FINAL TRANSCRIPT

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PRESENTATION

Operator

Good morning. My name is Thea, and I will be the conference operator today. At this time, I would like to the Orbitz Worldwide first quarter earnings conference call. All lines have been placed on mute to prevent and background noise.(OPERATOR INSTRUCTIONS) Thank you. I will now turn the conference over to Shannon Burns. You may begin your conference.

Shannon Burns - *ORBITZ WORLDWIDE INC - IR*

Thank you, Thea. Good morning, and thank you for joining us for the Orbitz Worldwide first quarter 2008 earnings call. I'm Shannon Burns, director of IR for Orbitz Worldwide. On the call this morning are Steve Barnhart, president and CEO of Orbitz Worldwide, and Marsha Williams, the company's chief financial officer.

Before we get started, I would like to remind you of a few items. First, the rebroadcast, reproduction, and retransmission of this conference call or the webcast without the express written consent of Orbitz Worldwide are strictly prohibited. Second, if you did not receive a copy our press release, it is available on our investor relations website at WWW.ORBITZ-IR.COM. Additionally, this webcast will be archived on the site for a period of at least 90 days. An MP3 file of the call and a transcript will also be posted on the site. Third, some of the statements made during this call constitute forward-looking statements that involve known and unknown risks, uncertainties, and other factors, including the risk factors described in our form 10-K filed with the Securities and Exchange Commission on March 21st, 2008. These risks and uncertainties may cause our actual results, performance, or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements. Also, I would remind you that the media are participating in this call in the listen-only mode. Finally, during the call, we will be referencing certain non-GAAP financial measures as defined by the SEC rules. Where required, we have provided in our press release or on our website a reconciliation of those measures to the GAAP financial measures we consider to be the most comparable., The release is available on our website.

At this time, I would like to turn the call over to Steve Barnhart, president and CEO of Orbitz Worldwide.

Steve Barnhart - *ORBITZ WORLDWIDE INC - CEO, President*

Good morning everyone, and thank you for joining us. Based on year-over-year performance, Q1 was a challenging quarter for Orbitz Worldwide. That was not a surprise. We knew going into the quarter, as we discussed on the last call,that maintaining our growth against the strong results we achieved on 2007 would be challenging. Our results were consistent with the expectations. We are not satisfied with these results. We are confident that we have the product and marketing plans in place to drive improved results, and you will start to see the impact of those initiatives as you begin rolling them into the market over the balance of the second quarter.

Before I go into the plans and performance in more detail, I want to address specifically a few aspects of our top-line and bottom-line performance in Q1. Our top-line performance continued to be impacted primarily by three factors. One, our offline advertising is drawing an insufficient number of consumers to Orbitz.com; two, we have not brought major innovation or new features to our U.S. sites since the fall of 2006, so we have not given our consumers enough reason to convert on our sites; and three, we have seen the marketplace for online traffic get much more competitive, with significant changes starting in the latter half of Q3, 2007.

We have taken specific actions addressing all of these areas, which I will discuss, and we expect improvement in top-line growth each quarter through 2008.

The largest impact on our bottom-line performance year-over-year was simply that we lapped our strongest quarter for volume growth in 2007 with what we expect will be our weakest quarter in 2008. However, there were two other meaningful items that are less apparent.

In 2007, we began a significant investment in hotel market managers to fuel International hotel growth. We did not incur meaningful costs for this in Q1 of 2007, but these costs became meaningful in Q2 and ramped throughout 2007. The net impact for Q1 2008 was an increase in cost of a few million dollars year-over-year for International hotel market managers. We added the additional market managers in the first quarter of 2008 and plan to continue investing in more international hotel market managers throughout the year.

The second meaningful item was some unusual costs in Q1. Most significant was several million dollars in costs for the charge backs mentioned in the earnings release. Improved controls are in place and this should not present an issue going forward. Without all the unusual costs and the year-over-year impact of ramping up our international hotel market manager team, you would have seen a materially stronger year-over-year comparison in adjusted EBITDA in Q1. Marsha will give you more detail on Q1 financial performance. At this point, I will transition to how our business is positioned for future growth and what you should look for from us going forward.

We have targeted our efforts toward improving our performance where we have come up short and adapting our business in light of changes in the market so that we are capable of delivering solid sustainable long-term growth consistent with the benchmarks we have communicated. All major businesses and business areas are performing well with the exception of the transaction-based portion of our U.S. online travel company or OTC business. Our big initiatives going into 2007 were accelerating growth in our International businesses, significantly advancing our global technology platform, and improving our non-air mix. We had great success in International, solid results on the global platform, and very good results on non-air in International.

We did not make the progress we wanted on non-air in the U.S., our Orbitz marketing campaign has not delivered the needed results, and we did not anticipate the magnitude of the changes in online marketing for travel services in the U.S. With strong growth in our international businesses and solid progress in rolling out the global platform, we have materially shifted our focus back to the U.S. We believe that we can deliver the needed turnabout in the U.S. while sustaining strong International growth.

We are well down the path to restoring performance in our U.S. OTC business. April growth rates were stronger than Q1 growth rates, and we will be undertaking two key initiatives over the next few months that we expect will further strengthen growth.

The first is launching new Orbitz advertising this quarter that we believe will accomplish two goals that our Orbitz advertising did not achieve in 2007. First, capture the consumers' attention in a way that draws them to visit our site. The advertising we have been running since mid 2007 has not done this as effectively as it should, and the wear-out factor, the degree to which performance drops off as the campaign runs, has been high for this campaign. Second, highlight features for consumers that will drive them to search and book on Orbitz.com. Our 2007 campaign focused on Orbitz TLC, which is a valued product to our customers, but featuring high-quality service at the level of sustained focus we gave it did not cause a sufficient number of undecided consumers to shift their bookings to Orbitz.

