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**PRESENTATION**



Operator

Ladies and gentlemen, thank you for standing by, and welcome to the InteractiveCorp first quarter earnings conference. At this time, all lines are in a listen-only mode. Later, there will be an opportunity for questions. Instructions will be given at that time. If you should require assistance during the call, please press star, then 0, and as a reminder, this conference is being recorded.

I would now like to turn the conference over to Chief Financial Officer, Tom McInerney. Please go ahead, sir.

Tom McInerney - *InterActiveCorp* - *CRO*

Thank you, Operator, and good morning, everyone. Joining me on this call today is Barry Diller, Chairman and CEO; Victor Kaufman, Vice Chairman; and Dara Khosrowshahi, CEO of IAC Travel.

As you know, we may during this call discuss our outlook for future performance. Also, you are aware that there are risks and uncertainties associated with these forward-looking statements and our results could be materially different from the views expressed today. These risks have been set forth in our public reports filed with the SEC. We will also discuss certain non-GAAP measures. I refer you to our press release in the Investor Relations section of our website for all comparable GAAP measures and full reconciliations.

Finally, in connection with both the spin-offs and the Ask Jeeves transaction, we have filed preliminary documents with the SEC. You are urged to read these documents, once final, because they will contain important information about the transactions, including interest of directors and officers [ Inaudible ] You can obtain free copies of documents filed by IAC and Ask Jeeves with the SEC. Go to the SEC's website or by contacting each company's Investor Relations team.

With that, Barry and Dara will each make some comments, then I will go through some additional items before going to your questions.

*Barry Diller - InterActiveCorp - Chairman; CEO*

Good morning. Since our last earnings call, we've been quite active. Well, it's IAC, so we will call it interactive.

We've announced the acquisitions of Ask Jeeves and Cornerstone brands, we've purchased 49.2 million shares of stock, we filed last week with the SEC on our Expedia spin-off, and our ability to successfully operate multiple businesses across the spectrum of interactivity has produced results. Revenue and earnings growth accelerated from the fourth quarter and margins expanded, so the year begins well.

Dara Khosrowshahi will brief you in greater detail about Travel. But right up front, what I would hope you would have noticed is that the Expedia businesses are not just weathering a difficult environment, they're actually growing in one. While I doubt that we can expect this kind of growth quarter-to-quarter, it just shows you the real industrial strength of our Travel businesses and their ability to execute in all climes.

There's been much talk these last months of the strengths and weaknesses of the businesses of what I will call New IAC. And while, again, prudence with caution, this quarter shouldn't be taken as indicative of the kind of growth that IAC will deliver quarter after quarter. It does indicate the level of growth we can deliver in any given one.

All our businesses are now making strides that are measurable and quantifiable and are consistently hitting the dozens of key markers that we track every which way, and I believe are now beginning to all emerge from their embryos into a very coherent mass. So, a hodgepodge or mess, it isn't, by any factual standards, but mass it certainly is. We manage our businesses for growth, but ultimately for cash, and the \$640 million in free cash flow generated during the period strengthens our already-developed balance sheet.

Let's now give some flavor to the businesses that generated that cash. HSN continues to execute exceedingly well and it's in the figures, both financial and otherwise. HSN's internal rallying cry, Love the Customer, continues to be a big part of how we look at everything we do in our retailing segment. The years of investments we've made in loving that customer continue to pay off and our nearly 5 million

customers clearly know they're receiving special care.

Since 2001, our average gross profit margin has increased by 3 percentage points and our average return rate has decreased by 3 percentage points. On the service side, shipping times at HSN are two days faster than they were three years ago. And our phone sales abandon rate has decreased by a third.

HSN.com is doing very well. Its revenue increased 24% year-over-year. And the site and the customer experience gets better and better. This past quarter we established online store fronts for watches, occasion jewelry, and intimate apparel. The winners in online retailing are those with unique offerings and multichannel capabilities. It's a great advantage to have HSN's 85 million on-air households in a symbiotic relationship with our dot-com offerings.

And HSN's interactive ambitions are not limited to online. The final convergence is near, with a soon-live test that will provide shoppers with the ability to use the remote as they do the phone. Point it at the screen, click, and it's at your door in a few days.

