

# FINAL TRANSCRIPT

**Thomson StreetEvents<sup>SM</sup>**

## **OWW - Q2 2008 ORBITZ WORLDWIDE INC Earnings Conference Call**

**Event Date/Time: Aug. 06. 2008 / 12:00PM ET**

Aug. 06. 2008 / 12:00PM, OWW - Q2 2008 ORBITZ WORLDWIDE INC Earnings Conference Call

## CORPORATE PARTICIPANTS

**Shannon Burns**

*Orbitz Worldwide, Inc. - IR*

**Steve Barnhart**

*Orbitz Worldwide, Inc. - CEO, President*

**Marsha Williams**

*Orbitz Worldwide, Inc. - CFO, SVP*

## CONFERENCE CALL PARTICIPANTS

**Jennifer Watson**

*Goldman Sachs - Analyst*

**Doug Anmuth**

*Lehman Brothers - Analyst*

**George Askew**

*Stifel Nicolaus - Analyst*

**Brian Fitzgerald**

*Banc of America Securities - Analyst*

**Mark Mahaney**

*CitiGroup - Analyst*

**Vance Edelson**

*Morgan Stanley - Analyst*

**Paul Bard**

*Renaissance Capital - Analyst*

**Michael Millman**

*Soleil-Millman Research - Analyst*

## PRESENTATION

**Operator**

Good afternoon. My name is [Polly], and I will be your conference operator today. At this time, I would like to welcome everyone to the Orbitz Worldwide Second Quarter Earnings Conference Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. (OPERATOR INSTRUCTIONS). Thank you.

Ms. Burns, you may begin your conference.

---

**Shannon Burns - Orbitz Worldwide, Inc. - IR**

Thank you, Polly. Good morning, and thank you for joining us for the Orbitz Worldwide second quarter 2008 earnings call. I am 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, or retransmission of this conference call, or the webcast, without the express written consent of Orbitz Worldwide is strictly prohibited.

Aug. 06. 2008 / 12:00PM, OWW - Q2 2008 ORBITZ WORLDWIDE INC Earnings Conference Call

Second, we filed two press releases this morning, one relating to our second quarter results, and the other relating to the restatement of certain historical financial information. If you did not receive a copy our press release, they are available on our investor website at [orbitz-ir.com](http://orbitz-ir.com).

Additionally, this webcast will be archived on the site for a period of at least 30 days. An MP3 file of the call and a transcript will also be posted on our 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 21, 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 like to 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, again, is available on our website.

In order to give everyone an opportunity to ask a question during the Q&A, we request that you please limit yourself to one question and one follow-up question.

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*

Thank you Shannon. Good morning everyone, and thank you for joining us.

We had a solid quarter. International gross booking increased 41%. We reported adjusted EBITDA of \$37 million, and we delivered against the initiatives to accelerate U.S. growth which we had discussed in the last two earnings calls. However, before I go into the quarter, I will turn the call over to Marsha to briefly cover the items in the 8K that we filed this morning.

---

**Marsha Williams** - *Orbitz Worldwide, Inc. - CFO, SVP*

Thanks Steve. As you can see from the 8K we filed earlier this morning, we announced that we are restating certain prior period cash flow statements and balance sheets for two unrelated items. We are not restating our income statements or adjusted our EBITDA for any period.

The first correction relates to inter-Company interest we owe to Travelport at June 30, 2007. Approximately \$37 million of inter-Company interest payables were inadvertently included in both working capital changes and non-cash interest expense, therefore overstating cash flow from operations in the second quarter 2007 cash flow statement. In turn, this caused an overstatement in our advances to Travelport in the cash flow from financing section of the cash flow statement. This error was made at a time when we were in the process of segregating and settling all of our inter-Company accounts with Travelport. It was an extremely complicated settlement, with a lot of moving pieces, and we simply made an error in the geography of where that inter-Company payable was reported externally. This error had no impact on our net cash position, our income statement, or our balance sheet for the second quarter of 2007.

Aug. 06. 2008 / 12:00PM, OWW - Q2 2008 ORBITZ WORLDWIDE INC Earnings Conference Call

The correction of this inter-Company error impacts the cash flow statements for the six months ended June 30, the nine months ended September 30, and the full year 2007.

The other item that we're changing relates to how we classify credit card receipts in transit from our banks. When a customer books travel using a credit card on any of our websites, we generally receive the cash from the credit card issuing bank within two to three days of booking. In our U.S. businesses, these credit card receipts have always been classified as accounts receivable. Prior to the fourth quarter of 2007, our international businesses classified these receipts as cash because we receive the cash so quickly.

While we believe that both accounting methods are acceptable, companies need to be internally consistent in their treatment in the treatment of these items, and we were not consistent. As a result, we are reclassifying credit card receipts at our international businesses from cash to accounts receivable to assure global consistency. The table in the 8K shows the amount by year that we're reclassifying for the credit card receipts. This credit card reclassification impacts all periods included in our 12/31/2007 10K.