The second key initiative is introducing functionality that gives customers new reasons to search and book on Orbitz or Cheap tickets. To regain more of consumers' mind share, and hence more of the traffic, and to improve conversion, we plan to offer consumers new capabilities that will both draw them to our OTC sites and incent them to book there.

An example of user focus functionality is MYIDEALBEACH.COM, a tool that allows consumers to search for a beach vacation without knowing where they want to go or when, just knowing what kind of experience they want to have, knowing exactly where you want to go, and generally knowing dates as well is a necessity on virtually all sites where you can book travel today. But MYIDEALBEACH.COM frees consumers from these restraints.

By the end of the quarter, we expect to roll out additional new functionality that we believe will give consumers significant reason to make their bookings on ORBITZ.COM. While MYIDEALBEACH.COM is attractive to one group of customers, this new functionality will give all consumers a new reason to search and book on ORBITZ.COM.

New marketing and new features are the key factors that will accelerate gross bookings and revenue growth as we move through the year. But while we want to focus you on what we are actively doing to fix our U.S. performance, it is also true that we have easier overlaps each quarter as we move through 2008. One reason that our overlaps become easier is that we progressively reduced our reliance on paid search as a source of traffic and transactions throughout 2007 and into 2008. From very early on, both Orbitz and Cheap Tickets focused on online marketing as a source of traffic and transactions, in part, because they did not have major portal contracts to rely on for traffic. This proved a great advantage in driving growth as search marketing expanded rabidly, more rapidly than most other potential sources of traffic. However, it caused both sites to become increasingly reliant on a bid marketplace where traffic could be purchased by any competitor. Over time, not only OTC competitors but supplier sites, travel research sites, and meta sites all became competitors for this traffic.

In the latter portion of 2007, our reliance on online marketing the U.S. became a negative, as growth and total traffic from paid search began to slow, but demand for that traffic did not. The cost of online traffic spiked and costs remained significantly elevated from where they were in early Q3, 2007. Our response has been to remain economically efficient. This has cost us traffic and transactions, but we believe these transactions would have been largely unprofitable. As we shrink our reliance on paid search, we are focused on building other sources of traffic and transactions, whether through marketing, functionality or other relationships. As an example, our reliance on paid search as a source of hotel transactions on ORBITZ.COM was at half the level in January 2008 that it was in January 2007. As we begin lap this movement away from paid search in the back half of 2008, you will see an improvement to the year-over-year growth rates, and one that is not fueled simply by spending additional dollars on online marketing.

At this point, I will move from a discussion of the transaction portion of our U.S. consumer business to a discussion of our other business areas, each of which continues to deliver strong performance.

One of our strategic initiatives is building our presence in rapidly growing International markets, via our European OTC site, ebookers, and our global hotel business, HotelClub. In Q1, we achieved a sixth consecutive quarter of greater than 20% growth in our International businesses. At ebookers, we are on track to have all of our sites transitioned to the new global platform by the end of this year. The next site to launch will be Belgium, which will serve our customers in two foreign languages, French and Dutch. That site, our first with multiple languages, will launch early this summer.

In the first quarter, gross bookings at ebookers increased 44%, versus the first quarter of 2007. Gross bookings over Continental Europe in Q1 approached 60%, somewhat faster than the above 50% rate we quoted you for Q4. I should note that these rates are on a constant currency basis. On a reported basis, growth in Continental Europe was above 70% in Q4 and above 80% in Q1.

Our UK site is benefiting from having three times more hotel inventory on the new global platform than the old platform. This, along with the Euro/dollar exchange rate, is driving strong traffic from the UK to U.S. locations, with gross bookings for hotels in the U.S. at almost nine times Q1 2007 levels. At the same time, cost for ebookers transactions declined, as service call volume dropped 20% while transaction volumes grew. As we extend the global platform to additional countries, it will bring the benefit of additional inventory to those ebookers sites, and we expect this to support growth in hotel bookings. Similarly, we expect to see further cost efficiencies as the platform reaches new countries.

At HotelClub, we achieved a 31% increase in gross bookings, as we benefited from the increase and the size of our hotel sourcing team and the corresponding increase in direct merchant hotel relationships. Growth was particularly strong in key Asia Pacific markets. Part of our success in signing new hotels is being easy to do business with, and a new extranet for the HotelClub.com site makes it easy for hotel partners around the world to adjust their rates and availability on that site directly. Another strategic initiative for HotelClub was the launch of the DreamClub in April, as an extension and enhancement to existing HotelClub rewards program. HotelClub currently has nearly six million registered members, who, on average, converted a rate that is significantly higher than that of the average consumer.

In the second quarter, there are several changes taking place in our HotelClub business at both our HotelClub.com and RatesToGo.com sites that we believe will sustain strong growth over the balance of the year. We are doing design refreshes on both sites and adding new languages and currencies to reach more customers. RatesToGo, a last minute hotel booking site, extended its booking window from 21 days to 28 days, which we expect will drive growth in that business as customers look for last minute values.

We also made progress in the first quarter on our strategic objective of building our non-air business. To that end, we continue to build our hotel sourcing team in the quarter, especially in Europe and Asia, increasing the total staff by 13% over the year-end 2007 level. This team is charged with increasing the number of hotel properties that we can offer our customers and with building direct relationships with existing hotels that currently offer their inventory on our site through indirect relationships.

Direct relationships allow us to better service and market hotels and often enable us to improve the breadth of inventory for sale. We added over 5,000 direct hotel relationships in the first quarter.

