

— PARTICIPANTS

Corporate Participants

Naved Khan – Research Analyst, Jefferies & Co., Inc.

Michael B. Adler – Chief Financial Officer & Executive Vice President

— MANAGEMENT DISCUSSION SECTION

Naved Khan, Research Analyst

Hello everyone, I'm Naved Khan. I'm from the Internet Research Group at Jefferies and I cover Expedia. It's my pleasure to have with me today, Mike Adler, who is the CFO of the company.

Mike has been with Expedia for the last five years, and he came over from IAC where he worked in a number of roles for another five years. And also with us in the audience on the front row is Alan Pickerill. He's the VP of IR for Expedia.

So with that brief introduction, let me get started and jump into some questions here. And then, we'll open it up to the audience at some point. So Mike, everyone knows Expedia pretty well. It's a well-known brand in the U.S. It's the world largest online travel agency, but I want to – I want to start the conversation with the TripAdvisor. Almost a month ago, you guys announced plans to spin-off TripAdvisor as a standalone entity and we believe that that business alone can be worth as much as \$3 billion to \$4 billion by itself. You have talked about enlisting in the business for growth, for building competitive modes around it and for guiding market share. Talk about where these investments are going, what are the specific areas that you're targeting and how they can benefit the business?

Michael B. Adler, Chief Financial Officer & Executive Vice President

Okay. So thank you, first for having us here today. I assume your question is with respect to TripAdvisor ...

Naved Khan, Research Analyst

Correct.

Michael B. Adler, Chief Financial Officer & Executive Vice President

....itself. So TripAdvisor has – the TripAdvisor network has 50 million unique visitors every month around the world with over 40 million reviews and opinions. And I think one of its largest competitive modes is its size, its great reputation with consumers. At the same time, TripAdvisor has a significant amount of international presence. So we are in 29 countries in 20 languages. The company has mobile offerings in each of those countries as well.

The company is really busy expanding its penetration into social networks, so we have quite a deep integration with Facebook. And so at the end of the day, I think the biggest competitive mode for

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TripAdvisor, in addition to just its preexisting business, I would say is its culture of innovation. And the company has really over the years shown an ability to incubate and grow businesses within the company and to react to market condition. So for example we have a product to TripAdvisor called SniqueAway. And SniqueAway is a deeply discounted hotel product that is distributed through private network. And it is again deeply discounted hotels. And hotels that are very highly reviewed and highly rated on TripAdvisor.

So that's just an example of TripAdvisor's ability to really take its existing business model and build on top of it and ultimately I think that's what makes the business very successful in the long term.

Naved Khan, Research Analyst

Do you believe that as a stand along business, TripAdvisor would be able to maintain the same level of investment that you're making in it today as at Expedia?

Michael B. Adler, Chief Financial Officer & Executive Vice President

So TripAdvisor as a business has global margins in excess of 50% and they've been able to maintain that over the years while growing revenue and growing earnings at fairly significant rates. And I think the company really has always maintained and will likely maintain a real long-term horizon. And so while the core business is growing and is very profitable, TripAdvisor has never shied away from making investments in other areas of the business.

So we're growing our vacation rentals business, which I would define is an investment mode today. We are growing very rapidly in China as well. And I think the long-term plan will be to find that right balance between growth and investment, but I think given our success at building from within, that you are going to see the company continue to make sure that it makes the right investments for growth in the future.

Naved Khan, Research Analyst

Okay. Lately there has been a lot of talk about Google Places and how that is affecting TripAdvisor's traffic and I – you guys have admitted as much that the exposure to Google traffic is pretty significant for TripAdvisor. So with that said, let's talk about other sources of traffic. What are you seeing from mobile devices and what are you seeing with respect to social networking site, Facebook?