I hope that this gives you a little bit of clarity on the reasons we delayed our earnings release. We simply needed additional time to work through these changes internally and with our external accountants. I'll be happy to answer your questions at the end of the call, but now I'll turn the call back over to Steve to review our second quarter results.

---

**Steve Barnhart** - Orbitz Worldwide, Inc. - CEO, President

Thank you Marsha.

Accelerating growth in our U.S. business has been a key goal for 2008. When we announced our Q1 results in May, we referred to growth initiatives that we expected to drive increased growth in the second half of 2008. These initiatives were effective, and based on July results, we believe we are on track for higher growth in the third quarter than in Q2. Some of the initiatives we put in place to drive domestic growth just began to have an impact in Q3. We launched Price Assurance on orbitz.com in early June, but did not deploy our full marketing support behind it until July. MSN launched on July 1. Then in the fourth quarter, as we begin to lap the strong pullback in search marketing we started late in the third quarter of last year, we expect further improvement in year-over-year growth in the U.S.

As a result of these initiatives, our U.S. growth has recently improved in all product areas, with transactions for air, hotel, car, packaging, and destination services all showing strong growth in July than they did earlier in the year. With these initiatives now in the market, I am pleased on this call we can discuss the more fully with you, so I will do that first, and then discuss our results at ebookers and HotelClub. I will then give some perspective on how we see the economic environment and changes in airline capacity impacting our business over the next few quarters.

Finally, Marsha will review our financial results and then we will answer your questions.

We have moved aggressively to reaccelerate the growth of our domestic business. The key drivers of that again are a new marketing campaign for orbitz.com, which began in mid-May, new innovative functionality in Price Assurance that launched in mid-June with advertising support beginning in July, and our new partnership with MSN.com.

We told you on the last earnings call that we would be introducing new functionality that we believe will drive both increased traffic to orbitz.com, and also improve conversion. Customers have told us that one of the primary reasons they do not complete a transaction is their uncertainty whether they might get a better price if they wait. We have responded to this need with Price Assurance. It enables customers to book today, with the confidence that if a better price for the same itinerary is sold on Orbitz, they will get that lower price automatically. Our customers do not have to do anything to receive the refund. If they qualify, we

Aug. 06. 2008 / 12:00PM, OWW - Q2 2008 ORBITZ WORLDWIDE INC Earnings Conference Call

send them an email telling them that the price has dropped, and then we send them a check for the difference after they complete their trip.

Our consumer testing demonstrated that this is a very compelling value proposition for consumers, both for getting them to transact when on orbitz.com, and as a reason for them to switch where they book their travel to orbitz.com. As you know, even in a period of generally rising prices, ticket prices often fall as airlines manage their inventory on specific flights. A significant number of customers have already qualified for refunds since the Price Assurance program launched on June 6. This is consistent with our expectations. This indicates that the program will ramp to where we are mailing out thousands of checks each month to our customers. This is also consistent with our expectations.

Innovation also makes a new ad campaign more powerful. The new functionality that we present to consumers in the ads for Price Assurance and MyIdealBeach.com, combined with the new marketing campaign gives consumers both a strong new reminder about orbitz.com, and very specific reasons to listen to the ads and go visit the site. The campaign has been running on network and cable TV since mid-May, again with the ads on Price Assurance launching on July 7.

The innovation we are providing to consumers was also a key reason that orbitz.com won the opportunity to provide travel for MSN.com. With the ad value that we provide, we were able to reach an agreement that is essentially a revenue share providing immediate benefits to both revenue and profits for Orbitz Worldwide. As we noted in our last call, Orbitz had never had a major (inaudible), which then caused us to be more reliant than our competitors on paid search. The ability to win the MSN relationship both in the U.S. and in the UK, also shows our increasing ability to leverage our assets globally.

Our reliance on paid search in the U.S. has shrunk significantly. In July across orbitz.com and cheaptickets.com, we sourced 20% less of our transactions from paid search than we did a year ago. As we have intentionally pulled back on paid search and focused on ramping up our new initiatives, we are increasingly replacing volume from paid search.

However, this move away from paid search in the U.S. will continue to have a negative impact on our growth rate until we fully lap the change in the fourth quarter. At that time, we expect that our year-over-year growth in the U.S. will accelerate as that headwind is removed.

Another initiative that we expect will support our revenue growth for the balance of the year is further optimizing and extending how we monetize traffic on our site through advertising. Advertising revenue increased approximately 25% year-over-year in the first half of 2008. This growth is expected to accelerate in Q3 and Q4 as we add new advertising initiatives. The most notable of these is the introduction of paid search links on cheaptickets.com. We began testing this in mid-May, and thus have had no impact on our first half results.

We have always been careful not to introduce advertising that detracts from the main purpose of our transactional sites, delivering a quality booking experience to our customers, and that will not change. We are finding new ways to target relevant advertising to customers who are just browsing on our sites, but that does not materially impact the experience for those booking travel.

We have a portfolio of other advertising enhancements that we expect to make over the balance of 2008, and into 2009. As you prove out those enhancements, we will have the opportunity to roll them out to our worldwide site where they are relevant and appropriate.

