

Expedia, Inc.  
Form 10-Q  
July 29, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 10-Q**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2011

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from            to

Commission File Number: 000-51447

**EXPEDIA, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**20-2705720**  
(I.R.S. Employer  
Identification No.)

**333 108<sup>th</sup> Avenue NE**  
**Bellevue, WA 98004**

(Address of principal executive office) (Zip Code)

**(425) 679-7200**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding of each of the registrant's classes of common stock as of July 15, 2011 was:

|   |                    |
|---|--------------------|
| Common stock, \$0.001 par value per share         | 248,655,671 shares |
| Class B common stock, \$0.001 par value per share | 25,599,998 shares  |

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**Expedia, Inc.**

**Form 10-Q**

**For the Quarter Ended June 30, 2011**

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(In thousands, except for per share data)

(Unaudited)

|   | Three months ended |                   | Six months ended  |                   |
|---|--------------------|-------------------|-------------------|-------------------|
|   | June 30,           |                   | June 30,          |                   |
|   | 2011               | 2010              | 2011              | 2010              |
| Revenue   | \$ 1,023,634       | \$ 833,960        | \$ 1,845,811      | \$ 1,551,879      |
| Costs and expenses:   |                    |                   |                   |                   |
| Cost of revenue (1)   | 198,544            | 168,571           | 376,386           | 326,601           |
| Selling and marketing (1)   | 393,969            | 296,830           | 735,127           | 577,668           |
| Technology and content (1)  | 110,161            | 87,420            | 213,345           | 174,211           |
| General and administrative (1)  | 84,837             | 79,105            | 167,538           | 150,163           |
| Amortization of intangible assets   | 7,046              | 8,344             | 14,997            | 17,372            |
| Spin-off costs  | 2,108              |                   | 2,108             |                   |
| Legal reserves and occupancy tax assessments  |                    |                   | 1,100             |                   |
| Operating income  | 226,969            | 193,690           | 335,210           | 305,864           |
| Other income (expense):   |                    |                   |                   |                   |
| Interest income   | 5,536              | 1,221             | 8,962             | 1,816             |
| Interest expense  | (31,218)           | (20,209)          | (62,483)          | (41,412)          |
| Other, net  | (4,947)            | 817               | (11,164)          | 1,385             |
| Total other expense, net  | (30,629)           | (18,171)          | (64,685)          | (38,211)          |
| Income before income taxes  | 196,340            | 175,519           | 270,525           | 267,653           |
| Provision for income taxes  | (55,450)           | (60,166)          | (77,426)          | (91,701)          |
| Net income  | 140,890            | 115,353           | 193,099           | 175,952           |
| Net income attributable to noncontrolling interests                                       | (497)              | (1,091)           | (667)             | (2,295)           |
| <b>Net income attributable to Expedia, Inc.</b>   | <b>\$ 140,393</b>  | <b>\$ 114,262</b> | <b>\$ 192,432</b> | <b>\$ 173,657</b> |
| <b>Earnings per share attributable to Expedia, Inc. available to common stockholders:</b> |                    |                   |                   |                   |
| Basic   | \$ 0.51            | \$ 0.40           | \$ 0.70           | \$ 0.61           |
| Diluted   | 0.50               | 0.40              | 0.69              | 0.60              |
| <b>Shares used in computing earnings per share:</b>                                       |                    |                   |                   |                   |
| Basic   | 273,592            | 284,088           | 273,725           | 286,333           |
| Diluted   | 278,106            | 288,975           | 278,136           | 291,726           |
| Dividends declared per common share   | \$ 0.07            | \$ 0.07           | \$ 0.14           | \$ 0.14           |

(1) Includes stock-based compensation as follows:

|                 |        |        |          |          |
|-----------------|--------|--------|----------|----------|
| Cost of revenue | \$ 581 | \$ 487 | \$ 1,391 | \$ 1,276 |
|-----------------|--------|--------|----------|----------|

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|                                |           |           |           |           |
|--------------------------------|-----------|-----------|-----------|-----------|
| Selling and marketing          | 2,868     | 3,118     | 7,182     | 7,435     |
| Technology and content         | 3,329     | 3,249     | 8,080     | 7,630     |
| General and administrative     | 6,703     | 7,797     | 14,100    | 17,202    |
| Total stock-based compensation | \$ 13,481 | \$ 14,651 | \$ 30,753 | \$ 33,543 |