Michael B. Adler, Chief Financial Officer & Executive Vice President

So we're seeing a significant pickup from mobile traffic as well as tablet computing and this is just continuing to grow rapidly on a daily basis. It's not yet in excess of 10% of the traffic, but it is growing nicely. We also, as I mentioned earlier, are very nicely integrated with Facebook and so if you are both a TripAdvisor member and on Facebook, you can see the travel choices and travel reviews of the folks who are in your Facebook network, and so we think over time, we're going to be able to continue to build out other sources of traffic. Even today while Google is a significant amount of the company's traffic, we do get a lot of traffic from other sources. We have direct type-in traffic. We have a newsletter, et cetera, and I think, mobile presents a really interesting opportunity for us to diversify further away from Google as a source of traffic.

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Okay. That's helpful. Just on Google Places, I think roughly five or six months ago, you guys were selectively participating with regards to giving access to TripAdvisor reviews and that might have changed over time. I think now I see more reviews from TripAdvisor flowing into Google Places. So how do you determine whether to participate or not and how do you make that decision?

Michael B. Adler, Chief Financial Officer & Executive Vice President

I mean, it's an interesting question on as far as Google goes. If Google crawls our site, if Google crawls TripAdvisor, we will be on Places. So for us, it really is not a matter of a decision. It is Google creating its own product, its own service and basically including in that product and service any of the websites that are crawled. So if we for example, chose not to participate in Google Places, then Google would not crawl our sites at all. So for us, we look at Google Places and we have a lot of feedback that at least today, it's not a great consumer experience. Now, Google may enhance that over time, but we believe that the consumer is getting less than an optimal experience by having Google really interject its own product and service in natural search engine results. That said, our growth in traffic continues from Google. Our growth in traffic continues very nicely. On a worldwide basis, we grew our clicks – our primary source of revenue for TripAdvisor is click revenue – and we grew our clicks 30% in Q1. And while we believe our traffic growth would have been higher in the absence of Google Places, we clearly are growing the business at very healthy levels, notwithstanding the products.

Naved Khan, Research Analyst

Does TripAdvisor monetize any of the traffic to your core transactional site, either Hotels.com or...

Michael B. Adler, Chief Financial Officer & Executive Vice President

Yeah. So, each of Expedia, Hotels.com and Hotwire are main transactional businesses actually along with eLong in China, do have relationships with TripAdvisor. About a third of TripAdvisor's revenue is from those sources and is part of the spin-off. We'll be putting in place commercial agreements between the various Expedia brands and TripAdvisor that will continue post-spin.

Naved Khan, Research Analyst

Okay. So -- but outside of China how big is that..

Michael B. Adler, Chief Financial Officer & Executive Vice President

I'd say it's about a third.

Naved Khan, Research Analyst

Okay.

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It's about a third. And China's probably a pretty small piece of it.

Naved Khan, Research Analyst

And with regards to opportunities to make acquisition for content in different geographies for TripAdvisor, what do you see out there?

Michael B. Adler, Chief Financial Officer & Executive Vice President

Yeah. So TripAdvisor has made a number of acquisitions over the years. And to a large degree, it's been product expansion. So to go from hotel into air, into cruise to help launch our efforts into vacation rentals, China metasearch with our Kuxon acquisition, so I do think TripAdvisor will continue to be opportunistic. I don't think that there are any kind of large geographic holes that are missing from the business, that we need to go out and buy somebody in order to fill content. We have that global network of 50 million visitors, 40 million plus reviews and we're able to really use those reviews around the world and localize them. And so we don't lack for content. There could be some specific markets that we decide that we can get further leapfrogging effect, if we went out and made acquisitions. But again, we don't think there's anything imperative that we have to do.

Naved Khan, Research Analyst

That's helpful. Shifting gears a little bit. We had Living Social in this room yesterday and they mentioned that they had also launched some travel products. I wouldn't call it a product, but they do offer sort of flash sale, vacation getaways and stuff like that. Do you guys – are you guys seeing any impact from those kind of local deals in your core business?