We signed several major new hotel contracts in the first quarter, in addition to the Marriott contract that we discussed on our fourth quarter call. A new agreement with Carlson Hotels Worldwide increases direct access to over 1,000 hotels worldwide for all of our brands. We also signed agreements with Harrah's entertainment that provides us with additional inventory at all Harrah's properties and with the new Trump International Hotel and Tower in Las Vegas. We signed a number of other agreements in the first quarter with Hotel Groups Worldwide, including the Kempinski Group, which has properties through Europe, Middle East, Africa, South America, and Asia; and Peninsula Hotels, with luxury hotels in Asia and the U.S.

Looking at our other business areas, attachment rates for services and attractions have increased significantly as we have added new functionality to cross sell more effectively and better target those products at the property level. One initiative we have launched to grow this business is the introduction of destination specialists for some of our most popular destination markets. Customers browsing on certain vacation markets on Orbitz.com can get a message asking if they would like to speak with a live representative. If customers respond, they can talk with a trained specialist who can help them put together their ideal package of air, hotel, car, attractions, and services. The size of these assisted transactions is significantly larger than average.

Advertising revenue was strong in the quarter, growing nearly 35% compared to the first quarter of 2007. Orbitz for Business continues to expand by adding new customers. The first quarter was the best quarter Orbitz for Business has ever recorded for a new business sold, with major wins including Fujitsu and Michael stores. Contracts for Orbitz for Business clients are generally multi-year, so this growth enhances a significant stable base of business.

One last topic I will address before I turn it over to Marsha is our view of the impact in the U.S. and global economy on our business. I do not feel that our view here is unique, so I will be brief. Current trends in out businesses do not indicate any major pullback in leisure or corporate travel to date. We do see softening in some markets, primarily leisure. We have had more interest from hoteliers in assisting them in filling rooms, preferably through packaging but also through other promotional activity. This is consistent with external data that indicates softening of occupancy rates, but ADRs that are largely holding level or increasing, although increasing more slowly than in 2007. On air, we continue to see U.S. consumers traveling and expressing interest in traveling, despite pulling back on discretionary purchases they seem to feel are less critical than things like the summer family vacation. We do expect they will travel differently to economize, but we have little discernible evidence of that to dates. If they do, our risks are somewhat mitigated by the fact that our U.S. air revenues are largely fixed per ticket, so consumer migration to tickets for shorter flights, lower classes of service, or simply lower costs, do not materially impact our revenues. To date, it does not appear that higher air ticket prices have trumped higher gas prices, as consumers make their drive versus fly decisions.

Airlines have communicated reductions in seat capacity; however, much of this will come into play after the busy summer season, when demand is not as high. Possibly offsetting some of these risks are that when consumers want value in their travel, there is no more obvious place to go than CheapTickets.com, and packaging on both Orbitz and CheapTickets remains a great way for consumers to gain additional value in their travel. Net, net, there remains a good deal to be watchful about, but we have not yet seen an obvious tipping point where consumers move from being cautious in how they spend their travel dollars to a significant pull back.

To recap before turning it over to Marsha, over the next few months you will see that we have regained our stride in the U.S. as we launch new capabilities and marketing. You certainly did not see that in our Q1 results. But as the investment is made in our International businesses and in the global platform, continue to pay off, and we combine that with improving U.S. performance, we expect to deliver performance in the second half of 2008 that steps up to the benchmarks we laid out as our strategic initiatives, which remain: building our presence in rapidly growing International markets, increasing the percentage of our business in higher profit non-air segments like hotels and dynamic vacation packages, and continuing to improve our operational efficiency with the target of an adjusted EBITDA margin in the mid 20s in four to five years. I'll now turn it over to Marsha.

Marsha Williams - *ORBITZ WORLDWIDE INC - CFO, SVP*

Thank you, Steve. And thank you for joining us this morning.

Today, I'd like to focus on trends in our revenues, as well as the strengths of our international business. We are very pleased at our international growth bookings grew by 41% in the first quarter of this year, as compared to the first quarter of 2007. Growing our international business has been an area of particular focus for us over the past two years, so we are happy about our International growth this quarter.

As you will recall, we have had a number of changes in our business within the last year. In order to put our first quarter 2007 net revenue on a comparable basis with 2008, we have added back the impact of purchase accounting adjustments that reduced reported revenue in the 2007 period, and we have also removed the impact of TravelBag, the offline UK travel business, which we sold in July of 2007. We refer to this calculation as adjusted net revenue, and we have posted a schedule on our website that lays out these adjustments. We have also posted information on our website that highlights the impact of foreign currency fluctuations on our revenues.

On an adjusted basis, net revenue increased 4% in the first quarter 2008, as compared to the same period of 2007. International adjusted net revenue increased 28% in the first quarter, compared to 11% on a reported basis. After adjusting for foreign exchange, international adjusted net revenue increased 16% in the quarter. This growth was led by ebookers, which increased adjusted net revenue to $33 million or 32% over adjusted net revenue for the first quarter of last year. The increase in ebookers is largely attributable to strong growth in air revenue. Revenue from car rentals and dynamic packages also posted very strong growth, but these are smaller pieces of ebookers' business. Hotel Club's adjusted net revenue increased 20% to $18 million on a 31% increase in gross booking. U.S. domestic adjusted net revenue was 168 million, or 2% lower than adjusted net revenue for the first quarter of 2007.

As we have mentioned, our domestic air was soft this quarter. We had a decrease in our domestic air transactions, but we did book higher revenue per air ticket. This increase was due in part to a higher mix of international flights booked on our domestic sites, as well as an increase in our GDS revenue from World Span.

Our business also benefited from higher revenues from insurance and advertising, as well as a modest increase in hotel revenues.