*See accompanying notes.*

**Table of Contents****EXPEDIA, INC.****CONSOLIDATED BALANCE SHEETS**

(In thousands, except per share data)

|  | June 30,<br>2011<br>(Unaudited) | December 31,<br>2010 |
|--|---------------------------------|----------------------|
| <b>ASSETS</b>  |                                 |                      |
| Current assets:  |                                 |                      |
| Cash and cash equivalents                                      | \$ 1,409,008                    | \$ 714,332           |
| Restricted cash and cash equivalents                           | 21,794                          | 14,215               |
| Short-term investments   | 881,602                         | 515,627              |
| Accounts receivable, net of allowance of \$15,378 and \$12,114 | 469,488                         | 328,468              |
| Prepaid expenses and other current assets                      | 172,108                         | 128,985              |
| <b>Total current assets</b>                                    | <b>2,954,000</b>                | <b>1,701,627</b>     |
| Property and equipment, net                                    | 317,987                         | 277,061              |
| Long-term investments and other assets                         | 301,270                         | 232,239              |
| Intangible assets, net   | 793,482                         | 797,707              |
| Goodwill   | 3,678,538                       | 3,642,360            |
| <b>TOTAL ASSETS</b>  | <b>\$ 8,045,277</b>             | <b>\$ 6,650,994</b>  |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                     |                                 |                      |
| Current liabilities:   |                                 |                      |
| Accounts payable, merchant                                     | \$ 923,184                      | \$ 700,730           |
| Accounts payable, other  | 216,460                         | 181,765              |
| Deferred merchant bookings                                     | 1,465,429                       | 654,632              |
| Deferred revenue   | 36,194                          | 29,466               |
| Accrued expenses and other current liabilities                 | 356,852                         | 322,827              |
| <b>Total current liabilities</b>                               | <b>2,998,119</b>                | <b>1,889,420</b>     |
| Long-term debt   | 1,645,237                       | 1,644,894            |
| Deferred income taxes, net                                     | 265,717                         | 248,461              |
| Other long-term liabilities                                    | 122,356                         | 131,516              |
| Commitments and contingencies                                  |                                 |                      |
| Stockholders equity:   |                                 |                      |
| Preferred stock \$.001 par value                               |                                 |                      |
| Authorized shares: 100,000                                     |                                 |                      |
| Series A shares issued and outstanding: 1 and 1                |                                 |                      |
| Common stock \$.001 par value                                  | 351                             | 348                  |
| Authorized shares: 1,600,000                                   |                                 |                      |
| Shares issued: 350,967 and 348,416                             |                                 |                      |
| Shares outstanding: 248,490 and 248,347                        |                                 |                      |
| Class B common stock \$.001 par value                          | 26                              | 26                   |
| Authorized shares: 400,000                                     |                                 |                      |
| Shares issued and outstanding: 25,600 and 25,600               |                                 |                      |
| Additional paid-in capital                                     | 6,149,609                       | 6,116,697            |
| Treasury stock - Common stock, at cost                         | (2,290,418)                     | (2,241,191)          |
| Shares: 102,477 and 100,069                                    |                                 |                      |

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|   |                     |                     |
|---|---------------------|---------------------|
| Retained earnings (deficit)                       | (1,002,101)         | (1,194,533)         |
| Accumulated other comprehensive income (loss)     | 22,608              | (8,803)             |
| Total Expedia, Inc. stockholders' equity          | 2,880,075           | 2,672,544           |
| Noncontrolling interest                           | 133,773             | 64,159              |
| Total stockholders' equity                        | 3,013,848           | 2,736,703           |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b> | <b>\$ 8,045,277</b> | <b>\$ 6,650,994</b> |

