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PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to the Expedia first-quarter 2011 earnings conference call. During today's presentation, all participants will be in a listen-only mode. Following the presentation the conference will be open for questions. (Operator Instructions). As a reminder this conference is being recorded today, Thursday, April 28, 2011.

At this time, I'd like to turn the conference over to Alan Pickerill, Vice President Investor Relations. Please go ahead, sir.

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Alan Pickerill - *Expedia, Inc. - VP-IR*

Thank you. Good afternoon and welcome to Expedia Inc.'s financial results conference call for the first quarter ended March 31, 2011. I am pleased to be joined on the call today by Dara Khosrowshahi, Expedia's CEO and President and Michael Adler, our CFO.

The following discussion, including responses to your questions, reflects management's views as of today, April 28, 2011, 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 measure's 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 and updated investor presentation.

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

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

Dara Khosrowshahi - *Expedia, Inc. - CEO and President*

Thanks, Alan. We are pleased to report strong top line growth at Expedia with revenue, room nights and free cash flow all growing 15% in what was a very difficult environment in the first quarter. Few things have changed since we last talked to you.

We announced the plan to spin off TripAdvisor, the world's leading travel media company, into a separately publicly traded company, an event that we think will highlight TripAdvisor's accomplishments and set the stage for growth for many years to come.

We announced a joint venture with AirAsia which we believe will prove to be a powerful platform to fuel Expedia's Asia-Pacific ambitions. We continue to invest in and deliver on our technology platform plans and we have American airlines back in our marketplace.

On the financial front, while our top line was quite healthy considering the relatively reduced quality of our air inventory on Expedia, our bottom line was a bit weaker than expected. We saw continued higher average ticket price's challenging Expedia's air volumes, lower customer discounts in the opaque channel available to both Hotwire and Expedia packages and higher than expected G&A, due primarily to legal costs and related reserves, the timing of which we just can't control.

Regarding the spinoff, TripAdvisor and the 18 brands that comprise the TripAdvisor Media Group will separate from Expedia to be led by President and CEO Steve Kaufer, who is a co-founder of TripAdvisor. We think it is the right time and the right direction for both companies and each company is ready.

TripAdvisor is the unquestioned leader in the travel media space with more than 50 million unique users in 29 countries and 20 languages. Expedia will move forward as the world's largest online travel agency with leading leisure and corporate brands operating more than 100 sites across the globe and driving more than $26 billion in annual travel bookings towards suppliers all over the world.

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We believe that moving ahead as two separate companies will allow each to stand on its own, drive its own growth and technology vision and culture and ultimately create far more value for our shareholders. We intend to maintain a strong relationship between Expedia and TripAdvisor that comes from a shared history and vision to provide the very best travel products and information.

Announcing our intent to spin off TripAdvisor was just the first step in a process and it won't happen overnight. This will require full approval from the Board of Directors and months of work. We are working on the required regulatory filings and expect to file a proxy statement regarding the transaction with the SEC this spring. Final timing of these types of transactions can be difficult to predict with precision, but we are aiming for the spinoff to be completed sometime in the fall.

In the meantime, both businesses are pushing forward on their respective strategies and we don't expect the spinoff to slow it down. From an operating perspective, TripAdvisor experienced robust growth in its three main revenue categories during the first quarter of 2011 including over 25% for and a cost per click CPC-based revenue, on 30% growth in click volume, over 10% increase in display advertising revenue and over 300% growth in other revenue which includes our new business listings product that we are very excited about. TripAdvisor's in the enviable position of being able to deliver 21% [Q and OIBA] growth while, at the same time, aggressively investing in long-term growth drivers.

We are pushing hard into Asia-Pacific as we see excellent opportunities there for long-term sustainable growth. The APAC opportunity is immense with total travel bookings in the region well over 200 billion with just a fraction of it online. The biggest development there was our announcement to enter into a joint venture with AirAsia. We are contributing certain of our Expedia branded points-of-sale and technology while AirAsia is contributing its 22 * AirAsia Go travel booking sites and exclusive third-party distribution rights for the AirAsia content.

We believe it is the first of its kind joint venture between an online travel agency and a low-cost carrier, and we are extremely excited about the opportunity to partner with a terrific local travel operator to grow our APAC business.

In addition to the joint venture opportunity, we will still have our Hotels.com brand with 15 sites in the region. In fact, we just launched Vietnam and Indonesia today as well as our controlling interest in eLong. TripAdvisor also continues pushing into the region so we are well diversified as we look to capitalize on this opportunity.

From a technology investment perspective, one of the most important efforts is to move the Expedia brand from its old platform onto its new platform. Once completed, it will allow us to innovate at a much faster pace, delivering new products and features to our customers. It has been less than 80 days since our last earnings call and I will tell you that we are on track on this project. We've got key portions of the Expedia brand, [Hotel path] on to the new platform, and we have already started innovating on these pages. New info sites, new hotel search results, filters, urgency messaging, a new checkout path and more will all serve to improve the experience for our customers and in turn improve our conversion.

The migration of the hotel path should be complete around the end of June and the air path by the end of the year. Work on the packages path and other products will continue into 2012.

During the quarter, we also officially launched the new Expedia customer loyalty program called Expedia Rewards and are quite happy with the early metrics we have seen there.