Finally, we've closed the acquisition of Cornerstone Brands on April 1. With its 32% online penetration and strong and established brands such as Frontgate, Ballard Designs, and Garnet Hill, Cornerstone is a deep plunge into great catalog retailing, in deepening HSN's on-air product offering

and in a deeply integrated online experience. Again, convergence opportunities do not end, given our experience and expertise across interactivity.

Ticketmaster, New IAC's second most profitable segment, saw only modest revenue growth this quarter, but that belies its continuing progress. We sold a record amount of tickets and we're thriving internationally, where we continue to see double-digit gains. International ticket revenue rose 25% and we've just acquired the remaining interest in Australian joint venture. We now have a presence in 17 markets outside the U.S. A highlight this quarter was the global fan club Internet presale and worldwide on-sale of 1 million tickets for U2's Vertigo tour, an all-time high.

Ticketmaster's strategy to sell more tickets better is more than a slogan. It actually works. New products and marketing initiatives more than doubled this year, with 8% of our domestic Ticketing volume coming from programs like auctions, alerts, presales, mail manager and discounting. The key to Ticketmaster's sustainability is to be a true value-add to its clients. And all of these new products, their ingenuity, their investment, is how we're going to keep extending that franchise.

For Personals, after a difficult year in 2004, we're growing again. And while increased marketing is affecting reported results in the first half of the year, we do expect real revenue and profit growth before the year is done. Last quarter you might remember that we spoke about our management change and that we expected to reverse the decline. Well, sooner than we'd hoped, we're now seeing the change, achieving all-time highs in both paid member count and subscription revenue.

Worldwide, we've added 91,000 new net subscribers in the first quarter, the highest organic growth increase in Match's 10-year history. It was driven by a combination of core product enhancements and a great new campaign featuring the tagline, Love is Complicated, Match is Simple. As a matter of fact, I've decided to steal this excellent phrase. Old IAC, like love, was complicated. New IAC may not yet be lovable, but it is simpler, for sure.

Financial Services and Real Estate are now coming in to what we've been forecasting for a year now: Real, tangible growth. And it is now our fastest-growing segment. Revenue more than doubled and earnings more than tripled in the quarter. Lending Tree closed \$9.6 billion in loans. I would have said crazy if anyone told me a few years ago I'd be making statements that my Company generated almost \$10 billion in loans. But that is the serendipitous nature of Internet development and our ability to both recognize and fund an opportunity before the rest of the world puts its boots on.

The Real Estate businesses, while certainly still embryonic, are making progress, with nearly 700 million in closings in the quarter, an increase of more than 80% from last year. We now have critical mass of home listings available through our site, at 1.3 million versus the 400,000 that we had at the same time last year.

Everywhere at IAC we now see this kind of execution. Step by difficult step, we're establishing our new businesses. I can't tell you the number of people who said we'll never have sufficient listings. But we've slogged through and now we've got them and we're on our way with a comprehensive set of Real Estate products and our expanding network of brokers, agents and builders.

CitySearch continues its track to break even in the second quarter. Enough said for now.

Precision Response, after weathering two years of weaknesses in the teleservicing industry, is back in a growth mode. In addition to gains with existing clients, PRC was recently awarded 11 new clients.

Interval, our time share exchange business, which will stay with IAC after the spin-off, had a solid quarter, as it seems to do with clockwork, and expects the same for the balance of the year. Its plot for expansion is to establish a membership club travel club, and the plans that we've seen to create an entirely new and home grown business from this excellent group are promising.

Our planning for the separation of our Travel assets from IAC has already produced real benefits. The two key executives, whose lives were rather abruptly changed when we appointed one, IAC's CFO, to run Travel, and took the other, who's been head of our Electronic Retailing businesses and made him CFO of IAC, have already had great impact on the operating clarity of each entity. You're next going to hear from both and I'd be surprised if their confidence about the position and prospects for each part of the Company isn't convincing.