*See accompanying notes.*

**Table of Contents****EXPEDIA, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

(Unaudited)

|   | Six months ended June 30, |                  |
|---|---------------------------|------------------|
|   | 2011                      | 2010             |
| <b>Operating activities:</b>  |                           |                  |
| Net income  | \$ 193,099                | \$ 175,952       |
| Adjustments to reconcile net income to net cash provided by operating activities:               |                           |                  |
| Depreciation of property and equipment, including internal-use software and website development | 69,452                    | 55,930           |
| Amortization of stock-based compensation  | 30,753                    | 33,543           |
| Amortization of intangible assets   | 14,997                    | 17,372           |
| Deferred income taxes   | 13,138                    | 3,344            |
| Foreign exchange (gain) loss on cash, cash equivalents and short-term investments, net          | (27,075)                  | 37,221           |
| Realized loss on foreign currency forwards  | 3,497                     | 3,886            |
| Other   | 2,340                     | 13,647           |
| Changes in operating assets and liabilities, net of effects from acquisitions:                  |                           |                  |
| Accounts receivable   | (134,113)                 | (105,232)        |
| Prepaid expenses and other current assets   | (61,484)                  | (92,514)         |
| Accounts payable, merchant  | 219,651                   | 143,504          |
| Accounts payable, other, accrued expenses and other current liabilities                         | 78,221                    | 54,343           |
| Deferred merchant bookings  | 810,740                   | 581,441          |
| Deferred revenue  | 6,575                     | 10,896           |
| <b>Net cash provided by operating activities</b>  | <b>1,219,791</b>          | <b>933,333</b>   |
| <b>Investing activities:</b>  |                           |                  |
| Capital expenditures, including internal-use software and website development                   | (109,040)                 | (73,128)         |
| Purchases of investments  | (853,445)                 | (429,483)        |
| Sales and maturities of investments   | 432,866                   | 46,912           |
| Acquisitions, net of cash acquired  | (12,969)                  | (36,353)         |
| Net settlement of foreign currency forwards   | (3,497)                   | (3,886)          |
| Other, net  | 1,033                     | 4,600            |
| <b>Net cash used in investing activities</b>  | <b>(545,052)</b>          | <b>(491,338)</b> |
| <b>Financing activities:</b>  |                           |                  |
| Treasury stock activity   | (49,227)                  | (198,504)        |
| Payment of dividends to stockholders  | (38,584)                  | (40,122)         |
| Proceeds from exercise of equity awards   | 13,749                    | 30,630           |
| Sales (purchases) of interest in controlled subsidiaries, net                                   | 70,626                    | (24,717)         |
| Excess tax benefit on equity awards   | 5,044                     | 5,053            |
| Changes in restricted cash and cash equivalents   | (7,373)                   | (2,207)          |
| Other, net  | 5,102                     | (10,913)         |
| <b>Net cash used in financing activities</b>  | <b>(663)</b>              | <b>(240,780)</b> |
| Effect of exchange rate changes on cash and cash equivalents                                    | 20,600                    | (47,905)         |
| <b>Net increase in cash and cash equivalents</b>  | <b>694,676</b>            | <b>153,310</b>   |
| Cash and cash equivalents at beginning of period  | 714,332                   | 642,544          |



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|   |              |            |
|---|--------------|------------|
| <b>Cash and cash equivalents at end of period</b> | \$ 1,409,008 | \$ 795,854 |
|---|--------------|------------|

**Supplemental cash flow information**

|                          |        |           |
|--------------------------|--------|-----------|
| Cash paid for interest   | 61,574 | \$ 38,336 |
| Income tax payments, net | 26,821 | 46,135    |

*See accompanying notes.*

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**Notes to Consolidated Financial Statements**

**June 30, 2011**

**(Unaudited)**

**Note 1 Basis of Presentation**

***Description of Business***

Expedia, Inc. and its subsidiaries provide travel products and services to leisure and corporate travelers in the United States and abroad as well as various media and advertising offerings to travel and non-travel advertisers. These travel products and services are offered through a diversified portfolio of brands including: Expedia.com®, Hotels.com®, Hotwire.com™, TripAdvisor® Media Group, Expedia® Affiliate Network, Classic Vacations, Expedia Local Expert, Egencia™, Expedia® CruiseShipCenters®, eLong™, Inc. ( eLong ) and Venere Net SpA ( Venere ). In addition, many of these brands have related international points of sale. We refer to Expedia, Inc. and its subsidiaries collectively as Expedia, the Company, us, we and our in these consolidated financial statements.