Another launch in the second quarter was our new co-branded credit card with Capital One in early June. We believe that this no-hassle card, which offers triple points for bookings on our site, delivers real value for our customers.

Orbitz for Business also had another successful quarter, coming close to matching the record for selling new account volume that it achieved in the first quarter. Some significant new clients in the second quarter included Career Builder and Icon, and we renewed our relationships with some major clients such as Wendy's. Businesses clearly see travel as an area for potential

Aug. 06. 2008 / 12:00PM, OWW - Q2 2008 ORBITZ WORLDWIDE INC Earnings Conference Call

cost savings, and we are seeing existing clients manage travel more actively. A benefit for our corporate travel business is that, as companies focus on controlling travel costs, they are looking for exactly the type of cost savings easy to implement and use travel tools that are provided by Orbitz for Business. Traveling more efficiently is clearly a better solution for corporations that just eliminating trips, which is helping drive new client wins for Orbitz for Business.

We are pleased to have added Southwest Airlines to our list of air suppliers available on Orbitz for Business during the quarter, a significant step in adding value for our business customers.

I will now turn to our international businesses; ebookers continues to demonstrate very strong growth with gross bookings up 50% in Q2, or 35% excluding foreign currency fluctuations. We have shown the ability to sustain strong growth at ebookers, with gross bookings up an average of 43% over the past four quarters, 32% excluding foreign currency fluctuations. The largest portion of this growth continues to come from Continental European markets.

As we have communicated since we went public last July, migration to the new global platform remains our top priority at ebookers. We can reaffirm again today that we remain on schedule to complete the migration of all of our ebooker sites through the new global platform by the end of 2008. In June, we launched the site in Belgium, and the sites in the Netherlands and Austria migrated to the global platform in July. At this point, most of the major technology work on the new platform is finished. The basic functionality was complete with the UK launch last summer, and functionality supporting multiple currencies was complete with the Ireland [blodge] last November. Belgium was our first site with multiple languages. There remain sole specific pieces of functionality we will add as we move forward, but the largest technology development efforts required for rolling out the platform across Europe are complete, which is why you can expect to see the pace of country migrations accelerating.

We will continue to migrate country by country, as there remain specific efforts in each country to revise work processes, including customer service, accounting, and revenue management in order to fully leverage the new platform in each country. As you migrate sites onto the global platform, we are able to offer customers greater selection, more than three times the hotel choices than we previously offered, as well as better functionality and better service, better packaging capability, combined with the more extensive hotel selection has driven considerably greater packaging volume. And with the increased automation provided by the global platform, we are realizing the operational efficiencies that we expected.

We have seen these benefits in each of the countries that have migrated to the global platform, clearly in the UK, Ireland, and Belgium, and we have every indication that we will see the same benefits in Austria and the Netherlands once they have been on the platform long enough to evaluate. We believe that these benefits from the global platform will support strong growth at ebookers over the balance of 2008, and through much of 2009.

Shifting to HotelClub, we continue to build our team of hotel market managers in the second quarter. The international team has grown nearly 30% since the end of 2007, and almost 125% since the start of 2007. This is the team that goes out to develop new hotel sources and manage existing relationships. By the end of the second quarter, HotelClub was selling close to 60% of its volume through direct relationships, up from 20% at the beginning of 2007. Direct relationships allow us to better service and market hotels, and enable us to improve the breadth of hotel choices on our site.

We are continuing to improve connectivity to our hotel partners by consolidating and globalizing our merchant hotel extra-net, and by providing tools that enable independent hotels to work more easily with us.

While we are making the investments we believe are required to continue building the HotelClub business, we started to see a slowdown in the international hotel business in the second quarter that has continued into the third quarter. We have seen some softening in growth and demand, and heightened competitive activity, both of which we believe have contributed to slowing growth at HotelClub. It is also clear that we are underperforming the growth rates of our largest competitors. We are not satisfied with this performance, and it clearly is not consistent with our goal of expanding our share of the international hotel-only marketplace. We are reviewing all of our marketing tactics and operations to enhance performance.

Aug. 06. 2008 / 12:00PM, OWW - Q2 2008 ORBITZ WORLDWIDE INC Earnings Conference Call

However, we also recognize that we have been ramping up investment in the business only over the past 18 months, and that we have a ways to go before we match the level of market managers, direct hotel relationships, and connectivity currently in place at many of our major competitors. And given that, we would not find it surprising if HotelClub was impacted more quickly and more significantly by a change in demand. We plan to continue to make appropriate investments in this business, and we expect those investments will enable us to reaccelerate growth over time.

With these Q2 results, we continue to make progress on our three strategic initiatives, which are; 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 will now share some brief thoughts about the current travel industry environment, and how that relates to Orbitz Worldwide. Clearly, the airline industry, particularly in the domestic U.S. air market, is going through a challenging time. Many carriers are making changes to their business models with unprecedented frequency in scope, and that combined with slow economic growth is creating uncertainty.