I can tell you, my confidence in them grows every day. Beyond our strong balance sheet, beyond the leadership we have across multiple interactive brands, the great asset of the Company is in the intellectual capital that is everywhere found in our enterprises, allowing us to continue to innovate and grow established businesses, begin ones from scratch, and identify new opportunities for investment. That, together with our own maturity as managers, is the foundation for my conviction we will succeed over the long-term. Dara?

*Dara Khosrowshahi - InterActiveCorp - President; CEO-IAC Travel*

Thank you, Barry. Travel had a solid quarter, with gross bookings up 20% year-on-year, revenue up 14% and operating income before amortization up 32%. Now, I will be discussing the businesses comprising of Expedia Inc.'s host family, for the balance of my remarks. These businesses include TripAdvisor but excludes Interval and CDCS, both of which will be inside IAC going forward.

Expedia, Inc. gross bookings were up 23%, revenue was up 17%, and operating income before amortization was up 38%. Operating income before amortization growth, not including TripAdvisor, which wasn't in our numbers in Q1 of last year, it would have been 26%, still a very healthy number. I will get into this a bit later, but some of the margin improvement that you're seeing in our Q1 numbers is simply due to a shift of advertising spin from Q1 to Q2, relative to our spend last year.

Now, I think as you'll see, our strategy of diversifying within the Travel category, which we began several years ago, is really working. Our investments in Europe, in corporate travel, high-end leisure, and the opaque channel and in the travel content and advice are paying off, providing a boost to our growth rates across the board.

We expect similar benefits over the coming years from our continuing investment in the Asia-Pacific region. Our broad presence gives us more ability to create more value for our travel partners, which in turn helps us provide great value for our consumers.

Let me start by discussing the performance of our international travel sites. International gross bookings and revenue grew by 60% and 52% respectively. Again, this does not include CDCS. This includes the international entities within New Expedia. These results were driven by our U.K. site, which has performed quite well, despite a weak U.K. sales environment and tough comps in Q1 of last year, but we continue to consistently and positively increase our share of audience and, we believe, transactions in that market.

Our other international businesses are considerably smaller than the U.K., but hopefully not for long. The German business is growing nicely with their e-package business, in particular, doubling versus last year, and both Expedia.fr business in France, which was launched last summer, and Expedia.it business in Italy, which we operated from a hotel-only site to a full-service travel site last year are gaining considerable traction. Meanwhile, our Canadian business continues to hit it smart, both on the top and bottom line.

Asia-Pacific is a relatively new investment area for us and I'm pleased with our progress this early in the game. We're working closely with majority-owned eLong on a range of growth initiatives and the Apax team is building comprehensive inventory in the areas of merchant hotel and destination services across the region, to ensure that Expedia and Hotels.com sites around the world are the best places for consumers to plan and purchase travel to the Asia-Pacific region.

Now, shifting to our U.S. focus businesses. We're underway with our Hotels.com repositioning as the hotel expert. The team is working closely with hotel-defined [ph] partners on a range of initiatives, aimed at improving value and site conversion, and we're also beginning to work on a site redesign for even better consumer usability. It's still early, but Hotels.com has enjoyed improvement in visitor share for four consecutive months now, according to Media Metrics.

Expedia.com, meanwhile, experienced stronger domestic performance on the top line, versus the fourth quarter. Hotel rooms [inaudible] and revenue growth trends are encouraging and we're very happy with our car rental business, which has seen great year-on-year growth and [inaudible] Preferred Partner program.

In the corporate space, Expedia Corporate Travel bookings and revenue growth continue to accelerate. In addition to our best-in-class online booking experience and adoption rates, now at 85%, clients are attracted to an increasing array of services, such as VIP services, an international rate desk, and meeting services, which Expedia corporate which makes the Expedia corporate travel a bonified full-service corporate travel agency. We continue to be the innovators in the space and have recently announced Trip Controller, the first on-demand free trip approval and auditing solution of its kind for corporate travel customers. We think that being the low-cost and innovation leader is a powerful combination in this marketplace.