***Spin-off***

On April 7, 2011, we announced a plan to separate Expedia, Inc. into two publicly traded companies:

TripAdvisor, which will include the domestic and international operations associated with the TripAdvisor Media Group, which includes its flagship brand as well as 18 other travel media brands, and

Expedia, Inc., which will continue to include the domestic and international operations of our travel transaction brands including Expedia.com, Hotels.com, eLong, Hotwire, Egencia, Expedia Affiliate Network, CruiseShipCenters, Venere, Classic Vacations and carrentals.com.

On July 27, 2011, the Company filed a Form S-4 with information pertaining to the transaction. The transaction is subject to final approval by our Board of Directors and we expect to receive a favorable private letter ruling from the Internal Revenue Service on the tax-free nature of the spin-off. In addition, it is expected that we will seek stockholder approval of the transaction. The proposed spin-off is expected to be completed in the fourth quarter of 2011. Non-recurring expenses incurred to affect the spin-off of TripAdvisor during the three and six months ended June 30, 2011 have been included within spin-off costs in the statement of operations.

***Basis of Presentation***

These accompanying financial statements present our results of operations, financial position and cash flows on a consolidated basis. The unaudited consolidated financial statements include Expedia, Inc., our wholly-owned subsidiaries, and entities we control, or in which we have a variable interest and are the primary beneficiary of expected cash profits or losses. We have eliminated significant intercompany transactions and accounts.

We have prepared the accompanying unaudited consolidated financial statements in accordance with accounting principles generally accepted in the United States ( GAAP ) for interim financial reporting. We have included all adjustments necessary for a fair presentation of the results of the interim period. These adjustments consist of normal recurring items. Our interim unaudited consolidated financial statements are not necessarily indicative of results that may be expected for any other interim period or for the full year. These interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2010, previously filed with the Securities and Exchange Commission ( SEC ).

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**Notes to Consolidated Financial Statements (Continued)**

***Accounting Estimates***

We use estimates and assumptions in the preparation of our interim unaudited consolidated financial statements in accordance with GAAP. Our estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of our interim unaudited consolidated financial statements. These estimates and assumptions also affect the reported amount of net income during any period. Our actual financial results could differ significantly from these estimates. The significant estimates underlying our interim unaudited consolidated financial statements include revenue recognition; recoverability of current and long-lived assets, intangible assets and goodwill; income and indirect taxes, such as potential settlements related to occupancy taxes; loss contingencies; stock-based compensation and accounting for derivative instruments.

***Reclassifications***

We have reclassified certain amounts related to our prior period results to conform to our current period presentation.

***Seasonality***

We generally experience seasonal fluctuations in the demand for our travel products and services. For example, traditional leisure travel bookings are generally the highest in the first three quarters as travelers plan and book their spring, summer and holiday travel. The number of bookings typically decreases in the fourth quarter. Because revenue in our merchant business is generally recognized when the travel takes place rather than when it is booked, revenue typically lags bookings by several weeks or longer. As a result, revenue is typically the lowest in the first quarter and highest in the third quarter.

**Note 2 Summary of Significant Accounting Policies**

***Recently Adopted Accounting Pronouncements***

On January 1, 2011, we adopted the new Financial Accounting Standards Board ( FASB ) guidance on revenue recognition which requires companies to allocate revenue in multiple-element arrangements based on an element's estimated selling price if vendor-specific or other third-party evidence of value is not available. The adoption of this guidance did not materially impact our consolidated financial statements.

***New Accounting Pronouncements***

In June 2011, the FASB issued new guidance on the presentation of comprehensive income. Specifically, the new guidance allows an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in stockholders' equity. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income from that of current accounting guidance. This new guidance is effective for fiscal years and interim periods beginning after December 15, 2011. Upon adoption, we will present our consolidated financial statements under this new guidance.