In terms of how this might impact Orbitz, it is important to start with the fact that our domestic U.S. leisure air travel accounts for a relatively modest part of our net revenue. In the most recent quarter, the U.S. domestic market for air-only leisure travel contributed only 21% of Orbitz total net revenue, and that percentage has been dropping as we deliver on our goal of shifting more of our mix to non-air. In the first quarter of 2007, that percentage was 25%. We expect that this shift will continue as we deliver on our initiatives, thus for evaluating the impact on Orbitz of changes in the U.S. airline industry, the key starting point is at only 21% of Orbitz Worldwide net revenue currently comes from booking tickets flying U.S. leisure passengers to U.S. destinations.

As for the changes the domestic air carriers are putting in place there is no question there will be fewer seats in the air after Labor Day. We are already seeing consumers travel differently in response to announced capacity reductions, and the higher ticket prices that are anticipated. But at this point, it is so difficult to project the impacts of the result either on air bookings or any carryover to the hotel and car bookings. Our view assumes a continuation of the economic conditions and competitive conditions in place at the beginning of July, and incorporates our estimate of the impact of the capacity reductions that had been announced as of early July. Based on those market conditions, we expect that we will still accelerate growth in the U.S. in Q3 and Q4 by delivering on our initiatives, and that we should return to our long-term top-line growth target range of 9% to 12% growth in gross bookings and net revenue in Q4.

I'll now turn it over to Marsha for some detail about second quarter financial results.

---

**Marsha Williams** - Orbitz Worldwide, Inc. - CFO, SVP

Thanks Steve. For the second quarter, we are pleased to report adjusted EBITDA of \$37 million, which is an increase of 9% over last year's level and a sharp improvement over first quarter of 2007.

Our gross bookings grew 4% this quarter as compared to the second quarter of 2007. Again, this growth is an improvement as compared to the flat year-over-year bookings we announced in the first quarter. Our international gross bookings growth was strong again this quarter, up 41% over the second quarter of last year. This increase was led by ebookers which posted an increase in gross bookings of 50% as compared to the second quarter last year.

Our international non-air and other businesses posted healthy increases in bookings of 26% compared to the second quarter of 2007. These gross booking comparisons exclude the impact of Travelbag, the offline UK travel business we sold in July 2007. As you may recall, we also report adjusted net revenue in order to ensure an apples-to-apples comparison across quarters that

Aug. 06. 2008 / 12:00PM, OWW - Q2 2008 ORBITZ WORLDWIDE INC Earnings Conference Call

have been impacted by both purchase accounting and sale of Travelbag. I'm happy to report that this is the last quarter that is affected by these items. There is a schedule on our website that lays out the historical impact of these adjustments.

We have also posted information on our website that highlights the impact of foreign exchange fluctuation on net revenue. Adjusted net revenue increased 4% in the second quarter of 2008 compared to the same period of last year. Growth in international adjusted revenue was 39% in the second quarter, accelerating from 28% in the first quarter. After adjusting for foreign currency fluctuations, international adjusted net revenue increased 20% in the quarter, again an acceleration from 16% in the first quarter.

Domestic adjusted net revenue was \$178 million, 4% lower than adjusted net revenue for the 2007 second quarter. As we have mentioned, our domestic air business was soft in the second quarter, in part due to our cutbacks late last year in new marketing spend. We posted a 4% increase in non-air and other revenue, primarily due to increases in advertising and insurance revenue, which helped offset the decline in air net revenue.

Globally, net revenue for our air business was soft. Our international air net revenue was basically flat, and did not offset the softness in our domestic air revenues when comparing the second quarter of this year with the second quarter of 2007. However, global net revenue for our non-air and other products, which consists primarily of hotel, car, dynamic packages, advertising and insurance, increased double digits in the quarter as compared to last year. Our hotel business improved globally, and advertising and insurance net revenue also strengthened.

Turning to the rest of the income statement, our cost to revenue was higher this quarter than it was a year ago. This is primarily because we grew our white label business, and therefore increased the commissions and pay to our white label period. This increase reflects our ongoing efforts to change the mix of our business toward more non-air. We also experienced a higher level of GDS connectivity cost as a result of volume increases internationally.

Our cost to revenue also increased early in the quarter by a higher level of credit card chargebacks at one of our international locations. As a result of the new security steps that we installed late in the first quarter, chargebacks declined sharply toward the end of the second quarter. We believe chargebacks will return to their historically low levels, and we saw evidence of this decline in July.

Going forward, we expect our cost of revenue as a percentage of net revenue to be in the 16% to 18% range on an annual basis -- excuse me -- to be in the 16% to 19% range on an annual basis rather than the general range of 16% to 18% that we have cited in the past.

SG&A expense declined 21% from the second quarter of 2007. As you may recall, we had higher than normal expenses in the second quarter of last year. We terminated a marketing contract early, which caused us to recognize an up-front contract cancellation charge of \$13 million in the second quarter of last year. We also incurred \$5 million in IPO related audit and consulting fees in the second quarter of last year. We had neither of those expenses in the second quarter of 2008, which explains the year-over-year decline. This decline was offset by a slight increase in wages and benefits, due primarily to higher staffing levels in both our hotel sourcing teams and within certain public company functions.