Looking at our business from a product perspective, we are pleased that our international air adjusted net revenue increased by 31%, or 21% on a constant currency basis. Overall our business declined, which reflects the weaker domestic air business we mentioned previously. Strong transaction growth in our International air business was offset, in part, by lower revenue per air ticket. This lower revenue per air ticket internationally was largely the result of an increase in short-haul flights in Europe and the introduction of additional low-cost carriers on ebookers' sites. Adjusted net revenue for non-air and other products, which consists primarily of hotel, car, dynamic packaging, advertising and insurance, increased 7% in the quarter.

Turning to the rest of the income statement, our cost of goods was higher this quarter than it was a year ago, primarily due to a higher level of chargebacks at one of our international locations. We have installed new security software and expect these chargebacks to decline during the second quarter. As we have said in the past, we expect our cost of goods as a percentage of sales to be between 16 and 18% range on an annual basis, and we continue to be comfortable with that general range going forward.

SG&A increased 10% over the first quarter of 2007. This increase was driven partially by higher head-count levels. We have continued to add staffing to build our international hotel sourcing team, and we believe this team will be a strong contributor to the growth of our international business. As compared to a year ago, we have also added staff in a variety of required corporation functions, such as external financial reporting, treasury, law, tax, international internal audits, and SOX. We also recorded additional stock compensation expense this quarter, due primarily to stock-related grants made in conjunction with the IPO. As you will see from the cash flow statement, we also spent less on capital this quarter, which basically meant that we capitalized fewer of our internal software development costs, and those increased SG&A as well. This lower capitalization is partially because we have largely completed the major developments on our new European platform. In total, these higher costs, as well as some impacts from currency fluctuations in Europe, were offset, in part, by an insurance reimbursement relating to our hotel occupancy tax litigation.

Marketing expenses increased nearly $3 million or 4% in the first quarter. The majority of the marketing increase supported our strong international growth. Domestically, marketing expense declined slightly in conjunction with our decline in transactions.

For the first quarter of 2008, adjusted EBITDA was $21 million. We calculate adjusted EBITDA consistently with the way management runs the business, adjusting out the non-cash and one-time items. With respect to the first quarter of 2008, we've made three adjustments. The first is $4 million relating to stock compensation expense. The second represents the cost we continue to incur in professional fees, primarily audit and tax, that we believe are one time in nature, as we transition functions from Travelport and build our inner company infrastructure. These totaled $2 million in the first quarter, and we expect them to decline as the year progresses. Finally, we also incurred $1 million in severance expenses. We have provided a schedule that reconciles EBITDA and adjusted EBITDA in our press release.

Net interest expense in the quarter was $16 million. Interest expense includes cash interest of $11 million on $600 million term loan and our $85 million revolver, and non-cash interest of approximately $5 million that accrues on our tax sharing liability with the airlines. Subsequent quarter end, we took advantage of the dip in interest rates and entered into another interest rate swap. Our new swap will fix approximately $100 million of our term loan at an all-in rate of 6.39% for three years. So we now have $400 million of our total 600 million term loan at a fixed rate basis.

Turning to the balance sheet, I would like to highlight a couple of points. Because of the seasonal pattern of our business, our first half of the year is when we build our cash position. At the end of the first quarter we had cash balances of $117 million, with nothing outstanding under our revolver. Our current cash balances are at approximately the same level.

As you can see, our merchant hotel payables grew 49% in the quarter, compared to the level at year-end, reflecting the growth and seasonality of our merchant hotel business. Our cash and merchant hotel payables billed in the first half of the year, as customers book their vacation and then settle in the third and fourth quarters, as customers complete their travel and the hotels bill us.

That concludes my recap of our financial results. And now we will be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

At this time, I would like to remind everyone that if you would like to ask a question, press star followed by the number one on your telephone key pads now. Once again, ladies and gentlemen, if you would like to ask a question, please press star at this time. We will pause for just a moment to compile the Q&A roster. The first question is from Vance Edelson with Morgan Stanley.

Vance Edelson - *Morgan Stanley - Analyst*

Hi. Good morning. Thanks for taking the question. I was intrigued by the higher mix of international flights booked domestically. What do you think would explain that mix shift? Do the international flights seem less susceptible to whatever is weighing on the domestic travel, thanks?

Steve Barnhart - *ORBITZ WORLDWIDE INC - CEO, President*

I think there are really two things there. In terms of the shift, we have seen, if you looked at percentage of site, a shift of air travel away from Europe and into Mexico, and to a lesser extent, the Caribbean. So where people are traveling internationally has shifted. And I think as you look at the way our position has evolved over time, you know the relative value add we bring on our national flights, where there are more flight combinations and more opportunities to deliver savings opportunities to customers is superior. And I think it's not surprising to see our mix shift to that direction over time.

Vance Edelson - *Morgan Stanley - Analyst*

Okay. Thanks. And on the staffing levels to ramp up international, can you give us a feel for how that trends from here. Is most of the -- is most of the ramp up behind us at this point?

Steve Barnhart - *ORBITZ WORLDWIDE INC - CEO, President*

We still have some additions we want to make through the balance of the year, but it does ramp down. So, yes, the biggest pieces of it we are already beyond.

Vance Edelson - *Morgan Stanley - Analyst*

And is it the same for the internal, you know, accounting related staffing? Does that also trend down from here?

Shannon Burns - *ORBITZ WORLDWIDE INC - IR*

Yes. The additions certainly trend down. I think we are largely through. We may have a few areas where we would need to add a person or two. But I would say, in general, we largely fully staffed.

Vance Edelson - *Morgan Stanley - Analyst*

Okay. Great. And one last question. Is it safe to say that the ebookers international rollouts become easier as you go, as you gain experience and roll it out from country to country?

Steve Barnhart - *ORBITZ WORLDWIDE INC - CEO, President*

Absolutely. So, we started with the UK, then we did our first foreign currency as we moved to the Euro with Ireland. Now we're doing our first multiple-language site in Belgium. Really, once we get beyond that, there are no major new capabilities that we need to test or introduce for the first time, which is why the cycle time in rolling out in remaining countries is much, much shorter.