**Table of Contents****Notes to Consolidated Financial Statements (Continued)****Note 3 Fair Value Measurements**

Financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2011 are classified using the fair value hierarchy in the table below:

|                                    | Total            | Level 1<br>(In thousands) | Level 2          |
|------------------------------------|------------------|---------------------------|------------------|
| <b>Assets</b>                      |                  |                           |                  |
| Cash equivalents:                  |                  |                           |                  |
| Money market funds                 | \$ 771,863       | \$ 771,863                | \$               |
| Time deposits                      | 16,082           |                           | 16,082           |
| Investments:                       |                  |                           |                  |
| Time deposits                      | 818,307          |                           | 818,307          |
| Corporate debt securities          | 293,890          |                           | 293,890          |
| <br>Total assets                   | <br>\$ 1,900,142 | <br>\$ 771,863            | <br>\$ 1,128,279 |
| <b>Liabilities</b>                 |                  |                           |                  |
| Foreign currency forward contracts | \$ 3,239         | \$                        | \$ 3,239         |

Financial assets measured at fair value on a recurring basis as of December 31, 2010 are classified using the fair value hierarchy in the table below:

|                                    | Total            | Level 1<br>(In thousands) | Level 2        |
|------------------------------------|------------------|---------------------------|----------------|
| <b>Assets</b>                      |                  |                           |                |
| Cash equivalents:                  |                  |                           |                |
| Money market funds                 | \$ 359,169       | \$ 359,169                | \$             |
| Investments:                       |                  |                           |                |
| Time deposits                      | 434,315          |                           | 434,315        |
| Corporate debt securities          | 243,963          |                           | 243,963        |
| <br>Total assets                   | <br>\$ 1,037,447 | <br>\$ 359,169            | <br>\$ 678,278 |
| <b>Liabilities</b>                 |                  |                           |                |
| Foreign currency forward contracts | \$ 1,431         | \$                        | \$ 1,431       |

We classify our cash equivalents and investments within Level 1 and Level 2 as we value our cash equivalents and investments using quoted market prices or alternative pricing sources and models utilizing market observable inputs. Valuation of the foreign currency forward contracts is based on foreign currency exchange rates in active markets, a Level 2 input.

As of June 30, 2011 and December 31, 2010, our cash and cash equivalents consisted primarily of prime institutional money market funds with maturities of 90 days or less as well as bank account balances.

We invest in investment grade corporate debt securities, all of which are classified as available for sale. As of June 30, 2011, we had \$63 million of short-term and \$231 million of long-term available for sale investments and the amortized cost basis of the investments approximated their

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fair value with gross unrealized gains of \$2 million and gross unrealized losses of less than \$1 million. As of December 31, 2010, we had \$81 million of short-term and \$163 million of long-term available for sale investments and the amortized cost basis of these investments approximated their fair value with gross unrealized gains of \$1 million and gross unrealized losses of less than \$1 million.

We also hold time deposit investments with financial institutions. Time deposits with original maturities of less than 90 days are classified as cash equivalents and those with remaining maturities of less than one year are classified within short-term investments. Of the total time deposit investments, \$107 million and \$88 million as of June 30, 2011 and December 31, 2010 related to balances held by our majority-owned subsidiaries.

**Table of Contents****Notes to Consolidated Financial Statements (Continued)**

Derivative instruments are carried at fair value on our consolidated balance sheets. We use foreign currency forward contracts to economically hedge certain merchant revenue exposures and in lieu of holding certain foreign currency cash for the purpose of economically hedging our foreign currency-denominated operating liabilities. Our goal in managing our foreign exchange risk is to reduce, to the extent practicable, our potential exposure to the changes that exchange rates might have on our earnings, cash flows and financial position. Our foreign currency forward contracts are typically short-term and, as they do not qualify for hedge accounting treatment, we classify the changes in their fair value in other, net. As of June 30, 2011, we were party to outstanding forward contracts hedging our liability and revenue exposures with a total net notional value of \$172 million. We had a net forward liability of \$3 million as of June 30, 2011 and \$1 million as of December 31, 2010 recorded in accrued expenses and other current liabilities. We recorded \$3 million in net losses from foreign currency forward contracts during each of the three months ended June 30, 2011 and 2010, and \$5 million in net losses and \$1 million in net gains for the six months ended June 30, 2011 and 2010.