Marketing expense declined \$4 million, or 5% in the second quarter. Our domestic offline marketing expense declined because we launched our major ad campaign later this year, and because we shifted more advertising spend into the third quarter in order to fully support the launch of Price Assurance.

Domestically, our online marketing expense decreased in line with our declining transactions, and the reduction in the share of traffic we derived from paid search. Internationally, our online marketing expenses increased as we continue to drive growth in these businesses.

Aug. 06. 2008 / 12:00PM, OWW - Q2 2008 ORBITZ WORLDWIDE INC Earnings Conference Call

By the second quarter of 2008, as I mentioned, the adjusted EBITDA was \$37 million. Our only adjustment in the second quarter related to stock compensation expense, and that was \$5 million. We have provided a schedule in our press release that reconciles our net loss to EBITDA and adjusted EBITDA.

Net interest expense in the second quarter was \$15 million. Interest expense includes cash interest of \$11 million, primarily on our \$600 term loan, and non-cash interest of approximately \$4 million, primarily due to interest that accretes on our tax-sharing liability to the airlines.

In the second quarter, we took advantage of the dip in the interest rate and entered into an additional interest rate swap. Our new swap fixes \$100 million of our term loan at 6.39% for three years. As a result, we now have \$400 million of our total \$600 million term loan on a fixed rate basis. With the new swap in place, the weighted average rate on this term loan was 7.1% at June 30.

Turning to the balance sheet, I'd like to highlight a couple of points. At the end of the second quarter, we had a cash balance of \$99 million and no borrowings on our revolver. Because of the seasonal pattern of our business, the first half of the year is when we build our cash position, and then it declines through the balance of the year. Our current cash balance is approximately \$130 million.

Our merchant payables follow the same seasonal pattern as our cash balance. Merchant payables grew 46% in the first half of the year, as compared to our year-end balance, and we're relatively flat in the second quarter compared to the level at the end of the first quarter. Our cash in merchant hotel payables grow in the first half of the year as customers book their vacation travel, and then decline in the third and fourth quarters as customers complete their travel and hotels bill us.

Finally, our capital expenditures in the second quarter were \$14 million, which is up approximately \$2 million from our capital spending in the second quarter of last year.

Before I close, I would like to address one question that has come up a number of times in the past few months about Blackstone's ownership of our share. Blackstone and its affiliates control approximately 59% of our shares at the time of our IPO. Currently, that group exercises control over approximately 55% of our outstanding shares. The decrease resulted from the pro rata distribution of our shares by TravelPort's ultimate parent company, a limited partnership controlled by Blackstone to that partnership's limited partners, some of which are non-Blackstone related entities. It is not the result of a share -- it is on the result of a sale of any of our shares on the open market.

And now we'd be happy to take your questions.

---

## QUESTIONS AND ANSWERS

### Operator

(OPERATOR INSTRUCTIONS).

Jennifer Watson, Goldman Sachs.

---

**Jennifer Watson** - *Goldman Sachs - Analyst*

Can you discuss a little bit why you think it's pertinent to just look at the leisure air bookings as a percentage of your total revenue as opposed to incorporating corporate travel as well? And if you did include corporate travel, I assume that number is substantially higher?

Aug. 06. 2008 / 12:00PM, OWW - Q2 2008 ORBITZ WORLDWIDE INC Earnings Conference Call

**Steve Barnhart** - Orbitz Worldwide, Inc. - CEO, President

Sure Jennifer, we think the dynamics will play out differently across the two groups. As we look at our business class tickets, they are going up more slowly, much more slowly than the leisure prices. The airlines are eliminating the very low price bands, and so the price increases we're seeing are having a much more disproportionate impact on the much lower-priced leisure tickets. And that's why we look at it that way. We've not disclosed a percentage of our mix; that is, in our corporate business, I think we'd be able to make the same point, however, even if we included our corporate business in that number.

**Jennifer Watson** - Goldman Sachs - Analyst

Okay thank you.

**Operator**

Doug Anmuth, Lehman Brothers.

**Doug Anmuth** - Lehman Brothers - Analyst

My questions, first one Marsha, did you give an overall free cash flow number? And can you also just comment on whether you've seen any changes in timing from hotel suppliers in terms of when they want their payments in the current environment in the merchant business? And then also can you comment on the advertising and insurance revenue and perhaps try to break that out of the overall non-air and give us a sense of how big that is? Thank you.

**Marsha Williams** - Orbitz Worldwide, Inc. - CFO, SVP

Sure, the first question, which is cash flow, we will be filing our 10Q probably some time later this week. We can say that our cash flow from operating activities in the quarter was in excess of \$100 million, but we haven't filed that Q yet.

Your second question related to the percentage of insurance in advertising. We actually don't break that out individually. I can tell you of our non-air and other, those are the two largest components.

**Doug Anmuth** - Lehman Brothers - Analyst

And any comment on the timing with payments to hotel suppliers?

**Marsha Williams** - Orbitz Worldwide, Inc. - CFO, SVP

Oh sorry, the timing on payments to hotel suppliers, we have not really seen any meaningful change in that throughout this year. So I would say that has not, we just haven't seen any accelerated timing in that element.