Vance Edelson - *Morgan Stanley - Analyst*

Okay. I appreciate the caller. Thanks.

Operator

The next question is from Aaron Kessler with Piper Jaffray.

Aaron Kessler - *Piper Jaffray & Co. - Analyst*

Hey, guys, couple questions. First, can you give us commentary on what the UK growth looked like, and do think the acceleration in Continental Europe from Q4 to Q1 was ebookers gaining share, or do you think it was overall strength in online bookings in Europe, and one follow-up question?

Steve Barnhart - *ORBITZ WORLDWIDE INC - CEO, President*

Yes. Continental Europe has, as long as I've been involved with ebookers, has been much stronger than the UK, I think initially because of lower penetration rates, and now both lower penetration rates and better economic conditions. So Europe is certainly stronger than the UK. You know, I think we're certainly not growing -- well, I think we're growing relative to an online travel company, as opposed to a hotel specific company. I would, based on our data, think we are growing faster than the average. You know that may look a little differently if you approach it from a hotel only point of view.

Aaron Kessler - *Piper Jaffray & Co. - Analyst*

And in terms of the wages and benefits, I might have missed this, but I think they're up about $8 million sequentially, and much higher than levels last year. Is this due to some of the one-time expenses you talked about, or when should we think about a more normalized level for this expense line? And also on COG side, should we expect more normalized levels starting in Q2?

Marsha Williams - *ORBITZ WORLDWIDE INC - CFO, SVP*

Yes. On the wages and benefits, I would say that some part of that simply reflects the fact that we are now -- have included stock option expense in our numbers, which wasn't there last year. So that was one adjustment that we adjusted out of EBITDA, but that will stay. So if you're comparing, you know, pre and post IPO numbers, those numbers will run through that. I believe that we are largely through the significant add in wages and benefits. As we have said, we've got a few places where we may add some more people on the public company function. But I don't think you're going to see a major shift in wages and benefits going forward. In terms of the -- I am sorry your other question was?

Aaron Kessler - *Piper Jaffray & Co. - Analyst*

Based on the cost, so should we see more normalized levels in Q2?

Marsha Williams - *ORBITZ WORLDWIDE INC - CFO, SVP*

Yes. On the cost of goods sold, as we said, we did have cost of goods sold run almost 20% this quarter, and that was higher than expected. We have put some additional measures in place to take control of some the security issues that we encountered, and we expect that those measures will kick in during the second quarter. We've already obviously installed those, and so we would expect our cost of goods sold to improve during the second quarter and return to a more normalized level.

Aaron Kessler - *Piper Jaffray & Co. - Analyst*

Great. Thank you.

Operator

The next question is from Imran Khan with J.P. Morgan.

Unidentified Participant - - *Analyst*

This is Bridget calling in for Imran Khan. I'm wondering if we could look at domestic advertising. It sounds like you starting up a new offline advertising campaign. Should we expect to see an increase in marketing spend as a result of this? And also, what leads you to believe that you can gain traction from you offline campaigns and cut back on online expense? Thank you.

Steve Barnhart - *ORBITZ WORLDWIDE INC - CEO, President*

Sure. As we roll the new campaign, we will support it on levels that are slightly higher year-over-year in terms of off-line spend. So you won't see any increase in offline spend that's out of line, I think, with what you would expect in a sort of normal year-over-year growth in the business view. So -- but we will support the campaign as we launch it and throughout the balance of the year. We do expect we can get significantly more benefit from our offline campaign. I mentioned two reasons up front that I just want to reiterate. One is, you know, the campaign itself. The targeting of TLC, we found, has not -- it's a very important benefit to our customers. But in terms of changing the view of people that are undecided, that aren't loyal to a site, it simply wasn't as effective in moving them to book to our sites as we needed it to be. And the wear-out factor or the effectiveness of the campaign over time really dropped off much more rapidly than we have seen in earlier campaigns. The benefit we're getting from the campaign at this point versus a quality of the new campaign we'll bring out, we think will be materially different.

In terms of online -- online will continue to be an important piece of our mix. It's particularly the search marketing area where we're trying to rebalance our dependence on, again, remaining economically efficient and building up our strength in other areas. Whether that be search and job innovation, mining our expanded data warehouse, improving the quality of our tools, we're going to continue to invest and build our strength in that area. But we think historically we have become overly dependant, perhaps, on search marketing, and as those costs really accelerated last year, that was a negative for us. Again, as we start to lap that in the back half of this year, you'll see a material improvement in our growth rates.

Operator

The next question is from Doug Anmuth with Lehman Brothers.

Doug Anmuth - *Lehman Brothers - Analyst*

Great. Thanks for taking my question. First one, I was hoping you could provide some more color on the revenue margins, specifically looking on a year-over-year basis between the U.S. and international. It looks like the U.S. came in somewhat higher than we would have expected and the international somewhat lighter. I just wanted to check if this is just sort of a purely a mix issue or if there is anything else going on there. And then also, can you comment a little bit about what kind of alternatives as to paid search you found successful thus far? And third question, just on your outlook going forward, you talked about cost of revenues. You also talked about EBITDA margins over four to five years. Is it still reasonable to think that the long-term target of the 9 to 12% increase in bookings and revenue that you can return to those metrics in four Q? Any chance we can see that before the fourth quarter? Thanks.