Now let me turn to the numbers and talk about some trends that we see in '05. A significant amount of the P&L leverage that you've seen in Q1 is due to marketing spend that we're essentially shifting from Q1 to Q2, relative to last year's spend. This year we did not start with as much of a bang as last year, but we will keep spending marketing dollars deeper into the year. The practical result is that Q1 OIBA growth looks better than our underlying growth rate and Q2 will look worse. Note, too, that Q2 of last year, we had an unusual benefit of \$6.4 million, related to the

resolution of a contractual dispute. This is going to hurt 05 numbers from a comparative standpoint. We also started recording TA TripAdvisor results in Q2 of last year, which will normalize growth rates going forward.

If you put Q1 and Q2 together and you get rid of these timing issues, you get a clearer picture of our strong performance. For the first half of the year, we expect revenue growth in the low- to mid-teens and bottom line growth in the mid- to high-teens. And looking further forward in the year, we do expect to see Hotel inventory compression in certain markets during the peak stay seasons. We expect to execute well against this, but are externally mindful of this.

In addition, some of our early strengths will be offset by incremental expenses that we expect as a result of the spin-off costs and life as a public company. As a result, our outlook for the full year has not changed and we still expect bottom line growth in the low- to mid-teens for OIBA.

Now, last quarter, we laid out our game plan for 2005 and I'm happy to report that we're executing against it. Let me elaborate a little bit. First, we continued to push on the international front, with international representing 22% of our gross booking versus 17% last year. Second, we're executing on our Hotel Expert strategy, although it is still early on that front. Third, we told you that we'd be focusing on supplier relations and I'm happy to report on two hotel agreements that we just signed last week.

First, we extended our agreement with Hilton Hotels Corporation, who manages or franchises over 2200 hotels, including a variety of brands such as Hilton, Doubletree, Embassy Suites, Hampton Inn, Hilton Garden Inns, and Homewood suites. We've been working very successfully with Hilton and they're already direct-connected to Expedia and this agreement extends Hilton's working relationship with both Expedia and Hotels.com through the end of 2007.

We also signed a two-year agreement with Choice Hotels International, which provides Expedia and Hotels.com customers to over 5,000 choice hotels, including Comfort Inn, Comfort Suites, Quality, Sleep Inn, Clarion, MainStay Suites, EconoLodge and Roadway Inn. Our agreement with Choice included direct connect, which makes it easy and cost efficient for Choice to work with us and also ensures our customers receive access to all available rooms.

Now, back to our game plan. Fourth, we continue to improve marketing efficiencies and are very pleased with our progress over the last couple of quarters. Fifth, we're effectively using scale to our advantage. Let me give you a little example. Expedia.it now has the highest audience share and we believe transaction share of all online travel agencies in Italy. This is a year after we launched a full-service travel site with a grand total of seven employees working on the point of sale and led by a terrific young executive, Adriano Meloni. This is only possible through the leverage and scale that we've achieved in our European operations supply and are developing what we believe is a truly global brand in Expedia.

Sixth, our multichannel approach continues to make traction and diversifies our demand base, with our rolling out our new packaging technology to our [inaudible] on the Hotels.com site, and are signing up a number of partners, including Korean Air and North American Airlines on the WWTE private label site.



And lastly, we're continuing to make strides across our portfolio of brands, in TripAdvisor, Hotwire, Expedia Corporate Travel, and process [ph], all making progress. This is a dynamic and growing marketplace and we have a great team that's only getting better. We're confident that our relentless focus on execution and innovation across all fronts of our business will continue to build a great global business for years to come.

So with that, I turn it over to Tom.

Tom McInerney - *InterActiveCorp* - CRO

Thanks, Dara. I want to address a few additional aspects of the overall Company Q1 performance and then a few specifics on some of the IAC businesses beyond the comments we've already made.

IAC had very strong performance, with revenue of 14% to 1.6 billion and operating income before amortization up 30%, to 253 million. Adjusted EPS was \$0.22, up from \$0.18 a year ago and GAAP EPS was \$0.09, up from \$0.05. Free cash flow for the quarter was \$640 million, versus last year's 579 million, up 11% year-over-year. Free cash flow did not grow as fast as operating income before amortization on a percentage basis, due mainly to lower client cash collected at Ticketmaster. This is cash that we collect on behalf of our clients and [inaudible] back to them, essentially the face value of the ticket, and in any given quarter it can jump up or down, depending on timing issues, as well as by slower growth in positive working capital we generate in a number of our businesses.

