. It's not having any real effect on spend, conversion rates one way or the other.

<Q – Kevin Kopelman – Cowen & Co.>: Okay got it, thanks. And just one more question, just switching to air for a moment. Obviously a smaller part of the business, but just given the difficult trend, can you help us think about how or if that impacts free cash flow as the year goes on?

<A – Dara Khosrowshahi – Expedia, Inc.>: You know, the air business in general is a relatively small part of our overall profitability and I think of our overall free cash flow. Obviously we're fighting the headwinds that we talked about, the ATPs and the capacity especially domestically. And what we're hopeful is that the new products that we're going to be offering under the new platform will offset that through conversion, a better user experience, et cetera. But clearly there are macro headwinds that we're fighting our way through.

<Q – Kevin Kopelman – Cowen & Co.>: Got it. Thanks a lot.

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

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

<Q – Steve Ju – Credit Suisse (United States)>: Good afternoon, guys, and congratulations on what looks like a well-executed quarter.

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

<Q – Steve Ju – Credit Suisse (United States)>: Your bookable hotel properties are about flat quarter on quarter. So I'm wondering if you're waiting for your technology improvements to be fully in place and thereby generate more demand before more aggressively trying to add properties and I guess the supply side of the equation, or is there something else that is holding back the growth there?

And secondarily, is there any way you can shed some light on what the ADR and revenue margin change would have been if you strip out the downward pressure on both from eLong. And Mark, just to confirm, you said eLong was a high teens percentage of the room nights total? Thanks.

<A – Mark Okerstrom – Expedia, Inc.>: Great. So let me just start with the bookable hotel properties. We did add some properties in the quarter, over the course of the quarter. And what I'd say on that is, this is a game of balancing supply and demand. We are constantly looking at the balance between the bookings that we can deliver to a hotel and the number of hotels that we have and you will see us go in to some extent sometimes fits and starts in terms of our property additions, just depending on how the demand side of our business is doing and whether we are feeling like we are particularly supply constrained given the demand we've had.

We did have a period over the course of the last few years where we've been pretty aggressive in building up our inventory position, helped in part by the agency product that we brought on with Venere. And so we've had some time to really have demand catch up and I think we'll see what happens throughout 2012, but our focus is going to be primarily on really optimizing what we've got and adding tactically as opposed to a massive acquisition effort.

Just with respect to the specific question you had on eLong, that was actually a reference to all of our Asia-Pacific business, which includes AirAsia joint venture, Hotels.com, our EAN private label business that powers Jalan, for example, which is the leading OTA in Japan. So it's not just eLong.

And then you had another question with respect to ADRs and revenue margin trends. I would say that we have seen fairly consistent patterns to what we've seen in the last few quarters. We've seen some strength in the US and some pockets of ADR weakness in parts of Europe where they've had particular economic troubles, but no real broader trends than I would, that are worth commenting on.

<Q – Steve Ju – Credit Suisse (United States)>: So on a like-for-like basis, everything is fairly stable. It's just a mix issue with eLong starting to account for a greater percentage of the total? Is that a fair characterization?

<A – Mark Okerstrom – Expedia, Inc.>: Well again, I don't want to go into specifics around the impact of eLong. I would just say that there are a number of factors as I said impacting the delta between ADR and revenue per room night, of which eLong or APAC are not specifically one cause in terms of that delta, but rather that the overall impact on ADRs and revenue per room night from our APAC region is something that we're going to continue to see. Some of that is eLong probably and some of that is a bunch of the rest of our business essentially.

<Q – Steve Ju – Credit Suisse (United States)>: Okay. Lastly, does the hotel chain inventory convert at generally higher rates versus some of the, I guess the unbranded inventory?

<A – Dara Khosrowshahi – Expedia, Inc.>: Chain inventory tends to be higher ADR than independent inventory.

<Q – Steve Ju – Credit Suisse (United States)>: Got you. Thank you.

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

Operator: And your next question comes from the line of Scott Devitt with Morgan Stanley. Please go ahead.

<Q – Nishant Verma – Morgan Stanley & Co. LLC>: Hey, this is Nishant Verma for Scott Devitt. Congrats on the quarter. I just had a quick question on marketing expenses. You said you had about 200 basis points of leverage this quarter. It looks like about 100 basis points was due to the reduced spend in [ph] chirp (41:38). I'm just wondering for the rest of the year, how do you expect, do you continue to expect leverage in sales and marketing?

<A – Mark Okerstrom – Expedia, Inc.>: So what you saw this quarter was primarily the impact of our Expedia brand broadly being much more efficient with its online marketing spend across all channels. That was, it's really something they have been focused on. I would consider that to some extent an anomaly for the quarter. You know part of that again is just the systematic process they have been going through. Part of it is they have been working on the technology platform and so been a little bit less aggressive. But I think the way I would think about it going forward is that on a full year basis for Expedia Inc., we expect sales and marketing to be growing broadly in line with revenue for the full year.