Steve Barnhart - *ORBITZ WORLDWIDE INC - CEO, President*

Sure, Doug. In terms of the revenue margins, I think in the U.S., one of the differences you would see between the U.S. and the Europe is our air margin in the U.S. held up very well, even moving up a little bit, where our margins in the Europe as the mix shifts from ebookers, which historically had a very strong base in long-haul flights, much lesser presence in short-haul and low-cost carriers. As we get the growth from bringing in those short -haul flights and low cost carriers, they just simply don't bring the same margin as the long-haul flights. So you are going to see differences in the U.S. air revenue margins and European air revenue margins.

In terms of alternative to online search, you know, our biggest impacts this year, we expect to come out of, you know, driving a very effective offline marketing campaign and combining that with new functionality on the site that's going to be very exciting on the site for consumers. Putting those two together, we'll be able to present consumers with compelling reasons, both to visit out site and to book on the site. So that's going to be the biggest impact you'll see this summer and through the rest the year. But we do continue to improve our capabilities and search engine optimization, and continue to invest in infrastructure we to manage search. And we continue to invest in our e-mail and other ways of connecting with customers that give us the ability to monitor the data we have to very cost effectively bring additional traffic to the site. So those are the key areas we're focused on in terms of offsetting that reliance on search.

Doug Anmuth - *Lehman Brothers - Analyst*

And the final question in terms of the outlook returning to the long-term growth target by the fourth quarter?

Steve Barnhart - *ORBITZ WORLDWIDE INC - CEO, President*

Yes. We feel that we can get back to that long-term growth target. I believe we described it last time as getting back to that level sometime in the third quarter, not necessarily for the full quarter. But we would expect to reach that as we enter the fourth quarter.

Doug Anmuth - *Lehman Brothers - Analyst*

Okay. Great. Thank you.

Operator

The next question is from Travis Devitt with Teton Capital.

Travis Devitt - *Teton Capital - Analyst*

Hi, guys. I was hoping you could give us a little color on whether or not international EBITDA margins were positive? If you could give us a sense for profitability of the International business currently??

Shannon Burns - *ORBITZ WORLDWIDE INC - IR*

Sure. We haven't -- we don't break out EBITDA profitability internationally by segment, but we have said consistently that HotelClub is a profitable business for us and that ebookers has had an improving EBITDA performance, meaning that, you know, the losses that we have incurred at ebookers have been coming down, and we are definitely on the path toward profitability, particularly as we see our revenues grow. One of the things we have commented on is the turnaround in performance. ebookers will be both a combination of an increase in revenue, as well as a reduction in expense. So as we roll out our new platform in Europe, we believe that we can continue to reduce our operating expenses in Europe. And as you can see from this quarter, we're pretty confident in the way that we have been able to grow the top line at ebookers.

Travis Devitt - *Teton Capital - Analyst*

So the trajectory was certainly that ebookers of continuing improvement?

Shannon Burns - *ORBITZ WORLDWIDE INC - IR*

Yes.

Travis Devitt - *Teton Capital - Analyst*

Okay. Thank you.

Operator

The next question is from Jennifer Watson with Goldman Sachs.

Jennifer Watson - *Goldman Sachs - Analyst*

Thank you. Two questions. First, can you just discuss how much an early Easter helps pull some revenue from Q2 into the first quarter, and would we still have seen the same bump up in net revenue rates if the Easter timing hadn't shifted? And then secondly, if you can just talk a little bit about some of the consumer booking fee testing that you're seeing some of your competitors do both domestically and internationally and what your view is on that.

Steve Barnhart - *ORBITZ WORLDWIDE INC - CEO, President*

Jennifer, on Easter -- It's difficult to be overly precise in that. But I think the one difference you'd note for us versus some of our competitors who are much more hotel-centered is there is more of an impact on the hotel business than there is on an air business with the movement of Easter. All right. With hotel bookings, our revenue recognition occurs when the stay happens. So when Easter moves from April to March, the hotel revenue from the stays moves from April to March. However, air revenue is recognized when the ticket is looked. So if someone books in March for Easter, whether Easter occurs in April or March doesn't matter for revenue recognition. So we would see a much less dramatic impact in our P&L than competitors at much bigger hotel businesses would see in their P&Ls. So I wouldn't spend as much energy trying to think about that in our P&L as you might with the other people in the industry.

Jennifer Watson - *Goldman Sachs - Analyst*

Okay, great.

Steve Barnhart - *ORBITZ WORLDWIDE INC - CEO, President*

In terms of consumer fee testing, we certainly see people testing a wide variety of fees. We see, in general, people moving to higher fees. So, although we do see a lot of testing going on, where it is netting out at this point seems to be toward higher fees versus lower fees, with a notable exception of the opaque sites. Our view on fees has not changed. We believe that we offer value that consumers are willing to pay that fee for, and we do not see that it would make sense for fees to go away.

Jennifer Watson - *Goldman Sachs - Analyst*

Okay. Thank you

Operator

The next question is from Brian Fitzgerald with Bank of America Securities.

Brian Fitzgerald - *Banc of America Securities - Analyst*

Thanks, guys. You mentioned UK had strong traffic in bookings. Other competitors have noted, yes, they saw strength but it was kind of moderate in that geography due to some changes in the pound versus the dollar and the Euro. I'm wondering if you're seeing any impact of this short yet? And then to follow on technology question, Recently Travelport acquired travel assets of G2 SwitchWorks. I'm wondering if you think -- if your GDS partners acquire and apply the G&E technologies, that you could at some point see benefit with you and the others.

Steve Barnhart - *ORBITZ WORLDWIDE INC - CEO, President*

Yes, in terms of Europe, in our growth accelerated in continental Europe, as we noted up front in our local currency basis from in the 70% growth range to over 80% gross. So we certainly didn't see a slowdown in continental Europe. Now I think the different companies have, I think, materially different mixes of countries in continental Europe, soI really can't speak to a direct comparison without knowing that detail. But certainly at this point, our growth continues to be good. In terms of G2 and the genies, I don't think there is any material there that I would be thinking about in terms of what it would mean to our business. So I don't really have any further comments on that.