Now I've been asked by some of our investors what gives me confidence that the investment in the Expedia technology platform will pay all. I simply point to Hotels.com. We executed on a similar project in 2009, which we called One H internally, [whose painful operationally and financially] near-term for the hotel.com team, just delivered on the quarter with nearly 40% gross bookings growth more than tripling last year's growth rates and has continued to show strong growth in April.

While our aggressive investment spend in technology and marketing will continue to put pressure on our margins, we see improving results in Q2 and the balance of the year, both top line and bottom line. We are also encouraged by the performance

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of several of our key brands. Hotels.com, as I previously mentioned, is showing continued strength in virtually every geography. Our private label business is hitting on all cylinders. Egencia continued to grow share in the corporate travel market and rumors of impending doom for TripAdvisor's traffic have proven to be entirely false.

We know we have a ton of work ahead of us, but on balance, we feel much better now than we did when we last spoke to you. Now Mike is going to cover the details about some of these trends.

Michael Adler - *Expedia, Inc. - CFO*

Thanks, Dara. From a brand perspective, we saw healthy revenue growth across most of our brands and geographies, with a notable exception of our Expedia brand. Hotels.com saw both room night growth and total revenue growth accelerate nicely in Europe and Asia Pacific.

Our Welcome Rewards program continues to do well and is helping to drive hotel bookings in North America where Hotels.com room night growth accelerated from 14% growth in the fourth quarter to a very robust 27% in the first quarter.

Hotels.com global standalone hotel business is now larger than that for the Expedia brand and we are certainly glad to see that momentum. And while the Expedia brand grew hotel revenue at rates similar to last quarter, air tickets were down double digits year over year.

From a product perspective, hotel room night growth in Q1 was healthy at 15% and we saw good growth in both domestic and international. Our ADRs were up 3% for the quarter with 1% growth in revenue per room night.

In air, tickets declined by 10% year over year while we saw and 18% increase in revenue per ticket. As we mentioned last quarter, we have accelerated revenue recognition on our Merchant Air product to the book date, which accounted for roughly 1/3 of the improvement per ticket. The 13% increase in average ticket prices, as well as some performance-based overrides, were the other primary contributing factors.

We do not expect to see a year-over-year increase in revenue per ticket as we move through the year. We have also signed a memorandum of understanding with American Airlines and we are happy to have their tickets back on the sites.

On a broad level, we are accessing and plan to access our air and package content via global distribution systems and continue to believe that GDS is the most efficient and effective method for airlines to distribute their content to travel agencies.

As we mentioned last quarter, we are ramping key investments and you can see the impact of that in our operating expenses. With the $60 million increase in selling and marketing expense, a little over 40% was for the Expedia brand, essentially all of which was for international efforts in Europe and APAC. Hotels.com made up nearly 30% of the total increase with that spend relatively balanced across regions.

TripAdvisor accounts for over 20% of the increase as it continues to drive volume growth around the world. Tech and content continues to ramp as we scale up the headcount required to complete our strategic technology projects. The headcount increases are concentrated primarily in our centralized IT function, TripAdvisor, Expedia and our partner services group. Recent tech and content deliverables have included the launch of two new Expedia branded websites in APAC, the launch of our new Expedia.com loyalty program, new mobile applications for both Expedia and Hotels.com and the launch of Hotwire in the UK, to name just a few.

We are also hard at work in abating on the front end of Hotels.com, moving Expedia onto its new platform and upgrading our supply platform as well as other backend systems.

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G&A expense was $5 million higher than we expected this quarter, primarily on an increase in legal costs and related reserves. Unfortunately, these expenses can be somewhat unpredictable and lumpy from quarter to quarter. I can say however that we are still expecting G&A to grow at a slower rate than revenue for full year 2011.

Lastly, as expected, we saw leverage and cost of revenue as we continue to see payoff from prior investments.

From a profitability perspective, operating income before amortization was down 9%. The OIBA decline is due in part to the fact that Q1 is seasonally the lightest revenue quarter of the year while the investments we are making are not seasonal. We do expect to see improving top line performance as we move through the year and our expense comparisons get easier in the 2nd half. So our expectations are for OIBA growth to be stronger in the back half of the year relative to the first half.

As far as our financial expectations are concerned, last quarter we said we expected OIBA to grow in the mid-single-digit range for full year 2011. With improved air inventory, we feel better about the business although higher air ticket and oil prices since the last earnings call present ongoing headwinds for standalone air and packages. Net net, we think we can do at least as well as we described last quarter if not a little better.

As a housekeeping item, please note that these expectations do not contemplate the additional cost we will incur related to the TripAdvisor spinoff. With that, let's turn to questions.

Operator, would you please remind listeners how to ask a question?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Mark Mahaney with Citi.

Mark Mahaney - *Citigroup - Analyst*

Thanks. One question on TripAdvisor and one question on expenses. On TripAdvisor, so it doesn't seem like in terms of the revenue growth that you've seen any material impact. It kind of shows up sometimes in the traffic data. Do you think your growth for TripAdvisor in terms of revenue is being negatively impacted by Google Places now? Is this something you have been able to work around? Do you think your growth would be even higher if it weren't for Google Places?

And then just on the investments, when you think about the ramp-up in marketing spend, the best evidence for you that you are going to get that ROI on that marketing spend, is it the hotel's success you had last year or would you point to something else? Thank you.