Michael B. Adler, Chief Financial Officer & Executive Vice President

Yeah. For us, I mean we've been doing deals and making deals available for years. We have relationships with 300 plus airlines, 135,000 hotels. We have a business called Travel Ticker which is daily deals, both on a website itself and through an e-mail subscription list. Of recent, we've been really successful in Europe and Asia with something that we call 24 hour sale, where we go out and we get special inventory, special rates and promote it very significantly on our website and we're now bringing that to the United States.

And for those of you watching the basketball game last night, you might have seen the hotels.com ad in there for 24 hour sales in the United States. So we think that we are really uniquely positioned to bring those types of sales to consumers. And as I mentioned earlier, SniqueAway through TripAdvisor is also bringing deeply discounted, if you will flash, flash sales. And so I think with our full – full range of assets that that's an area of the market that we'll be able to compete very, very effectively in.

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You have millions of e-mail IDs in your database for people who transact to either Expedia or subscribers to TripAdvisor. You can potentially leverage that to create a local offering maybe offerings, say coupons for restaurants or spa. Do you see that as a possibility down the line or either for TripAdvisor or for Expedia?

Michael B. Adler, Chief Financial Officer & Executive Vice President

I mean for us, I think that you will see over time Expedia in particular, focus more on the kind of services in trip. We want people to think of Expedia for all aspects of the trip. And so we do have a fairly large business today destination, destination services where we do make available tourist-type attractions, et cetera, while people are traveling. So I think as we grow our mobile business, that you probably will see us extend more into areas, into the trip. As to whether we have aspirations to really jump into the restaurant and spa area, I think that those are probably one or two neighborhoods too far afield for our core competency. But I would note today that TripAdvisor actually has a vast restaurant review business. It's not something that we really focus in particular on monetizing to a great extent. But we do know that our visitors are interested in it. In terms of local deals for those of you in the room who are signed up as e-mail subscribers through Expedia, we do try and cater to individual needs in case and offering deals and we will be looking to do even more of that and personalize more as we deepen our relationship with customers. So I would expect to see more of that over time.

Naved Khan, Research Analyst

Okay. And on the transactional side of the business on the hotel bookings and air bookings, your most mature market is the U.S. and you continue to benefit from a secular shift from the offline channel into the online even today. Do you see sort of – where do you expect the share of online to sort of saturate or mature? Will it kind of grow more in line with industry versus growing faster?

Michael B. Adler, Chief Financial Officer & Executive Vice President

Yeah, so as we look at the U.S. market, we still think that there's a significant opportunity for us to have healthy unit growth. We grew our total hotel room nights 15% in Q1. We've been growing in the mid-teens for several quarters and there's a real appetite from consumers to move online to shop really hard for hotels. And they typically can find what they're looking on an Expedia Hotels or a Hotwire website. So we still see a fair amount of runway in the U.S. and continue to grow rapidly in the U.S. Now as much runway as there is in the U.S., there's significantly more runway in Europe, in Asia and in Latin America. And we've placed a particular emphasis on Asia this year and are investing a lot of money there in sales and marketing, localization and content and technology to make sure that we fully take advantage of that opportunity. We're also doing the same in South America, particularly in Brazil and Mexico. And in Europe, our Hotels.com brand is growing very nicely and the business that we're really working on growing at healthier rates is the Expedia business in Europe. And so our growth outside of the U.S. is quite significant. Our international revenue accelerated to 31% growth in Q1 from 17% growth in Q4. And so we feel really good about those efforts, and so while the U.S. remains fast growing for us, and about 60% of our business, we have gotten to about 40% outside of the U.S.

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And with the improvement in the Hotels.com, I mean this business is obviously growing much faster now than versus just a year ago, do you see room to accelerate this growth even more from here on?