**Doug Anmuth** - Lehman Brothers - Analyst

Okay thank you.

Aug. 06. 2008 / 12:00PM, OWW - Q2 2008 ORBITZ WORLDWIDE INC Earnings Conference Call

**Operator**

George Askew, Stifel Nicolaus. And Mr. Askew, your line is open. That question was withdrawn.

Brian Fitzgerald, Banc of America Securities.

**Brian Fitzgerald** - *Banc of America Securities - Analyst*

Great thanks guys, a couple of questions. In terms of with respect to your SEO optimization work, both in the U.S. and Europe, can you give a sense for how far down the path you are? In the past, we've heard vertical companies, even such WebMD and CNET embark on their SEO work, many quarters, two years down the road, they're seeing 50% to 60% growth in natural traffic. And so I wanted to get a sense for how far into the process you are and how far you have to go. Thanks.

**Steve Barnhart** - *Orbitz Worldwide, Inc. - CEO, President*

Sure Brian. I think what we can say on that front is where we've rolled our new platform out in Europe, we are seeing good improvement in traffic from SEO. I don't think we're going to give you any specific growth rate numbers at this point, but we are seeing good benefits from SEO, from the new platform as well as we are seeing good benefits from [conception] issues we're pursuing in the U.S.

**Brian Fitzgerald** - *Banc of America Securities - Analyst*

Okay thanks.

**Operator**

Mark Mahaney, CitiGroup.

**Mark Mahaney** - *CitiGroup - Analyst*

Thank you. Wanted to ask a little bit about the recessionary impact on access to inventory and to whether you're seeing in some cases in the U.S. market greater access to hotel inventory because of reduced occupancy rates.

And then internationally in Europe, could you comment on the degree to which you're seeing increase in cancellations in reservations short of bookings, window periods starting now, and changes in ADRs or hotel room prices. Thank you.

**Steve Barnhart** - *Orbitz Worldwide, Inc. - CEO, President*

Sure Mark. As far access to inventory, when you look at the U.S. business, we review that really as a retail (inaudible). We have good access to inventory. What we're seeing change in the current dynamic is hoteliers being more interested in working to move that inventory, so I wouldn't say that we're getting access to more rooms necessarily, but we're getting additional support from additional partnerships in working to market those rooms.

As far as cancellations in Europe, I mean that's typically more of a factor for somebody that's in a retail model where there's no cost to cancellations, where you tend to see those rates move around more. That's not a number we see move as much in our merchant business. I don't have a specific comment for you on that other than it's not something that's popped up as moving as the way you might have seen it move in a retail model.

Aug. 06. 2008 / 12:00PM, OWW - Q2 2008 ORBITZ WORLDWIDE INC Earnings Conference Call

In the U.S., we have clearly seen changes where consumers both on the air side and the hotel side are booking earlier. Air bookings as a percentage of mix, less than 30 days, are down as a percentage of mix; greater than 60 days are up as a percentage of mix. On the hotel side less than 7 days down as a percentage of booking; greater than 14 days are up as a percentage of booking.

So we do see consumers adjusting to the higher ticket prices and trying to book earlier.

---

**Mark Mahaney** - CitiGroup - Analyst

Thank you Steve.

---

**Operator**

Vance Edelson, Morgan Stanley.

---

**Vance Edelson** - Morgan Stanley - Analyst

Thanks a lot. Could you give us a feel for the magnitude of the shift in offline marketing expense in the second quarter to the third quarter, and then as a follow-up, with the \$2 million increase in CapEx both year-over-year and sequentially I think. I'm just trying to get a feel for how that might trend from here, and if you could provide a rough breakout of the largest spending initiatives there. Thanks.

---

**Steve Barnhart** - Orbitz Worldwide, Inc. - CEO, President

I don't think we're going to specifically talk about the dollars in the movement of our offline marketing, but it clearly was a shift of money as we wanted to put more weight behind the early July launch of the ads behind the Price Assurance products.

As far as CapEx, Marsha if you want to detail that.

---

**Marsha Williams** - Orbitz Worldwide, Inc. - CFO, SVP

Sure, we have said that we anticipate spending probably between \$55 million and \$65 million a year in CapEx, and I think that's still a good number to use. We have a number of initiatives that are underway. As Steve said, the majority of the spend for the new platform is, was incurred in prior years, but we do have people working on, continuing to work on the platform and to the extent that they are building out perhaps some additional functionality that will get used on that new platform, we do capitalize that.

We're also, for example, we would look at the functionality that we built out to support Price Assurance, and as we develop new products, clearly the time of our software developers that goes into developing those new products would be included in our capital expenditure number.

So we never have, we never seem to have a lack of new projects for our software developers to work on that we think will continue to grow and support our business. But the annual guidance that we've given is about \$55 million to \$65 million, and total CapEx is still a good number.

Aug. 06. 2008 / 12:00PM, OWW - Q2 2008 ORBITZ WORLDWIDE INC Earnings Conference Call

**Vance Edelson** - Morgan Stanley - Analyst

Okay, I appreciate it.