Dara Khosrowshahi - *Expedia, Inc. - CEO and President*

Thanks. As far as TA goes, we were definitely impacted by the changes that Google made in Places. Places, you know, they are favoring their own internal contents and pushing down kind of SCO results down the page often below the fold. And we certainly saw an affect on TripAdvisor traffic as a result of that.

I think the reason why you are seeing the revenue strength of TripAdvisor is just because of TripAdvisor's incredible diversity and underlying strength of the business. So I'd say if Places wasn't around, TripAdvisor would have grown even faster, but we are seeing very, very good results in TripAdvisor coming out of the international markets.

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The international markets now are a significant majority of TripAdvisor's traffic. There's still less than -- well less than 50% of TripAdvisor's revenue and TripAdvisor's doing great things internationally, launching new sites, investing pretty aggressively in the Asia-Pacific regions and, then, launching new products that were quite happy about such as the Business Listings product.

So it hurt us. But I just think that the TripAdvisor management team has adjusted well and the business is on a good path so that we are able to show healthy growth, despite Google's actions.

As far as the evidence on the ROI, the marketing investment, I would say continue to health and hopefully acceleration on the room night front and hotel room nights which is clearly something that we're pushing, and I would say we would want to see continuance of the revenue acceleration that we saw in the international markets in Q1. International revenue came in at 31% growth which was significantly higher than what we saw in Q4 and we're certainly happier with those kinds of numbers and the numbers that we saw kind of late, late last year. So those are certainly two factors that we look at.

Mark Mahaney - *Citigroup - Analyst*

Makes a lot of sense. Thanks, Dara.

Dara Khosrowshahi - *Expedia, Inc. - CEO and President*

Thanks, Mark.

Operator

Ingrid Chung with Goldman Sachs.

Ingrid Chung - *Goldman Sachs - Analyst*

Thanks. Good afternoon. So I have a couple of questions around the separation. So first, I was wondering if you could give us a little more color on the recent sort of separation? Will you lose some synergies potentially between Trip and Expedia?

And then secondly, logistics, the separation? Am I correct in assuming that this is going to be a full asset spin and where is the debt going to reside then?

Dara Khosrowshahi - *Expedia, Inc. - CEO and President*

Sure. I will answer the last one first. As far as debt goes, we haven't made any final determinations as to where the debt is going to be. We will make sure that both companies are appropriately capitalized and as you know, our capital position is very strong from a cash standpoint and the debt levels are debt levels that are very reasonable. So I don't think that frankly figuring out what the right capitalization levels for each company is is going to be that difficult. We have plenty to go around. But we haven't made the full determination of exactly how we are going to structure the companies.

That will come out, I think, once we file our S-4, etc. So that's work to be done.

As far as the reasons for the spin, you know, I think they are simple. I think as we've restructured our businesses and created global lines of business and global brands, we found that focus is incredibly important in performance. And we think that this will focus the employees of kind of new Expedia, the transactional employees, to drive those businesses and make sure that the investments that we are making on behalf of our shareholders pay off. And I think that it will focus TripAdvisor to keep building on an incredible asset that that management team has built.

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I think anytime that you've got employees who feel like their work has a great chance of affecting not only how their company does, what products they release, but also how their stock price does and how their pocket books are affected, the more direct that action and reaction is, I think the better companies do. And I think this is going to focus the mind for the transactional businesses that we have to make these investments pay off and I certainly think that the TripAdvisor team who, I think, is really proud of the business that they built who is going to go forward as a public company and I think it is going to motivate them even more than they've been motivated in the past.

So I think net net, it is going to be a great thing. There are certainly some synergies that we'll lose. One synergy that we loved about having TripAdvisor in the family was that we were hedged against media inflation. As you know, marketing is a very significant cost for Expedia. Having TripAdvisor in the family really provided a wonderful hedge against that.

Now our shareholders can create that hedge and I guess they're in the business of allocating capital so they can make up their mind there and we are giving them optionality. I do think that the businesses have been working together more. You see TripAdvisor, for example, now showing up and Expedia info sites as far as you see TripAdvisor reviews show up there. I think you'll actually see the businesses work more together going forward and we are going to make sure that we put those relations in place in the form of contract, etc., that will make that kind of partnership possible.

The last thing I'll say is we have worked together as a team really well. My senior leadership team with Steve Kaufer, senior leadership team, were friends. We respect each other and I do expect that we will be a great partner of theirs and they will be a great partner of ours.

Ingrid Chung - *Goldman Sachs - Analyst*

Okay, great. Thanks, Dara.

Dara Khosrowshahi - *Expedia, Inc. - CEO and President*

Thanks, Ingrid.

Operator

Justin Post of Bank of America Merrill Lynch.

Justin Post - *BofA-Merrill Lynch - Analyst*

Thanks. Dara, can you talk about the marketing spend in the quarter? It was about, I think, 70% of gross profit growth if you do the ratio. How much of that was directly driving kind of transactions or volumes in the quarter, whether it be for hotels or Expedia? And how much do you think we will pay off with more brand built down the road? And then secondly, maybe you could talk about the currency impact. Will that be pretty favorable both to revenues and OIBA, or do you hedge that at all when you look out the next few quarters? Thanks.