Note that we've revised our definition of free cash flow to include changes in Lending Tree loans Warehouse lines, in order to capture all of the cash flows related to this business. Lending Tree loans Warehouse line is a line of credit which is nonrecourse to IAC and is used to finance loans for the approximately 30 days pending resale. It almost directly offsets the amount of loans funded to consumers, that they have held for sale to third parties. This is to match the inflow with the outflow.

A few nonoperating items impacted our results this quarter. First, we had a charge related to realized and unrealized losses on marketable securities of \$18 million pretax. As we have sold or planned to sell some of those securities prior to maturity in order to execute the Cornerstone acquisition and our share buyback plan, which [inaudible] the Ask Jeeves transaction, we're required to mark these securities to market. Second, we sold a minority investment in the Italian Home Shopping business, resulting in a gain of \$17 million pretax. These two items are below operating income before amortization, but do affect adjusted net income and adjusted EPS, although they essentially offset each other.

Third, we recorded income related to our 5.44% stake in EUE [ph] on a one-quarter lag. During Q4, EUE [ph] took a writedown and accordingly we recorded a charge of \$21 million pretax. This item does not affect our adjusted net income or adjusted EPS.

If we look at the operating results on a post-spin basis, as reflected on page 1 of our release, the businesses which will comprise IAC after the spin-off had strong growth, with revenue up 13% to 1.2 billion and operating income before amortization up 25% to 143 million. This 25% figure reflects certain items I'd like to point out. First: Losses from TVTS of 4.6 million in Q1, 2005, are included in these numbers. TVTS is a travel business, which we previously intended to include in Expedia, but because we are unwinding it, it made sense to keep it in IAC. We'll use some of the assets in our electronic retailing business.

In addition, these numbers do not include corporate expense because technically today, that corporate expense is supporting both Companies. But the vast majority of this expense will stay with IAC and supports our current group of businesses. If you include that expense with the IAC results in both periods, net of spin-off-related transaction expenses in the quarter of 4.9 million, the year-over-year growth rate is approximately 32%. I realized that's a bit of a mouthful, but while we're in this transitional phase heading up to the spin-off, I wanted to give you the Q1 growth rate for IAC that represents a true apples-to-apples type number for our true going-forward IAC operation.

With respect to our individual businesses, without being repetitive with Barry and Dara's remarks, let me just comment on a couple of items of note in the quarter and going forward. [Inaudible] reported revenue growth of 6% and operating income before amortization growth of 36% year-over-year. While we're extremely pleased with this performance, this level of operating leverage, which we also saw in Q4, is not typical. In Q1, we had a confluence of strong gross margin, lower variable costs due to a collection of initiatives, particularly in our call centers, and very strong fixed cost leverage. We've also indicated that we think we can grow earnings faster than sales in this business, but the degree to which this happened in Q1 is not sustainable.

Going forward, we think top line growth in the high single digits and bottom line growth in the mid-teens, all before acquisitions, is a better planning assumption, especially in the second quarter, where we expect to feel the results of the slower than expected April in what feels like a somewhat sluggish retail environment. Of course, in Q2 we will also benefit from the inclusion of Cornerstone, which, as Barry mentioned, closes [inaudible]. Very early, the HSN and Cornerstone teams have gotten a good jump on the combination benefits we hope to see from that transaction. At the beginning of Q2, we will start to see Cornerstone products for sale, [inaudible] on air and on dot-com.

HSN International also posted improved results in the quarter, with revenue up 12% and operating income before amortization up more than two times on a small base. Note that HSN International results now exclude Euvia, which is treated as discontinued operations since we recently announced the pending sale and that s expected to close in either late Q2 or early Q3.

One item of note: we re currently testing an auction shopping service in the U.K. While not peak dollars, this test will cost a couple of million dollars in Q2, which will largely offset the profit from our other businesses in that segment. Excluding Euvia, HSN International was about break-even a year ago and we d expect that to slightly better in the second quarter.