**Operator**

George Askew.

**George Askew** - Stifel Nicolaus - Analyst

Hello?

**Steve Barnhart** - Orbitz Worldwide, Inc. - CEO, President

Yes George, go ahead.

**George Askew** - Stifel Nicolaus - Analyst

Super, sorry about before. Regarding ebookers, can you give us a sense of the profit improvements that you're seeing from the platform upgrades, for example, looking at some of the earliest upgraded countries, such as the UK and Ireland. Are you seeing adjusted EBITDA margins, for example, at or above the Company average following the upgrades?

**Steve Barnhart** - Orbitz Worldwide, Inc. - CEO, President

I think the best way to describe it George is we have the ebookers business is one where it's actually always had reasonably good gross margins. What it's had is a lack of leverage over a cost structure. It was simply too large because of a lack of consolidation. So the platform has given us chance for improvements in a few areas within our mix, really expanding the hotel portion and the packaging portion of that mix.

So again, although the gross margins across our products were healthy before, and the overall mix has now improved because we're providing even more hotels and packages, while sustaining strong air growth. So we are getting improvement to gross margin line via mix shift.

We're also getting some improvement to gross margin lines because cost which is above the line, we are seeing real productivity in our customer service cost. We talked last quarter about the fact that even with an increase in transactions, we are seeing declines in our customer service costs. So we are seeing good leverage at that level.

The other area where we are seeing leverage is in the countries where we've migrated, we are getting efficiencies in our operating expenses, and the ability to get leverage at that level will improve once the platform is fully rolled out, and we have the ability to optimize some of the work processes across all of the countries in Europe.

So again, we're seeing mix improvements and customer service improvements that are improving what we already saw in gross margin, and we are getting improvements in our operating cost structure as well.

**George Askew** - Stifel Nicolaus - Analyst

Thank you.

Aug. 06. 2008 / 12:00PM, OWW - Q2 2008 ORBITZ WORLDWIDE INC Earnings Conference Call

**Operator**

(OPERATOR INSTRUCTIONS).

And there are no further question in queue at this time. I will turn the -- excuse me, you do have a question from the line of Paul Bard.

**Paul Bard** - Renaissance Capital - Analyst

From Renaissance Capital. Marsha, I had a question on the long-term model that you guys have laid out, and I know you've said a few times you're looking at four to five years getting EBITDA margins up in the 20s. And I'm looking at where your peers are in terms of their level of profitability, and I guess I'm just wondering two things; one would be at what level of sales, when you guys look at it, what level of sales would you require to get margins above the 20% mark the way you guys look at it? I guess that would be my first question.

**Marsha Williams** - Orbitz Worldwide, Inc. - CFO, SVP

We haven't actually laid out any more specific guidance than the fact that we expect that we can get to that margin level. And as Steve said, we, one of the things that has caused us from not attaining that really has been that we simply need to build more scale in our European businesses. So that as we grow, our European business and grow the revenues in Europe, that will take us a good a good portion of the way toward attaining the margins that we want.

So we are, our U.S. business continues to provide us with very attractive margins, but really getting the ebookers revenue line to a stronger and higher price is what will significantly help us attain that goal.

**Paul Bard** - Renaissance Capital - Analyst

Okay, so in looking at the operating statement, then is it fair to assume that realizing you might get some benefit over time on the gross margin line, but really it's on the marketing level? I mean, what percentage of your cost would you consider fixed at this point, and what pieces is variable I guess in looking at your model?

**Steve Barnhart** - Orbitz Worldwide, Inc. - CEO, President

Yes Paul, if you look at our operating structure, it's really in the technology, the larger segments of our business that are more fixed in nature are the investments in technology where we can expand our revenues and handle more transactions without making any materially larger investment in either our technology development or our technology operation. So that part of our business is very scaleable, as is a lot of our financial HR, and legal infrastructure. Again, very leveragable in those areas.

Our brand marketing in the U.S. is leveragable but we do tend to scale that as we grow the business. And then our online marketing will tend to scale with the business. So I wouldn't look at your modeling to get significant leverage off of marketing. I would look to leverage operating costs and we continue to, although we continue to invest in improving service, we do also continue to get improvements in our cost of goods leverage as we enhance our customer service operations and we have moved from essentially handling things at a single brand level to multiple brands, and essentially globally. So that is giving us additional leverage at the cost of goods level.

Aug. 06. 2008 / 12:00PM, OWW - Q2 2008 ORBITZ WORLDWIDE INC Earnings Conference Call

**Paul Bard** - Renaissance Capital - Analyst

That's helpful, and just one quick follow-up if I may. It looks like the business, and realizing that you're kind of managing through some weakness on the top line, but in general, the business should be able to generate some pretty significant free cash flow, well in excess of what you're needing to pay down debt. And thinking that if you do get scale, if CapEx kind of stays where it's been over the next couple of years, it looks like, at least from my understanding, you'll be able to generate say \$50 million to \$60 million in free cash flow a year. Do you have any plans, I mean are you looking, do you have any requirements of paying down part of that term loan? I mean, what exactly what are you looking to do with that cash flow?