Dara Khosrowshahi - *Expedia, Inc. - CEO and President*

I let Mike take on currency impact. As far as the marketing spend in the quarter, we don't disclose kind of exactly what our marketing spend is off-line versus online. I would say that it's a combination. The online spend clearly brings transactional growth, is easily trackable, etc. I would say that in certain markets, for example, in the Asia-Pacific markets, we will spend online highly inefficiently. So either that spend will be breakeven or that spend sometimes will be losing money as we are building up volumes, as we are bringing in customers, as we are building a brand inside those marketplaces.

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So for example, if you look in the Asia-Pacific region, when you say marketing spend was 70% of gross profit growth, I would say to the Asia Pacific region marketing spend is probably closer to 100% of gross profit growth, if not more. I am using round numbers like so you can correct me if I'm wrong.

So you have a mix which is in the Asia-Pacific region where we did make money. We were profitable last year and this year we will be profitable. We are actually taking every dollar that we are making, every gross profit dollar that we are making, we are putting it back into the marketing spend. So that is part of what we -- what you see. And then, you are seeing in general, an increase in online and off-line efforts both at Expedia and Hotels.com and TripAdvisor on the traffic acquisition fronts where we are being aggressive? But we are seeing some good revenue numbers and some hotel room night numbers as a result. Mike, you want to talk currency?

Michael Adler - *Expedia, Inc. - CFO*

Sure. So on FX we did see a slight boost in this quarter on year-on-year weakening in the US dollar and last year we saw the US dollar begin to strengthen midyear. So current rates, new hold that will provide a bit of a tail wind for us. You know we obviously can't control it, so we don't count on it.

In terms of what we refer to as the book to [stay], exposures that we have to FX and that's between book date and stay date. We do hedge that to the extent that there are large movements from one period to another before the booking actually stays for the most part we expect to be neutral.

Justin Post - *BofA-Merrill Lynch - Analyst*

Okay, but do you think it will be helping your OIBA as we look out? Or because -- if it stays where it's at?

Michael Adler - *Expedia, Inc. - CFO*

On a year on year basis, it would -- at current levels it would help.

Justin Post - *BofA-Merrill Lynch - Analyst*

Great. Thank you.

Operator

Ross Sandler with RBC Capital Markets.

Ross Sandler - *RBC Capital Markets - Analyst*

thanks. Two quick questions. First, thanks for breaking out the bookings growth at property.

You mention a bunch of these new features at hotel.com. Can you help us understand the specific factors that are driving the 39% growth and why you feel confident that you will see the same kind of growth once that the Expedia hotel business is rebuilt in June.

And then second, one more clarification on the split. How are the ads that are showing up on TripAdvisor that come from Expedia sites accounted for today? Are those cash expenses or are they just book expenses without a cash component? And

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once the split goes through, are those going to be cash expenses for Expedia or is there going to be like an agreement where a certain amount of inventory will be allocated to Expedia? Thanks.

Dara Khosrowshahi - *Expedia, Inc. - CEO and President*

Thanks. To be specific, the features that actually I had listed are features that are now being delivered on the Expedia hotel path as it is being transitioned onto the new technology. Hotels.com has been delivering those kinds of feature sets and more since it has been on the new technology that we launched for a longer period of time. Expedia is kind of at the beginning of the path and Hotels.com, I would say, is at the beginning to the middle of the pack.

And as far as our confidence here is, I'd just say you know the stuff that we are launching is not rocket science. There is a lot of testing and learning that goes into this. There is a lot of science that goes into this where we are able to introduce a new feature. We are able to test it, A/B test it with our customers to see which works and which don't.

And based on Hotels.com's experience, we are saying that a number of these new features that we're launching, better pictures, better filtering capability, more results, faster results, etc., are resulting in more -- a higher percentage of our customers who are visiting our site booking. In other words, higher conversion rates.

And these conversion rates are pretty broad. They are applicable in the US, they are applicable in Europe, they are applicable in Asia-Pacific, which is creating better (technical difficulty) essentially for Hotels.com on a worldwide basis.

And we see no reason when we look at the Expedia customer, when we look at the Expedia traffic sources, etc., we see no reason why the same application of this technology to the Expedia customers won't work. We will be surprised if it doesn't work. It is a risk that we are taking, but we are very confident in, 1, the patterns that we are seeing based on our experience with Hotels.com and, 2, based on the Expedia team's ability to deliver.

So it is a risk and I think the second half for us will start to tell the tale. And I would expect that Expedia's room night volume in the second half of the year, late Q3, Q4, should see some improvement from what we have seen in Q1. And hopefully we'll be able to deliver that for you. Mike, you want to answer the second question?

Michael Adler - *Expedia, Inc. - CFO*

Sure. So Expedia, Hotels.com, and some of our other brands today acquire traffic from TripAdvisor. And that relationship today is at fair value and that is reflected in our various segment reporting. Go forward, the relationship between Expedia hotels and TripAdvisor will be like with any third party. So it will be a true cash relationship like with any other party.

Dara Khosrowshahi - *Expedia, Inc. - CEO and President*

Does that answer your question?

Ross Sandler - *RBC Capital Markets - Analyst*

Well, yes, specifically though but today if a banner from an Expedia site shows up on TripAdvisor, there's not really any cash being exchanged because you are part of the same company.