Brian Fitzgerald - *Banc of America Securities - Analyst*

Okay. Great. Thank you.

Operator

(OPERATOR INSTRUCTIONS) The next question is from [Jake Fuller] with Wiesel.

Jake Fuller - *Thomas Weisel Partners - Analyst*

Hey, guys, hopefully you can give us a little color on the ebookers UK experience on the new platform in quarters past due, or the last quarter you gave us a sense of the trend line there. Any color?

Steve Barnhart - *ORBITZ WORLDWIDE INC - CEO, President*

Jake, sure. You know, the benefits that we expected to get, the improved hotel performance, improved packaging performance, the improved customer service experience, and the improved efficiencies are all in place. The overall macro environment in Europe is -- or I'm sorry -- in the UK has not, you know, strengthened. If anything, it's weakened. So there are general industry factors in the UK that are impacting its growth. But the benefits from the platform are -- they continue, I think now we'll be the third quarter of results, and we continue to see very solid results and improvements. In fact, where we continue to add functionality and tweak functionality and optimize performance of the platform.

Jake Fuller - *Thomas Weisel Partners - Analyst*

In the last quarter, you had talked about changes in mix in the new platform, I think, and specifically talked about a pick-up in hotel sales with the new platform in place. Same trend still playing out?

Steve Barnhart - *ORBITZ WORLDWIDE INC - CEO, President*

Yes. We're still seeing much stronger hotel sales. I think we referenced you know, we referenced nine times as much as in U.S. I mean in the quarter one of '08 versus quarter one '07 on ebookers selling nine times as many hotels to -- people coming from the UK coming to the U.S. Now that's obviously a combination of the enhanced inventory, as well as the dollar/pound relationship. But if you looked at our key sites before, New York would have been the one that would have registered in several of the European countries. Las Vegas, as an example, has moved considerably up in the rankings as we've dramatically expanded the inventory we are offering to consumers in the UK and Ireland out of Las Vegas.

Jake Fuller - *Thomas Weisel Partners - Analyst*

And I guess actually from a bigger picture standpoint, Expedia continues to pretty aggressively invest in building out the media base platform. Any plans on that front to step up the investment?

Steve Barnhart - *ORBITZ WORLDWIDE INC - CEO, President*

Well, again, we saw mid-30s growth in our advertising business in the quarter. We've continued to grow that business strongly over time. We certainly look at options to expand that. We've looked at a number of different potential areas and ways to do that, both in terms of the way we manage it on our existing sites, and looking at ways to build beyond that. But, beyond evaluating those things, focusing very much on what we're doing organically on our sites, I don't have anything this morning, Jake, that I would have to discuss with you.

Jake Fuller - *Thomas Weisel Partners - Analyst*

All right. Thank you.

Operator

The next question is from Michael Millman with Soleil Securities.

Michael Millman - *Soleil-Millman Research - Analyst*

Thank you. Could you tell us what the adjusted EPS were for the quarter?

Marsha Williams - *ORBITZ WORLDWIDE INC - CFO, SVP*

Hi, Michael, this is Marsha. You know, as we are potentially moving into a taxable position in the U.S., one of the things we concluded was that it probably made more sense for us just to focus people on our GAAP EPS numbers. I mean we obviously will still report adjustments EBITDA because we thing that makes sense. But as we started to calculate all of the impacts on adjusted EPS, we realized that probably going forward, it would just make sense to focus people on the GAAP number.

Michael Millman - *Soleil-Millman Research - Analyst*

Would there have been a major difference between the GAAP and the adjusted?

Marsha Williams - *ORBITZ WORLDWIDE INC - CFO, SVP*

Not really a significant difference.

Michael Millman - *Soleil-Millman Research - Analyst*

And also, what is the amount of your advertising revenue?

Marsha Williams - *ORBITZ WORLDWIDE INC - CFO, SVP*

We've never actually broken out the advertising revenue. I can tell you it's been growing nicely, and we expect to continue to grow. We have some good programs in place. And obviously we continue to build relationships with all of the customers who advertise on our site. But in terms of a specific break out, that's not something we've ever provided.

Michael Millman - *Soleil-Millman Research - Analyst*

Is it a material number?

Marsha Williams - *ORBITZ WORLDWIDE INC - CFO, SVP*

You know, it's certainly a number that is growing for us, and it's a number that we continue to focus on, because obviously the margins on advertising revenue are terrific. It is certainly a growing number.

Michael Millman - *Soleil-Millman Research - Analyst*

Is it moving the needle on your revenue number?

Marsha Williams - *ORBITZ WORLDWIDE INC - CFO, SVP*

In terms of moving the needle, obviously, the bigger items on our revenue number really relates to our air business and transaction-based business, as well as our International operation. So is it moving the needle? I would say yes, but in terms of dollar amount a fairly small dollar amount. But on a percentage basis it's a meaningful movement in the growth in advertising revenue.

Michael Millman - *Soleil-Millman Research - Analyst*

And regarding the International business ebookers business, how much of that business is being sourced out of the UK versus the continent, and can you talk about what the trend are and what the growth rates are?

Steve Barnhart - *ORBITZ WORLDWIDE INC - CEO, President*

Well, Mike, I think what your question is, is just growth at ebookers in continental Europe versus the UK; is that correct?.

Michael Millman - *Soleil-Millman Research - Analyst*

Where the customer is located, not where they're going.

Steve Barnhart - *ORBITZ WORLDWIDE INC - CEO, President*

Oh. I see. Yes, most of our bookings are from people within the country sites. So as we talk about continental Europe versus the UK, I think it's fair for you to assume that the vast majority of the bookings as we talk about continental Europe are from people in those countries throughout all of Europe. And when we talk about the UK and Ireland, it's a similar situation. The vast majority of the bookers are people in the UK and Ireland.