Financial Services and Real Estate reported revenue growth of 166% and operating income before amortization growth of 215%, driven by lending, including the integration of Lending Tree loans, which has resulted in a realization of significantly higher revenue per transaction than historically. We had great profit growth in the segment, despite investing \$5 million in Real Estate. In Q2, we expect to increase marketing spend in both lending and realestate.com. Our goal is to continue to grow both top and bottom line in the segment.

Ticketing reported only 4% revenue growth and operating income before amortization was flat with the prior year. We saw a lower mix of concert tickets versus the prior year, as on-sales for a number of major tours will occur in Q2 this year, versus Q1 last year. In addition, we

continue to experience higher operating costs in certain areas, including domestic ticket royalties, but we believe over time we can offset this with other operating leverage, as we do foresee volume growth domestically and internationally for the balance of the year.

Overall, going forward, we said after our Q4 call that the businesses which will comprise IAC following the spin-off saw approximately 16% operating income before amortization growth for the full year of 2004 and this growth level is something we think we could meet or even exceed, if things go well, for the full year 2005. Q1's results for the IAC businesses were obviously better than this.

For Q2, we would expect results generally in the mid-20s, for year-over-year growth, including the impact of Cornerstone for the full quarter. This implies an organic growth rate in the mid-teens with the biggest difference between that outlook and this quarter's 25% being HSN having a tougher comp, as I discussed earlier.

On capitalization, we finished the quarter with net cash and securities of 4.2 billion, which consists of 4.2 billion of cash and marketable securities and net estimated value in excess of \$2 billion for the DBE [ph] securities, and 2.2 billion in debt and preferred. Pro forma for the Cornerstone acquisition, the pending Euvia sale, and the remainder of our planned share buy-back program of 52.8 million shares, or 60% of the shares to be issued in the Ask Jeeves acquisition, is we will have approximately 2.6 billion in net cash and marketable securities before any operating cash flows in Q2 and beyond.

On our buyback activities, the Q1 numbers reflect the repurchase of 4.8 million shares through March 31. As of May 3, we have repurchased 49.2 million shares at an average price of \$22.13. We will complete the planned 52.8 million by the end of this week.

Going forward, we will continue to look at our capital structure actively, the first priority always being investment in growing our businesses, and with future share buybacks, we have evaluated opportunistically based on capitalization, share price, and other investment opportunities at the time.

Finally, a note on the timing of the spin-off and the Ask Jeeves acquisition. We filed our preliminary proxies last week and based on this timing, we currently hope to close both of these transactions in late Q2 or early Q3. Of course, there's a number of factors which could impact this timing.

Obviously, given this very strong quarter for both IAC and Expedia, we're looking forward to completing these yields, moving forward with both Companies as strong and independent entities with good prospects. And with that, we will open it up to questions. We'd like to accommodate as many people as possible on this call, so we'd ask each questioner to limit their questions to just a couple. Operator?

QUESTION AND ANSWER

Operator

**Thank you. [OPERATOR INSTRUCTIONS ] And our first question comes from Safa Rashtchy with Piper Jaffray. Please go ahead. Mr. Rashtchy, your line is open.**

**Safa Rashtchy - Piper Jaffray - Analyst**

**Hello, can you hear me?**

**Operator**

**Yes, we can now. Thank you.**

**Safa Rashtchy - Piper Jaffray - Analyst**

**Thank you. A couple of questions. First, Dara, you might have covered this, but it was a bit difficult to hear you on the call. I wonder if you could give us some color as to what's happening within the U.S. travel market in terms of the raw margins that you used to give? Please give us some color on that, in terms of the inventory availability and the competitive landscape. And I have a quick follow-up.**

Barry Diller - *InterActiveCorp - Chairman; CEO*

Raw margins and the competitive landscape, I think is what Mr. Rashtchy asked for.

Dara Khosrowshahi - *InterActiveCorp - President; CEO-IAC Travel*

It was difficult hear you, Safa.

Safa Rashtchy - *Piper Jaffray - Analyst*

Well, Dara, it was difficult to hear you earlier, which I think many people have noted!