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Dara Khosrowshahi - *Expedia, Inc. - CEO and President*

It is all intercompany, correct. So whether it happens or not, there's various accounting entries and things which occur. But today, all the cash is at the Expedia Inc. level.

Michael Adler - *Expedia, Inc. - CFO*

Though we think from a P&L standpoint, you will largely see a similar P&L. Now market conditions may change between now and then as far as the price of clicks, etc. But then, you know, we think once the companies are spun off, the cash flows will reflect the P&Ls, right?

Ross Sandler - *RBC Capital Markets - Analyst*

Absolutely.

Dara Khosrowshahi - *Expedia, Inc. - CEO and President*

Okay, next question.

Operator

Naved Khan with Jefferies & Company.

Naved Khan - *Jefferies & Company - Analyst*

Thanks. Can you talk about how much exposure you have for Japan from a bookings and revenue perspective? And can you break out the impact from Japan, the Middle East, and other in Q1? And what you expect in the guidance?

Dara Khosrowshahi - *Expedia, Inc. - CEO and President*

Yes, so we have a relatively small exposure to Japan. And it did not really have much of an impact on our Q1 figures. And go forward, we don't expect it to have a material impact on the rest of the year. So it is very low single digits.

Naved Khan - *Jefferies & Company - Analyst*

Okay. And then a quick clarification on, I think, some of the metrics that Dara gave out earlier. I think he spoke about a 25% growth in CPC and 30% growth in the click volume. Is that growth -- is the 25% growth here early in the CPC or is it growth in the revenue associated with the CPC?

Dara Khosrowshahi - *Expedia, Inc. - CEO and President*

It's a 25% growth in revenue coming from the CPC line of business for TripAdvisor on a 30% increase in volume as far as 30% increase in clicks from customers.

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Naved Khan - *Jefferies & Company - Analyst*

Got it. And can you talk about what kind of increases you are seeing in the cost per impression on the display side?

Dara Khosrowshahi - *Expedia, Inc. - CEO and President*

On the display side, I would say our CPMs have historically been quite healthy and we are essentially seeing stable CPMs. I don't think we are seeing very significant increases either up or down. You know, I think TripAdvisor and Expedia where we have the greatest portion of the CPM business have the ability to -- have always had the ability to charge premium prices because we are really the premium sites that people come to.

Obviously, TripAdvisor has the greatest amount of traffic and Expedia is a close second. So we are seeing pretty good stability from CPM results both on the TripAdvisor and Expedia side as far as rates go.

Naved Khan - *Jefferies & Company - Analyst*

Okay. Thanks.

Dara Khosrowshahi - *Expedia, Inc. - CEO and President*

You're welcome.

Operator

[Heath Terry].

Heath Terry - - *Analyst*

Thanks. I was wondering if you could just give us a bit of a sense of where you feel like the European hotel business is trending right now between the agency and merchant model? Obviously you are evolving your model there. Hotels are beginning to become, it seems like, more accepting of both models.

Could you give us just a bit of an update of where you see that environment?

Dara Khosrowshahi - *Expedia, Inc. - CEO and President*

Yes, I think, honestly, Heath, we are fairly neutral on it. When we talk about our business, we are not in the business of selling merchant hotels, we are in the business of selling hotels. And we bought Venere a few years back in order to make sure that we had access to the agency hotel model; to understand that model; and also because we thought Venere was a good brand. And being marketers of hotels, we are essentially neutral. We want to be able to sign up a high number of hotels in the European marketplace and to the extent that hotels are smaller hotels, etc., independent hotels, often we will sign them up as agency hotels and market them as such. To the extent that they are larger hotels that want to participate in the package business, we will sign them up as merchant hotels and will market them as such.

So I think that the strength that we are seeing in Europe isn't particularly because of merchant versus agency. It is because we are marketing our brands a bit more effectively and some of the technology investments that we are making are resulting in conversion increases that help both merchant and agency volumes in Europe, both of which are growing.

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Michael Adler - *Expedia, Inc. - CFO*

(multiple speakers) that we are seeing increased growth in smaller markets in Europe for agency (multiple speakers) that's where it is having its biggest impact.

Dara Khosrowshahi - *Expedia, Inc. - CEO and President*

Yes. To Mike's point, the growth rates for -- in Europe tend to be fastest in the secondary and tertiary markets where we are able to add agency inventory in addition to merchant inventory.

Heath Terry - - *Analyst*

And you know to your point on conversion rates that obviously implies they are all the search engines are having in Europe, do you an opportunity there to make brand more important in that market? Or is that hotel business just going to be beholden to whoever kind of has the best conversion rates and able to bid the highest?

Dara Khosrowshahi - *Expedia, Inc. - CEO and President*

You know, I think that one of the strengths of our business is that we have a mix of brand and variable marketing, and that is part of our core strategy. Obviously we have got some competitors who are very strong on brand and we have got some competitors who go exclusively with variable marketing.

Conversion will help both, right? If you've got higher conversion, that allows you to afford to spend more in variable marketing channels to acquire more volume in the variable marketing channels. But it also theoretically helps to invest more in brand or invest more profitably in brand marketing.

So we don't view the goal of increasing conversion as being either an online or offline strategy. It is just a business strategy.

Heath Terry - - *Analyst*

Great. Thank you.