Michael B. Adler, Chief Financial Officer & Executive Vice President

We definitely see room to continue to grow Hotels.com at very significant rates. As you mentioned, we grew at 39% in Q4. Our gross bookings at Hotels.com compared to 12% last year. So it's a three-fold increase in the growth rate. And that is a result of a lot of hard work. In 2009, we made a major technology investment in Hotels.com and moved from an old platform into a much newer, modern, state of the art platform that allows us to innovate much faster on. And we've absolutely seen the results of that technology investment so we're quite pleased. And Hotels.com is actually really growing across the board. It's growing in every major market that we're in.

We also have made technology investments in our EN business, our affiliate business and our Egencia business and are growing those businesses very rapidly as well. And we're about a year behind in our Expedia business in terms of the technology investments that we're making. And so we are expecting to see improvements at Expedia as well. In terms of again an acceleration, we're looking to meet as much of the consumer demand as we possibly can while working to be very friendly with suppliers. And the actual rates of growth will take care of themselves.

Naved Khan, Research Analyst

And the acceleration in Hotels.com from 12% last year to 39% in Q1, how much of that would you attribute to say higher conversion rate versus spending more money on variable marketing channels?

Michael B. Adler, Chief Financial Officer & Executive Vice President

I mean there's a lot going on at Hotels.com. First and foremost, our conversion rate is improving which is a positive driver for the business. We also have very successful loyalty programs. We have the program called welcomerewards which is book 10 nights, get one free. And that has caught on in the United States very, very nicely. And we've now rolled it out to Canada and to Australia and other countries, and we expect to continue to gain transaction on that. So loyalty is a big driver of the business based upon the increases and conversion that we've seen in the U.S. In our success and loyalty, we also have put the gas down a bit more on brand advertising in the U.S. Our affiliate business continues to grow. So I would say that Hotels.com is really firing on all cylinders. So we're seeing kind of broad-based growth across all of our channels and in part, that is driven by increases in variable marketing spend and those increases in spend are made even more possible by higher conversion rates. So it gives us more money to reinvest back into the business, and so obviously having growing conversion as a tailwind of the business is absolutely a positive factor for us.

Naved Khan, Research Analyst

Okay. We have five minutes left. Let's open it up to the audience and see if there are any questions.

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<Q>: How should we think about allocating a corporate expense to the TripAdvisor segment and also cash on a balance sheet, how you guys are thinking about allocating that?

<A – Michael Adler – Chief Financial Officer & Executive Vice President>: So in terms of corporate expenses, what I would tell you is that TripAdvisor has largely been running as a standalone company, since it's been part of Expedia. In terms of cash on the balance sheet, those types of decisions are still to come, and will be disclosed in our public filings. We expect to make the first public filing in respect to the spend in the spring.

<Q>: So when I look at your segment breakdown, then there's obviously a corporate line in there, can you use that to...

<A – Michael Adler – Chief Financial Officer & Executive Vice President>: Yeah, that corporate line includes a lot of unallocated expenses including IT, G&A and HR and again because TripAdvisor has been running largely as a standalone business, you can expect ultimately TripAdvisor to receive a piece of those expenses in line with the fact that it's mostly been standalone. Now TripAdvisor will end up needing to incur the expenses associated with being its own independent, publicly traded company, and those expenses aren't reflected in the corporate line today. So those will be new incremental expenses on top of whatever allocation TripAdvisor will receive.

<Q>: What are your thoughts on the current litigations as Travelport and e-saver or different airlines and how does it affect you? Or the result of it – will it have any impact on you??

<A – Michael Adler – Chief Financial Officer & Executive Vice President>: I would say we're spectators like everyone else, and so we'll continue to watch and see what the results are.

<Q>: So, it looks like – we've seen some data where it looks like Expedia or the regional business as a whole is shifting a lot from organic search traffic to paid search traffic as a result of Google Places. It looks now like you guys are paying for booking links within Google Places. How far along are we in that shift and clearly it hurt margins in the first quarter, how far along are we to that?