**Note 4 Debt**

The following table sets forth our outstanding debt:

|  | June 30,<br>2011 | December 31,<br>2010 |
|--|------------------|----------------------|
|  | (In thousands)   |                      |
| 8.5% senior notes due 2016, net of discount  | \$ 395,987       | \$ 395,673           |
| 7.456% senior notes due 2018                 | 500,000          | 500,000              |
| 5.95% senior notes due 2020, net of discount | 749,250          | 749,221              |
| Long-term debt                               | \$ 1,645,237     | \$ 1,644,894         |

**Long-term Debt**

Our \$400 million of senior unsecured notes outstanding at June 30, 2011 are due in July 2016 and bear interest at 8.5% (the 8.5% Notes). The 8.5% Notes were issued at 98.572% of par resulting in a discount, which is being amortized over their life. Interest is payable semi-annually in January and July of each year. The 8.5% Notes include covenants that limit our ability under certain circumstances to (i) incur additional indebtedness, (ii) pay dividends or make restricted payments, (iii) dispose of assets, (iv) create or incur liens, (v) enter into sale/leaseback transactions and (vi) merge or consolidate with or into another entity. Certain of these covenants in the 8.5% Notes, including the covenants limiting under certain circumstances our ability to incur additional indebtedness, pay dividends or make restricted payments and dispose of assets, will be suspended during any time that the 8.5% Notes have an investment grade rating from both Standard and Poor's and Moody's and no default exists under the 8.5% Note indenture. The 8.5% Notes are repayable in whole or in part upon the occurrence of a change of control, at the option of the holders, at a purchase price in cash equal to 101% of the principal plus accrued interest. We may redeem the 8.5% Notes prior to July 1, 2012 at our option in whole or in part any time at a specified make-whole premium. On or after July 1, 2012, we may redeem the 8.5% Notes in whole or in part at specified prices ranging from 104.250% to 100% of the principal plus accrued interest.

Our \$500 million in registered senior unsecured notes outstanding at June 30, 2011 are due in August 2018 and bear interest at 7.456% (the 7.456% Notes). Interest is payable semi-annually in February and August of each year. The 7.456% Notes include covenants that limit our ability (i) to enter into sale/leaseback transactions, (ii) to create or incur liens and (iii) to merge or consolidate with or into another entity. The 7.456% Notes are repayable in whole or in part on August 15, 2013, at the option of the holders of such 7.456% Notes, at 100% of the principal amount plus accrued interest. We may redeem the 7.456% Notes at our option in whole or in part at any time at a specified make-whole premium.

**Table of Contents****Notes to Consolidated Financial Statements (Continued)**

Our \$750 million in registered senior unsecured notes outstanding at June 30, 2011 are due in August 2020 and bear interest at 5.95% (the 5.95% Notes). The 5.95% Notes were issued at 99.893% of par resulting in a discount, which is being amortized over their life. Interest is payable semi-annually in February and August of each year. The 5.95% Notes include covenants that limit our ability under certain circumstances to (i) create certain liens, (ii) enter into sale/leaseback transactions and (iii) merge or consolidate with or into another entity. We may redeem the 5.95% Notes at our option in whole or in part at any time or from time to time at a specified make-whole premium.

Based on quoted market prices, the approximate fair value of our Notes was as follows:

|                     | June 30,<br>2011 | December 31,<br>2010 |
|---------------------|------------------|----------------------|
|                     | (In millions)    |                      |
| 8.5% senior notes   | \$ 440           | \$ 438               |
| 7.456% senior notes | 563              | 561                  |
| 5.95% senior notes  | 745              | 743                  |

The 7.456%, 8.5% and 5.95% Notes (collectively the Notes) are senior unsecured obligations guaranteed by certain domestic Expedia subsidiaries and rank equally in right of payment with all of our existing and future unsecured and unsubordinated obligations. For further information, see Note 9 Guarantor and Non-Guarantor Supplemental Financial Information. Accrued interest related to the Notes was \$48 million and \$49 million as of June 30, 2011 and December 31, 2010.

**Credit Facility**

Expedia, Inc. maintains a \$750 million unsecured revolving credit facility with a group of lenders, which is unconditionally guaranteed by certain domestic Expedia subsidiaries that are the same as under the Notes and expires in August 2014. As of June 30, 2011 and December 31, 2010, we had no revolving credit facility borrowings outstanding. The facility bears interest based on the Company's credit ratings, with drawn amounts bearing interest at LIBOR plus 250 basis points and the commitment fee on undrawn amounts at 37.5 basis points as of June 30, 2011. The facility contains financial covenants including leverage and minimum interest coverage ratios.