Dara Khosrowshahi - *Expedia, Inc. - CEO and President*

Thank you.

Operator

Scott Kessler with Standard & Poor's.

Scott Kessler - *Standard & Poor's - Analyst*

Thanks a lot. If you guys could talk a little bit about the business segment specifically, obviously, Egencia. What's been driving the growth there? What kind of trends are you seeing? Is it fair to assume that the recovery in business travel is underway? Thanks a lot.

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Dara Khosrowshahi - *Expedia, Inc. - CEO and President*

Thanks, Scott. Yes. I'd say it's definitely fair to say that the recovery in business travel is underway.

There are three factors that are driving Egencia's growth. One is new client signings in excess of any client churn and signing volume for the business remains healthy. I would say on balance, Europe is a real area of strength for us where we have terrific, terrific momentum in France where we have a very strong position. The UK is turning out to be a nice market as well and that, obviously, the US is a great base market as well. So client signing is one driver.

The second driver is that same client spend is up as well as just companies that cut back in travel spend are traveling again. They are hitting the road again in order to drive sales.

And the third factor is that the price of travel in general is up. I think you saw our average ATPs systemwide were up 13%. That is true generally for the leisure and the business travel as well. So the cost of travel has gone up and we haven't yet seen the cost of travel kind of discourage businesses from traveling, although that is something we are going to be watching pretty closely.

So I would say pretty solid trends there. Egencia's gross bookings grew 36% in Q1 compared to American Express at 17% and American Express Corporate Travel. So we are gaining share there and the team is executing well. So we like what we see there.

Scott Kessler - *Standard & Poor's - Analyst*

If I could follow up really quickly, do you feel like you have the scale or at least have the scale at hand to be able to compete in the way that you want? Or do you think that it makes sense to consider acquisitions or broader partnerships or things like that? How do you think about the business a couple of years from now, for example?

Dara Khosrowshahi - *Expedia, Inc. - CEO and President*

Sure, sure. We are -- I think we are finally at the point where we have profitable scale on the business and that is important for us. We spent six years basically putting every revenue dollar back into the business and then you saw the business scale pretty dramatically last year. And we are at the point now where we can grow the business profitably for some period of time, at the same time making very aggressive investments in new technology, etc., making investments in our sales force as well.

That said, we are going to try to add to the scale of business. One example is the Travel Force acquisition. It was the smallest deal that we announced in early April, in Australia and New Zealand. We will look to bring in new corporate travel agencies into the folds. We will look to integrate them into the Egencia technology, which we think is market-leading technology, has lower costs and also is able to leverage off of some of the technology and the supply that we have got at [greater Airspedia]. So we think we have the scale, but we actually think that through talk and acquisitions we can scale this business a whole lot more. So we are certainly on the lookout for acquisitions as well as organic growth.

Scott Kessler - *Standard & Poor's - Analyst*

Great. Thanks a lot.

Dara Khosrowshahi - *Expedia, Inc. - CEO and President*

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Operator

Michael Millman with Millman Research Associates.

Michael Millman - *Millman Research Associates - Analyst*

Thank you. Regarding the platform, it doesn't seem like Priceline has any particular hot -- very sophisticated platform yet to do very well. What is -- what's the difference between the two businesses? And also can you quantify what added conversion may mean to revenue as bottom line?

And unrelated that in the Japanese supply-chain problems are causing some fleet contractions in car rental. And so what effects are you seeing on your availability there? And to what extent are they moving away from you -- are the car rental companies moving away from having to use OTAs?

Dara Khosrowshahi - *Expedia, Inc. - CEO and President*

Sure. I'll start with the first question. It's difficult to speculate on Priceline and their technology, but I would say that certainly the booking.com business for them that has been extraordinarily successful was, we believe, built on kind of call it newer technology than ours, which is 10, 15 years old or some of it is, the base of it is.

You'll also notice that the hotel business is just a lot easier and simpler to architect than the air hotel packages business. So you will notice that as far as the platform investments that we made, the first release that we made was Hotels.com and that was not a multiyear project. It was a little bit more than a year and from start to end, and as far as the payoff and what you think the payoff is, I just, again, I point to Hotels.com on a worldwide basis. Gross bookings growth of 39% on the hotel side in Q1 versus 12% last year.

Are we going to see that kind of multiplier effect on Expedia after the fact? I certainly am not counting on it. But an accelerator on Expedia would be -- would result in great, great top line and bottom line results for the Company as a whole. And that's what we are betting on. The Expedia platform in addition to just being air hotel, packages, etc., it is also worldwide platform.

So it's complex, it is incredibly capable. And the good news is that we finally feel like we have wrestled it down and it's just a question of execution. It is not a question of if we can do it or what the architecture is looking like. The team is on top of it and executing and I think that if we see similar results to hotel.com, we will be over the moon.

Mike, do you want to talk about car a bit?

Michael Adler - *Expedia, Inc. - CFO*

Sure. So on the car side of the business, we did see transaction growth this quarter. We grew both at Expedia and at Hotwire. And we did see an increase therefore in gross bookings and we did have a bit of pressure on the pricing side. We are getting less access to opaque inventory so we are selling more or distributing more on the retail side of the business.