Dara Khosrowshahi - *InterActiveCorp - President; CEO-IAC Travel*

As far as raw margins go, the trends that we see today are actually similar to the trends that we've seen for the past couple of quarters. Merchant hotel raw margins, year-over-year, are coming down similar to, again, what we saw the last couple of quarters and revenue per air ticket for the air business is also down, mostly due to our Hotwire business and also our packaging business.

With Hotwire, we're in an environment where we have very high load factors, which which obviously puts somewhat of a disadvantage for the Hotwire business, and the way that we have reacted to that is that we've created a new product in Hotwire, which we call as an addition to our opaque product, which shows time windows for our consumer flight times. Previously, depending on the discounts that we could give our consumers, we would not give time windows and for some flights, we are giving time window, for flights in which we can't give the kind of discounts that we have been in the past. That business, in general, is a lower margin business for us on Hotwire than the opaque business in which we don't give time windows, which has reduced our air revenue per ticket.

So, that's on the Hotwire side and on the packages side, we're just being pretty aggressive on packaging pricing. We think that packaging is a real growth driver for our business. There are a lot of people who are competing with us there and we want to give our consumers a great deal on package pricing and as a result, we've taken our package margins down a bit and our air revenue per kind of packaged ticket has come down, as well.

Another factor for our revenue margins overall is the mix shift. If you noticed this quarter, our agency business grew a little bit faster than our merchants business and the agency business in general carries a lower revenue margin than our merchant business. So, there is a little bit of mix shift going on, as well.

From a competitive standpoint, I think the market is still very competitive. We've got Travelocity and Orbitz out there doing their best, but supplier-direct sites are also growing. So, there's a lot of competition, but it's a big market and we think we're up for it.

Safa Rashtchy - *Piper Jaffray - Analyst*

And a quick follow-up for you, Barry, if I may, since I can hear you very well, could you give us an update on your thoughts that, since last quarter when we talked, with the Ask Jeeves acquisition, has there been any changes in the marketplace in terms of how you would want to either incorporate Ask Jeeves or possibly at other properties, in terms of [inaudible] your search models? Just give us an update

Barry Diller - *InterActiveCorp - Chairman; CEO*

Sure. First of all, I mean there's nothing I mean the thing one of the many things you discover after you do all your due diligence and everything is you discover everything that's there and for us, our discovery is that there is more there than we had thought. We thought we did a pretty good job in due diligence. They have a complete set of products. They've just added, with blogging, they've bought the leading blogging piece. They have internally or in prototype, all the products that they need to compete.

So, I do not see I can't say you know, something might come up out of some wood pile but I can't see us being further acquisitive on the search side. What we are doing and have spent an immense amount of time, our goal really is to have, in the sense of a hit-the-ground-running program, which means that the day that the transaction closes, we will have done all of the prework so that the plans that we have for integration will be very quickly achieved. We have a first 100 days plan post the acquisition. We're going to, in the next weeks, come up with with all sorts of metrics, which I think we're going to tell you about, which are things that we believe we will achieve in the first year. We will mark ourselves accordingly and I think you can mark us accordingly as to hitting these goals that we're setting for ourselves.

So all of the planning is underway. As a matter of fact, this afternoon, most of the afternoon is being devoted to the leaders of Ask Jeeves, addressing every one of our essentially 18 business lines and beginning the very detailed step process of how the IAC sites are going to add traffic and share for Ask Jeeves, which is our first year mantra.

Safa Rashtchy - *Piper Jaffray - Analyst*

Okay, thank you very much.

Barry Diller - *InterActiveCorp - Chairman; CEO*

Thank you. Next question.

Operator

That will come from Michael Savner with Banc of America Securities. Please go ahead.

Michael Savner - *Banc of America Securities - Analyst*

Good morning, thanks. A couple of questions for Dara and one for Tom, as well. Dara, just to get into a bit more detail on the package side of the business, you just mentioned that being a little more aggressive on the pricing side to drive growth, although we've still noticed that that growth rate continues to come down and that that kind of spread in growth between total bookings and package growth is now almost 1:1. Is there a change in that business, where you think there's another leg of growth coming to spike it back up? Or is this the norm growth right now, where it's going to grow with gross bookings?