The amount of stand-by letters of credit (LOC) issued under the facility reduces the amount available under the credit facility. As of June 30, 2011, and December 31, 2010, there was \$27 million of outstanding stand-by LOCs issued under the facility.

**Note 5 Stockholders Equity****Dividends on our Common Stock**

The Executive Committee, acting on behalf of the Board of Directors, declared the following dividends during the periods presented:

| Declaration Date                       | Dividend<br>Per<br>Share | Record Date    | Total Amount<br>(in thousands) | Payment Date   |
|--|--------------------------|----------------|--------------------------------|----------------|
| <b>Six months ended June 30, 2011:</b> |                          |                |                                |                |
| February 9, 2011                       | \$ 0.07                  | March 11, 2011 | \$ 19,352                      | March 31, 2011 |
| April 27, 2011                         | \$ 0.07                  | May 27, 2011   | 19,232                         | June 17, 2011  |
| <b>Six months ended June 30, 2010:</b> |                          |                |                                |                |
| February 10, 2010                      | \$ 0.07                  | March 11, 2010 | 20,220                         | March 31, 2010 |
| April 27, 2010                         | \$ 0.07                  | May 27, 2010   | 19,902                         | June 17, 2010  |





**Table of Contents****Notes to Consolidated Financial Statements (Continued)**

In addition, on July 25, 2011, the Executive Committee, acting on behalf of the Board of Directors, declared a quarterly cash dividend of \$0.07 per share of outstanding common stock to stockholders of record as of the close of business on August 26, 2011. Future declarations of dividends are subject to final determination of our Board of Directors.

**Share Repurchases**

In October 2010, the Executive Committee, acting on behalf of the Board of Directors, authorized a repurchase of up to 20 million outstanding shares of our common stock. During the first half of 2011, we repurchased, through open market transactions, 2 million shares under this authorization for a total cost of \$41 million, excluding transaction costs, representing an average repurchase price of \$20.40 per share. As of June 30, 2011, 17.4 million shares remain authorized for repurchase under the authorization with no fixed termination date for the repurchases.

**Comprehensive Income**

Comprehensive income was \$147 million and \$88 million for the three months ended June 30, 2011 and 2010, and \$224 million and \$124 million for the six months ended June 30, 2011 and 2010. The primary difference between net income attributable to Expedia, Inc. as reported and comprehensive income was foreign currency translation adjustments.

**Noncontrolling Interest**

In May 2011, we acquired additional shares of eLong for \$41 million and, at the same time, Tencent Holdings Limited also acquired approximately 16% of the outstanding shares of eLong for \$84 million. As of June 30, 2011, our ownership interest in eLong was approximately 55%.

**Note 6 Earnings Per Share**

The following table presents our basic and diluted earnings per share:

|   | Three months ended June 30, 2011      |            | Six months ended June 30, 2010 |            |
|---|---------------------------------------|------------|--------------------------------|------------|
|   | 2011                                  | 2010       | 2011                           | 2010       |
|   | (In thousands, except per share data) |            |                                |            |
| <b>Net income attributable to Expedia, Inc.</b>   | \$ 140,393                            | \$ 114,262 | \$ 192,432                     | \$ 173,657 |
| <b>Earnings per share attributable to Expedia, Inc. available to common stockholders:</b> |                                       |            |                                |            |
| Basic   | \$ 0.51                               | \$ 0.40    | \$ 0.70                        | \$ 0.61    |
| Diluted   | 0.50                                  | 0.40       | 0.69                           | 0.60       |
| <b>Weighted average number of shares outstanding:</b>                                     |                                       |            |                                |            |
| Basic   | 273,592                               | 284,088    | 273,725                        | 286,333    |
| Dilutive effect of:   |                                       |            |                                |            |
| Options to purchase common stock  | 3,148                                 | 4,027      | 3,209                          | 4,256      |
| Other dilutive securities   | 1,366                                 | 860        | 1,202                          | 1,137      |
| Diluted   | 278,106                               | 288,975    | 278,136                        | 291,726    |

The earnings per share amounts are the same for common stock and Class B common stock because the holders of each class are legally entitled to equal per share distributions whether through dividends or in liquidation.