**Marsha Williams** - Orbitz Worldwide, Inc. - CFO, SVP

Well, this is Marsha. We do, in fact, have in our loan agreement, we have a cash flow recapture [test] that says that we are required at the, shortly after we filed the 10K for the prior year, we are required to pay down to the banks basically 50% of our net free cash flow. So we do have plans, and our obligations to reduce our term loan.

Short of that, we've got a fair amount of flexibility to what we can do with the excess cash that we generate, and we do look at a variety of alternatives for usage for that cash. Our corporate development gentleman, Frank Petito, is always out in the market looking for interesting acquisitions. We've got a variety of things we could do with that cash. Obviously, we don't have anything in today or we would announce it. But we do definitely have a variety of ways we could use that excess cash flow.

**Paul Bard** - Renaissance Capital - Analyst

Great thank you.

**Operator**

(OPERATOR INSTRUCTIONS).

Michael Millman, Soleil-Millman Research.

**Michael Millman** - Soleil-Millman Research - Analyst

Hoping you can hear me this time.

**Steve Barnhart** - Orbitz Worldwide, Inc. - CEO, President

Yes Michael, we can hear you.

**Michael Millman** - Soleil-Millman Research - Analyst

The, just one question. I wanted to clarify I think your comment was that the advertising insurance make up the bulk of the non-air and other. Was that, did I hear that correctly ?

**Marsha Williams** - Orbitz Worldwide, Inc. - CFO, SVP

They make up the bulk of the other part of the non-air and other. Clearly, hotel is in that as well, so if you look at the other section of non-air and other, and I'm not sure we break that out, but that's really what I was referring to.

Aug. 06. 2008 / 12:00PM, OWW - Q2 2008 ORBITZ WORLDWIDE INC Earnings Conference Call

**Michael Millman** - *Soleil-Millman Research - Analyst*

Okay, well that makes more sense, and going on, could you talk about or give us some color as to why we continue to see the year-over-year declines in the revenue margins on international?

**Steve Barnhart** - *Orbitz Worldwide, Inc. - CEO, President*

If you look at the UK -- or not the UK -- I should say the European air business, unlike the U.S. where we have largely fixed revenue per transaction, it is not at a fixed revenue per transaction basis in Europe, and as that market is developing between the shifts between the low-cost carriers and the full-service carriers, and the way the carriers are positioning or including costs in terms of what are taxes, what are surcharges or fees, we are seeing some downward pressure on the revenue per transaction there.

But I think that would be the largest factor as you're looking at that. So, but none of that is, you're seeing things like fuel surcharges and taxes that are really pushing up what is reported as gross bookings in those markets, but you're not getting any associated increase in revenue from that.

**Michael Millman** - *Soleil-Millman Research - Analyst*

Is it fair to say that the actual payment is fixed?

**Steve Barnhart** - *Orbitz Worldwide, Inc. - CEO, President*

No, the actual payments are not fixed. In the U.S. they're largely fixed, in our international operations, they are more often, but not always calculated as a percentage of ticket price, but the ticket price generally excludes surcharges and taxes so that those don't come into our revenue calculations.

**Michael Millman** - *Soleil-Millman Research - Analyst*

And can you give us the number of U.S. and international transactions?

**Steve Barnhart** - *Orbitz Worldwide, Inc. - CEO, President*

No we haven't reported that detail Michael, and we're not going to jump into that today.

**Michael Millman** - *Soleil-Millman Research - Analyst*

Thank you.

**Operator**

There are no further question in queue at this time. Mr. Barnhart, are there any closing comments?

**Steve Barnhart** - *Orbitz Worldwide, Inc. - CEO, President*

I just want to reiterate that we are pleased with the results we've seen to date from our initiatives to reaccelerate our new domestic growth, including Price Assurance, our new ad campaign, and our agreement with MSN. We are also pleased with

Aug. 06. 2008 / 12:00PM, OWW - Q2 2008 ORBITZ WORLDWIDE INC Earnings Conference Call

our efforts to increase advertising revenue. All of these should have a positive impact on growth over the second half of the year.

We are confident that we will roll out the new global platform to all of our ebooker sites by the end of the year. We see it as helping to drive growth at ebookers. And again, based on these expected initiatives, we do believe we will accelerate growth in Q3 and Q4, returning to our long-term growth target range of 9% to 12%, grow within revenue and gross bookings in the fourth quarter.

As I mentioned earlier, this is if you assume economic competitive conditions and capacity reductions similar to what we had visibility into at the beginning of July. At the same time, we will continue to make progress on our three key long-term initiatives, which are 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 a target of an adjusted EBITDA margin in the mid-20s in four to five years.

And I look forward to reporting back to you on our progress in three months.

---

**Shannon Burns** - *Orbitz Worldwide, Inc. - IR*

Thank you.

---

**Operator**

Thank you. This concludes today's Orbitz Worldwide second quarter earnings conference call. You may now disconnect.

---

**DISCLAIMER**

Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2008, Thomson Financial. All Rights Reserved.