And then on kind of switching gears at eLong, do you think that eLong has the capacity you need to grow the Asian market or will you look to make other acquisitions to build out that capacity?



And then the one quick question for Tom, and I'm sorry if you mentioned this and I missed it, but given the aggressive repurchases in the month of April getting you already very close to the 60% buyback for the Jeeves deal, is the thought process that you would continue to do those share repurchases and maybe go up to 75 or 100% of that deal? Thanks.

Hello?

Barry Diller - *InterActiveCorp - Chairman; CEO*

No, no he can't, sorry.

Dara Khosrowshahi - *InterActiveCorp - President; CEO-IAC Travel*

On the packages, part of the slowdown that you've seen on the packages growth rate is because certain markets that are heavy in packages have actually seen pretty significant compression, as far as inventory goes. So, for example, the [inaudible] market is a big package market and occupancy there is historically high. Same goes for the Orlando market, as well. So, there is a bit of inventory compression going on in there and I think on the packages business, we're very much focused on it, we're pretty aggressive there and over the past couple of months, at least, we've seen encouraging signs.

So, I our goal is currently for our packages, revenue growth, and gross bookings growth to exceed that of the main line gross bookings growth, and I think that s something that s achievable.

As for as eLong goes, they are very focused on the on the China market. I think it s a number 9 worldwide travel market. People expect it to be the number 2 market 10 years from now. So, there s plenty of growth and plenty of execution in the Chinese market for eLong and that s where they re going to focus. And to the extent that we grow and enter other markets in the Asia-Pacific region, we will build and we might buy opportunistically, as well.

Tom McInerney - *InterActiveCorp* - *CRO*

And, Michael, on the repurchase question, we re going to complete the 52.8 million shares, which is the 60% that we committed to. We should complete that this week at what we think is an attractive price and we re going to stop at this moment and as I said in my remarks, I think we ll now be looking at our capital structure the way we always have, on an opportunistic basis. We ve, through the Cornerstone acquisition and this buyback, we ll have complete, will have had substantially reduced the the excess capitalization that we agreed we had and now we can focus on investment in the businesses, with buybacks a continued possibility in the future, if circumstances warrant.

Michael Savner - *Banc of America Securities* - *Analyst*

Great, thanks very much.

Barry Diller - *InterActiveCorp* - *Chairman; CEO*

Next question, please.

Operator

Thank you. That will come from Anthony Noto with Goldman Sachs. Go ahead, please.

Anthony Noto - *Goldman Sachs* - *Analyst*

Thank you very much. The first question is on Financial Services and Real Estate and then one on Travel, specifically on Hotels.com. If I look at the Financial Services revenue that you reported, of for rounding purposes, \$106 million, it was up about \$66 million on an absolute basis versus March of 04 and I'm just wondering, Barry, Tom, if you could break out the key drivers of that incremental \$66 million, both organically and then acquisition, and then if there's any other granularity in terms of transactions or revenue per transaction rate.

And the second question is on Hotels.com. I will just follow up with that after the first.

Tom McInerney - *InterActiveCorp* - CRO

Sure it's Tom. On the first of all, on the Lending Tree and Financial Services, we're seeing good growth in both the Lending and the Real Estate side. So, both of those are material increases, or drivers of the revenue growth, although obviously Lending substantially larger than Real Estate because it's newer, but both of those contributed to that those overall results.

On organic, in the Lending Tree loans question, just a little bit of background some people may know this or may not know this but Lending Tree loans was essentially built or a substantial piece of their business was built by tying into Lending Tree and using leads customer leads from the Lending Tree exchange network. And, in essence, the effectiveness of Lending Tree at driving customers to Lending Tree loans was what allowed Lending Tree loans to build a very substantial business in a short period of time.

So, when we bought that, in essence we were able to integrate it very quickly and are really running it kind of as a combined business, both the exchange lead generation, a significant percentage of those go to Lending Tree loans and a significant percentage of Lending Tree loans

loans, closings come from the exchanges. So we're really thinking of that as one business. Because that business has been built that way, we were able to buy it for a very modest amount of capital relative to its now contribution to our overall results. So, we're not going to break it out. We think of it as one business kind of from start to finish.