<A – Michael Adler – Chief Financial Officer & Executive Vice President>: Today, very little of our traffic is coming from Google Places. Google as a pay channel and as a SEO channel are important to our transaction businesses and over time, we look to shift as much of our traffic to lower cost channels as possible. So we focus on our e-mail program.

Expedia recently launched a loyalty program based on the success that we've seen at Hotels.com. Expedia has launched its own program as well. We're also making use of brand advertising. We're really making in-roads in mobile, making investments in social, really all designed to shift our traffic as much as possible to lower channels or lower cost channels.

That said, we get – a fair amount of our traffic from Google is branded traffic whereas people go into the search engine itself and type in Expedia and that itself is not that expensive for us as a company.

<Q>: Can you give us an idea of how much of your traffic is paid from Google?

<A – Michael Adler – Chief Financial Officer & Executive Vice President>: Yeah, we don't give specific breakdowns from any one channel. I will say we have a pretty diverse channel of traffic sources to the company and aren't over-reliant on any particular one.

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<Q>: I understand the rationale for the spend that you gave in the last earnings call, can you talk a little bit about the timings or why now?

<A – Michael Adler – Chief Financial Officer & Executive Vice President>: I mean in terms of why now, I would say TripAdvisor at over \$500 million in revenue, we think certainly is large enough to be able to be on its own. A spin of Trip is something that's been in the public domain and has been discussed internally for a while, and we just decided it was the right time that each of the companies would benefit from really standing on their own and having their own focus on each of their respective businesses and their strategies, and each really has their own currency going forward.

<Q>: Okay. Just a clarification. You mentioned filing some of the initial documents in the spring. What did you mean by that? I know we haven't had that much of a spring on the East Coast, but...

<A – Michael Adler – Chief Financial Officer & Executive Vice President>: Yeah. I was going to say so. So, again, nothing, nothing more particular than that. So, I guess we'll all get out our calendars and see when the first day of summer is, but the prediction before summer is here, we will have made our first regulatory filing and if things progress as planned, we'd expect the spin to consummate in the fall.

<Q>: Okay. Thank you. And then just a follow-up on the question that this gentleman was asking...

<A – Michael Adler – Chief Financial Officer & Executive Vice President>: Yes.

<Q>: My question on the timing is just – so there might be some -- I mean you could make the bare case that we haven't seen the full impact TripAdvisor – and it sounds like you guys are saying well, this is an adjustment. It will take four quarters to work itself through. So my question is just why do the spin before we've kind of lapped...?

<A – Michael Adler – Chief Financial Officer & Executive Vice President>: Do you mean the Google Places adjustment?

<Q>: Google Places impact on margins.

<A – Michael Adler – Chief Financial Officer & Executive Vice President>: We feel really good about the TripAdvisor business and its growth and we grew click volume 30% in Q1 and we have a healthy business and there's certainly no reason to wait. There will always be things that happen in the marketplace that are going to affect the business. Some will be more positive than others. Some will be a bit more difficult to deal with. And for us, we believe very strongly in the long-term future of TripAdvisor and Google Places is just one of those things that comes along – comes along the way.

<Q – Naved Khan – Jefferies & Co., Inc.>: It's time for only one question now.

<Q>: Maybe you can discuss the settlement with American Airlines and do you expect to do more sort of deals like that with other airlines?

<A – Michael Adler – Chief Financial Officer & Executive Vice President>: On American Airlines, what I'd say is we're happy to have them back on our site, on terms that both parties find acceptable. And it has had a positive impact since returning, no surprise. And we continue to expect to have good relationships with our airline partners and with our hotel partners and to have plenty of access to the inventory that our customers are looking for over time but nothing else other than that.

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So that's all the time we have. But we do have a breakout downstairs, if you have more questions.
Thanks, Mike.

Michael B. Adler, Chief Financial Officer & Executive Vice President

Thank you. And thanks for having us.

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