In terms of what's happening in the supply chain, we definitely are seeing tightening up on summer fleets. We expect demand to be stronger and, yes, some fleet shortages this summer so that will be a headwind for our business, particularly on the opaque side of the house. And in terms of, do the car rental companies want to continue to work with OTAs, they definitely want to continue to work with us and we are very happy about that. And in fact, just renewed our deal with Enterprise.

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Dara Khosrowshahi - *Expedia, Inc. - CEO and President*

Yes, I think in general that the value that we bring to a number of these players and it is not unique to car rental companies is the demand allows them to increase the yields on the full book of business that they do with us. So to the extent that they lose the demand from us, then the full book of business might get weaker, which can hurt revenue. And I think the broader set of healthy channels that you have at any kind of retailer, the stronger you can do at building your inventory. And I think especially in a situation coming up for the car rental companies, where inventory is going to be tighter, we think having more demand and strengthening yield is a good thing for everybody.

Michael Millman - *Millman Research Associates - Analyst*

Thank you. Could you give us a rough approximation of the quantification of better conversion to the top line?

Dara Khosrowshahi - *Expedia, Inc. - CEO and President*

Again it depends on what conversion is. Right? So if you increase your conversion by 5%, you should be 5% higher top line. Although you will at times see a multiplier of that because the 5% increase in top line typically allows you to invest, let's say, in more variable marketing channels. So a 5% increase in conversion will actually result in a higher increase in top line as a result of, you know, depending opinion on what variable marketing channels you have available to you. But there is no, call it, easy one-to-one relationship there.

Michael Millman - *Millman Research Associates - Analyst*

Right. Thank you.

Dara Khosrowshahi - *Expedia, Inc. - CEO and President*

You're welcome.

Operator

Kevin Crissey with UBS.

Kevin Crissey - *UBS - Analyst*

Can you talk about American at all? My guess is no, but I wanted to see if you could talk about the change in economics and maybe when the GDS/direct connect will be implemented?

Dara Khosrowshahi - *Expedia, Inc. - CEO and President*

You guessed right, Kevin, we are happy to have them in the marketplace and other than that we can't comment. We are -- you know, we value the relationship and hopefully it is a relationship that we can continue with and obviously we wouldn't be back in business with each other unless both of us were satisfied with the terms of the deal going forward.

Kevin Crissey - *UBS - Analyst*

And how about no timing as to when you would have that, even?

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Dara Khosrowshahi - *Expedia, Inc. - CEO and President*

No timing yet. We are working on particulars and if we have something to announce, we will certainly announce it.

Kevin Crissey - *UBS - Analyst*

Okay. And then, I guess so in terms of like who might have called who, American is still not as participating with Orbit, so can we read that as maybe you guys calling them?

Dara Khosrowshahi - *Expedia, Inc. - CEO and President*

My mother actually called them. No. (laughter) It's -- you know, Kevin, again, I don't want to get into specifics. I think that it is in our interest to carry full inventory. It is an airline's interest to have as broad distribution as we can have, so broadly I think to the extent we can come to terms with each other. We can all make more money especially in this environment with higher fuel prices, etc.

So other than that, I won't make a comment. I think, listen, I don't think this is a deal where either party can declare the victory. I think it was a fair deal and hopefully can lead to bigger and better things.

Kevin Crissey - *UBS - Analyst*

Okay. Is there any risk with the airlines and their antitrust suits against the GDS? How does that -- what is your view on that?

Dara Khosrowshahi - *Expedia, Inc. - CEO and President*

We really can't comment on what is going on with the GDS's. We are spectators just like you are.

Kevin Crissey - *UBS - Analyst*

Okay. Thank you very much.

Dara Khosrowshahi - *Expedia, Inc. - CEO and President*

Thank you.

Operator

Sandeep Aggarwal with Caris & Company.

Sandeep Aggarwal - *Caris & Company - Analyst*

Thanks for taking my questions. I have two questions, please. One is, Dara, Google finally got approval for the IT software acquisition. Are you comfortable with the conditions provided by regulators and what can you do to [assemble] new competitive positioning? And on a separate topic, can you give us any early examples or sign of traction for how your investments, you have been making technology [Asia-Pacific interprelizers] paying low.

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Dara Khosrowshahi - *Expedia, Inc. - CEO and President*

Sure. As far as Google IT goes, we don't have the detail of exactly what the conditions mean. We think that the Justice Department taking a position that that the merger needed conditions in order to go forward, we think that is an appropriate position and we agree with that. And obviously we are interested in Google's kind of go-forward action and whether the Justice Department or the FTC or if the EU looks in to their action and into their actions and their general market power. So we don't think that this is the end of the story and we will be an interested participant. And at the same time, you know we are a partner of Google's and we expect to take advantage of the new products that they deliver and we are aggressive advertisers in their marketplaces.

As far as -- as far as you know they are -- the new product that we expect from them -- places, etc. -- I think things haven't changed really. Google is an advertiser and to the extent that we've got great brands and great inventory [in] a site that converts, we will be able to bid aggressively and competitively on the leads that they send us. So more leads from Google is a good thing and we think we will be getting more leads from Google for some time to come.