<Q – Nishant Verma – Morgan Stanley & Co. LLC>: Thanks.

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

Operator: Our next question comes from the line of Bill Lennan with Monness, Crespi, Hardt. Please go ahead.

<Q – Bill Lennan – Monness, Crespi, Hardt & Co., Inc.>: Hi, I have two. The first one is about Google particularly in Europe. Could you tell us how much you think the European Commission inquiry or the fact they are looking into Google inhibits Google's behavior? And to put it another way, if European Commission laid off Google tomorrow, how differently would they behave in Europe? That is the first one.

The second one is if you look at Expedia and Priceline as the market, I know that is not realistic, but the numbers we get on hotel's room nights only come from Expedia and Priceline. If you look, if you had those two together, the hotel room nights you sold, Q1 last year was an astounding quarter. It was a very difficult comp that accelerated over Q4 and Q3. And going into this quarter, I was a little nervous and you put up a great number and assuming a normal share shift, the number that Priceline and Expedia put up together will be another acceleration on an extremely difficult comp. So my question is, what do you think is behind that? Is this just Asia starting to matter in the numbers or have we hit an inflection point? Have we reached the steeper point on the S-curve where offline travel agents are really dying and people are really starting to embrace online travel booking?

<A – Dara Khosrowshahi – Expedia, Inc.>: Thanks, Bill. Those are some tough questions, good questions. I'd say as far as Google and the EU, it's just impossible to speculate on what their behavior would be based on different circumstances. Obviously we are worried about Google's power, which we consider monopolistic and which we think potentially could result in difficult circumstances for businesses working with Google and working with Google as well as consumers. And we've made that, those concerns apparent to the EU too and it is something that we're working on actively. But it's very difficult to say how would Google behave one way or the other. The fact is, we've got a good working relationship with them on a day-to-day basis. We're a very big client of theirs and we'll see how that relationship progresses on a go-forward basis.

As far as Expedia and Priceline and the markets, listen, I go back to what Mark said before, this is, travel is an enormous market. We are the biggest online player in the US and we're only 5% of the room night share. I think that Priceline has been executing for many, many years and they've been executing quite effectively and we are starting to execute more effectively as a team and across our brands and across our geographies. I really can't make a statement as to whether this signifies a change in the industry one way or the other or offline to online share. I will say though that the increasing share of Asia-Pacific as percentage of our overall volumes is something that we're quite excited about and hopefully something that we can build going forward.

<Q – Bill Lennan – Monness, Crespi, Hardt & Co., Inc.>: All right. Thank you very much.

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

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

<Q – Tracy Young – Evercore Partners (Securities)>: Yes, hi, two questions for you. Obviously you're growing a nice cash balance. I'm just wondering where it is, domestic versus international. If you can give – I know you have closing of VIA still to come, but if you can give guidance on that. And then also how should we be thinking about guidance relative to FX? You have a big headwind for you in second quarter, so is there anything in there that I might have missed in terms of guidance for FX?

<A – Mark Okerstrom – Expedia, Inc.>: Sure. So I'll start with the second question first. With respect to FX, one of our largest exposures is with respect to the Euro. If you remember what happened this time last year, the Euro started to bubble up into the north of $1.40 territory and that's certainly not where we are right now. So if rates hold where they are, we could see some decent headwinds in Q2 and spreading potentially into Q3.

With respect to our cash balance, we did have about $100 million; we did have about $150 million offshore, the rest is domestic. We have been pretty successful in our ability to deploy our international cash against international acquisitions or incremental purchases in eLong and would expect to continue to be able to do that.

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

Operator: Thank you. And our next question comes from the line of Brian Nowak with Nomura Securities. Please go ahead.

<Q – Michael Costantini – Nomura Securities International, Inc.>: Hi, this is Michael Costantini for Brian Nowak. I'm just wondering if you can give us some more detail on your room night growth, if you could give the breakdown between domestic or international, that would be helpful. Thanks.

<A – Mark Okerstrom – Expedia, Inc.>: Yes, I mean I think the number that we've already given is that our domestic, specifically our US room night growth was growing 18% year on year and the overall number is 24% globally, 27% if you include the AirAsia joint venture.

<Q – Michael Costantini – Nomura Securities International, Inc.>: All right. Thank you.

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

Operator: Thank you. Ladies and gentlemen, this does conclude today's question and answer session. I would now like to turn the call back to Alan Pickerill for closing comments. Please go ahead, sir.

Alan Pickerill, Vice President-Investor Relations

Okay, thanks everyone for joining us on the called today. A replay of the call will be available on the IR site shortly after the call is over. We appreciate everybody's interest in the company. Dara, do you have any closing comments?

Dara Khosrowshahi, President, Chief Executive Officer & Director

Sure, just thank you everyone for joining us and a special thanks to the Expedia Inc. employees for a solid quarter and hopefully more to come. Thank you.

Operator: Thank you. Ladies and gentlemen, this concludes the Expedia Inc. first quarter earnings conference call. You may now disconnect.