Michael Millman - *Soleil-Millman Research - Analyst*

And then on the domestic, has the shortfall been in both traffic and conversion, and does it differ between CheapTickets and Orbitz?

Steve Barnhart - *ORBITZ WORLDWIDE INC - CEO, President*

It's really the traffic. We continue to improve conversion over time. It's really, again, in the online space, obviously pull-backs and adjustments we're making, based on the cost of traffic. And in the offline space, traffic we're not getting at the level we should because our marketing has not been pulling people at the level they should. But we do not see it as a conversion issue.

Michael Millman - *Soleil-Millman Research - Analyst*

Okay. Is conversion the same on Cheap Tickets as Orbitz?

Steve Barnhart - *ORBITZ WORLDWIDE INC - CEO, President*

There are differences, but it's different consumer base. Where we've got a consumer base on CheapTickets that is more air centric, and that certainly impacts their likelihood to concert on different products. So it varies across segments.

Michael Millman - *Soleil-Millman Research - Analyst*

And finally, I missed the earlier comments. Did you give a rough guidance as to the second quarter?

Steve Barnhart - *ORBITZ WORLDWIDE INC - CEO, President*

No, Michael, we did not give any rough guidance as the second quarter. At this point, I think we should see if there are other questions. Thea, are there other questions on the line?

Operator

There is a question from Paul Bard with Renaissance Capital.

Paul Bard - *Renaissance Capital - Analyst*

Thanks for taking my question. I wasn't sure if I was going to get in here. My question, Marsha, I was wondering if you could just talk about cash flow from operations generated in the quarter. It looks as if even if I adjust for the cash taxes that cash flow is down pretty meaningfully year-over-year, and it seems like you didn't get the same flow-through, I guess, on the merchant payables side. And I was just wondering if you could just talk about the swing factors there, and if it's just the timing issue or if something else is driving that?

Marsha Williams - *ORBITZ WORLDWIDE INC - CFO, SVP*

Sure. Let me just -- let me specifically address that. There are two items that had a pretty big impact on cash flow from operations this quarter. Ironically, they are both $14 million. So let me explain what those are. If you look at the third quarter of 2007, we had non-cash interest expense of $19 million, and that represents the fact that we settled our inter-company interest with Travelport on a non-cash basis. So we had a $14 million swing in our non-cash interests. So that represented $14 million of the swing. If you also look at the balance sheet, we had a due from Travelport at March 31st, '08, that we didn't have at March 31st, '07. And that's just the normal settling of transactions that we have from Travelport. We actually got that money, I think, in early April. So two of the items, again, each of which are $14 million, that totaled $28 million, relate to cash taxes versus non-cash taxes and settlement of our inter-company with Travelport. So if you kind of normalize 2008 or 2007 to put them kind of on an apples-to-apples basis, the differential in our cash flow was really about $11 million, and it was just primarily timing, some of our cash taxes, as well as, you know, just some of the expense increases that we've talked about.

Paul Bard - *Renaissance Capital - Analyst*

Great. That's helpful. And then, I guess looking forward, I know you don't give guidance on this, but can you help us out in just understanding, do you expect the cash flow for the year to be up versus 2007, and knowing that probably CapEx I would expect to be maybe down or flat. Just help us in terms of the cash-flow generation of the business what to expect for the year.

Marsha Williams - *ORBITZ WORLDWIDE INC - CFO, SVP*

Sure. We've said the CapEx for the year, we think will be in the $54 to $65 million range, and in terms of generating cash, we do expect to have a stronger cash flow as we ramp through the balance of the year than we did in 2007. Our 2007 numbers were just sort of difficult to sort through just because of the impact of all the IPO -- IPO entries in the third quarter. But we do, in general, in 2008, expect stronger cash flow.

Paul Bard - *Renaissance Capital - Analyst*

Great. Thanks a lot.

Operator

The next question is from Peter Gingold with Angelo Gordon.

Peter Gingold - *Angelo Gordon - Analyst*

Hey guys, my questions were answered. Michael covered most of them. Thanks.

Steve Barnhart - *ORBITZ WORLDWIDE INC - CEO, President*

Thank you, Peter.

Operator

This does conclude the Q&A portion of the conference call. I would like to turn the conference back over to Mr. Steve Barnhart for any closing remarks.

Steve Barnhart - *ORBITZ WORLDWIDE INC - CEO, President*

Thank you, Thea. I would like to close by reiterating our confidence that we will deliver improved results each quarter over the balance of the year. Key components of that are as follows: New Orbitz advertising will launch shortly, which we expect will be much more impactful than our current advertising. We will launch innovative new functionality in the U.S. that meets a core need for our consumers, and we expect that offering to drive both increased traffic and higher conversion rates. We expect to sustain strong growth at our international businesses, where we remain on track to convert the remaining ebookers' sites to the new global platform by the end of the year, which should support both growth and cost efficiencies in continental Europe. Our advertising sales business, Orbitz for Business, and our White Label business continue their strong growth, which improves monetization of our existing traffic and technology. We believe the changes we have made have set the stage for solid, sustainable growth that will meet the targets we've set out for the long term. Those targets remain a 9 to 12% increase in worldwide gross bookings and revenue, apart from the impact on gross bookings of any material declines in airline pricing; steady, modest increases in non-air mix, both as a percent of revenue and as a percent of gross bookings; And lastly, an improvement in annual adjusted EBITDA margins increasing to the mid 20s over the next four to five years.

Thank you for joining us today. We will continue to update you on our progress throughout 2008.

Operator

Ladies and gentlemen, thank you for participating in this conference call. You may disconnect at this time.