As far as the investments in Asia-Pacific product, etc., I would say you see it in the international numbers over time. Asia-Pacific is still a relatively small portion of our business, but it is we're at a position now where we are slightly profitable, essentially breakeven. And our interest right now is to grow the platform in the Asia-Pacific markets. It is as we are building up revenue to reinvest that revenue in marketing, reinvest that revenue back into technology, etc., we think that the joint venture with AirAsia is a terrific platform to grow off of and we are seeing really, really good results out of both TripAdvisor and Hotels.com in the Asia-Pacific region. And we will try to give you little nuggets of information, etc., but right now I would say that the international health that you see on the revenue side is certainly partially due to the efforts that we are making into Asia-Pacific region.

And last but not least, that we are very, very happy with the strides that eLong has made in China. We've got a great management team in place there, laser-focused on the hotel market there. They are laser focused on online hotel, driving the online hotel business and we are seeing very healthy room night growth and I think we'll see that for some time to come.

Sandeep Aggarwal - *Caris & Company - Analyst*

Thank you.

Dara Khosrowshahi - *Expedia, Inc. - CEO and President*

Thank you.

Operator

Bill Lennan with Monness, Crespi, Hardt.

Bill Lennan - *Monness, Crespi, Hardt & Co. - Analyst*

Thanks. I am going to ask three and I will try and make them as quick as possible. Number 1, you've brought on a lot of headcount to work on the hotels and Expedia platforms and let's say, I don't know if that will ever be done and done is in quotation marks, but let's say when the efforts are largely done and complete, you are 90% of what you want to be. What happens to all the headcount you brought on specifically for these projects? That's number 1.

Number 2, with respect to Asia-Pacific being aggressive in the region, I think you said, we looked at hotel signings in the top 10 AP leisure destinations during the quarter and it looks like the Priceline brands increased their hotel signings by more than 50% sequentially. In fact, passed Expedia for the top number 1 spot. Expedia signs look like they are up about 7% by comparison.

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So do you think you are being -- although you characterize your effort in Asia as aggressive, do you think you are being as aggressive as you need to be, given how aggressive the Priceline family is?

And third question, any feedback from hotels on Google places, the efficacy of it? You know as a traveler and this is anecdotal, I look at it and it doesn't seem very helpful to me. So I'm wondering if your hotels have given you any feedback on the product?

Dara Khosrowshahi - *Expedia, Inc. - CEO and President*

Yes, as far as headcount goes, it is a great question. We are actually careful to bring in the effort that's needed to build out these platforms is fixed headcount, internal employees and also variable headcount as well. So like you said, to the extent that you are going to have a significant increase in throughput needed to build out this platform, we don't want to bring all of this throughput 100% of the throughput in-house, because what do we do with those folks once the work is done? So because we are bringing in some of that group through variable headcount, we should be able to, to the extent that we don't find other projects for these folks to do, we should be able to take down the variable headcount and get into a more normal mode of operation.

And also, I agree with you. You know you are never done with these kinds of things. I would say that the new platform that we are building is fundamentally architected in a different way from the older platform. It is much more of a service-oriented architecture. It is much more flexible, etc. So I would hope that we don't have to go through a kind of fundamental rearchitecting as well as the rebuilding of the platform that we are going through now in the future. We are certainly architecting it so that we don't have to go through this again.

At the same time, we will have to have a certain percentage of throughput, working on the platform improving it, so that we don't get into this situation again.

As far as APAC supply, last year we increased our supply on a worldwide basis very, very aggressively. And one thing that we did say is that we would focus more on building out demand into the base of hotels that we have. This is both Europe and in the Asia-Pacific markets. In general iron supply in the Asia-Pacific market has been growing nicely. It is over 30%. And we are sending volume into these hotels which is very, very important.

Is it aggressive enough, etc.? I think sometimes with the opportunity in that market you never feel like it is aggressive enough and we certainly feel that competition from not just Priceline and [Pagoda], but a lot of the local players out there, the [Sea Trips] of the world, the (inaudible) of the world, but it is such a large market that we don't think it is a winner take all market. We think there will be three, four, five, six players who are solidly profitable and we think we built a platform where we can be one of those players as well.

Lastly, on Places, we really haven't had that much feedback from hotels on Google Places. You know I share with you that the products I think can improve a lot, but Google is a great consumer product company, and I would expect them to improve it and I think the challenge for us for the TripAdvisor team, etc., is to make sure that our specialized vertical product stays ahead of call it their more generalized product. And I think that is certainly something that we're up for.

Bill Lennan - *Monness, Crespi, Hardt & Co. - Analyst*

Thank you very much for thorough answers.

Dara Khosrowshahi - *Expedia, Inc. - CEO and President*

Sure. Next question.

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Operator

Thank you. At this time I'm sure no further questions. I'd like to turn the conference back to Mister Pickerill for any closing remarks.

Alan Pickerill - *Expedia, Inc. - VP-IR*

Okay. Thanks, everybody, for joining us on the call today. A replay of the call will be available as usual on the IR website shortly after we wrap up. We appreciate your interest in Expedia and look forward to convening with you again next quarter. Dara, do you have any closing --?

Dara Khosrowshahi - *Expedia, Inc. - CEO and President*

No. Just thanks for joining and thank you for the -- to the Expedia employee base for everything you put into Q1 and hopefully we will have good things to report to you next quarter and for the balance of the year. Thank you.

Operator

Thank you, sir. Ladies and gentlemen, this does conclude the Expedia first-quarter 2011 earnings conference call. Thank you very much for your participation. You may now disconnect.

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