**Table of Contents****Notes to Consolidated Financial Statements (Continued)****Note 7 Commitments and Contingencies*****Legal Proceedings***

In the ordinary course of business, we are a party to various lawsuits. Management does not expect these lawsuits to have a material impact on the liquidity, results of operations, or financial condition of Expedia. We also evaluate other potential contingent matters, including value-added tax, federal excise tax, transient occupancy or accommodation tax and similar matters.

*Litigation Relating to Hotel Occupancy Taxes.* Seventy-three lawsuits have been filed by cities and counties involving hotel occupancy taxes. These lawsuits are in various stages and we continue to defend against the claims made in them vigorously. With respect to the principal claims in these matters, we believe that the ordinances at issue do not apply to the services we provide, namely the facilitation of hotel reservations, and, therefore, that we do not owe the taxes that are claimed to be owed. We believe that the ordinances at issue generally impose occupancy and other taxes on entities that own, operate or control hotels (or similar businesses) or furnish or provide hotel rooms or similar accommodations. To date, twenty-four of the municipality lawsuits have been dismissed. Some of these dismissals have been without prejudice and, generally, allow the municipality to seek administrative remedies prior to pursuing further litigation. Twelve dismissals were based on a finding that we and the other defendants were not subject to the local hotel occupancy tax ordinance or that the local government lacked standing to pursue their claims. As a result of this litigation and other attempts by certain jurisdictions to levy such taxes, we have established a reserve for the potential settlement of issues related to hotel occupancy taxes, consistent with applicable accounting principles and in light of all current facts and circumstances, in the amount of \$15 million as of June 30, 2011 and \$24 million as of December 31, 2010. This reserve is based on our best estimate and the ultimate resolution of these contingencies may be greater or less than the liabilities recorded. In addition, as of June 30, 2011 and December 31, 2010, we had accruals totaling \$17 million and \$13 million related to court decisions and final settlements. Changes to these settlement reserves and accruals are included within general and administrative expenses in the consolidated statements of operations.

In connection with various occupancy tax audits and assessments, certain jurisdictions may assert that taxpayers are required to pay any assessed taxes prior to being allowed to contest or litigate the applicability of the ordinances, which is referred to as "pay-to-play." These jurisdictions may attempt to require that we pay any assessed taxes prior to being allowed to contest or litigate the applicability of the tax ordinance. Payment of these amounts is not an admission that we believe we are subject to such taxes and, even when such payments are made, we continue to defend our position vigorously. During 2010 and 2009, we expensed \$3 million and \$48 million related to monies paid in advance of litigation in occupancy tax proceedings in the cities of Santa Monica and San Francisco. Such amounts were expensed when incurred within legal reserves and occupancy tax assessments in the consolidated statements of operations. In each case, we paid such amounts in order to be allowed to pursue litigation challenging whether we are required to pay hotel occupancy tax on the portion of the customer payment we retain as compensation and, if so, the actual amounts owed. We do not believe that the amounts we retain as compensation are subject to the cities' hotel occupancy tax ordinances. If we prevail in the litigation (including any appeal), the cities will be required to repay these amounts, plus interest.

**Note 8 Segment Information**

We have three reportable segments: Leisure, TripAdvisor Media Group and Egencia. We determined our segments based on how our chief operating decision makers manage our business, make operating decisions and evaluate operating performance. Our primary operating metric for evaluating segment performance is Operating Income Before Amortization ( OIBA ). OIBA for our Leisure and Egencia segments includes allocations of certain expenses, primarily cost of revenue, information technology and facilities, and our Leisure segment includes the total costs of our Partner Services Group as well as the realized foreign currency gains or losses related to the forward contracts hedging a component of our net merchant hotel revenue. We base the allocations primarily on transaction volumes and other usage metrics; this methodology is periodically evaluated and may change. We do not allocate certain shared expenses such as accounting, human resources and legal to our reportable segments. We include these expenses in Corporate and Eliminations.

**Table of Contents****Notes to Consolidated Financial Statements (Continued)**

Our Leisure segment provides a full range of travel and advertising services to our worldwide customers through a variety of brands including: Expedia.com and Hotels.com in the United States and localized Expedia and Hotels.com websites throughout the world, Expedia Affiliate Network, Hotwire.com, Venere, eLong and Classic Vacations. Our TripAdvisor Media Group segment provides advertising services to travel suppliers on its websites, which aggregate traveler opinions and unbiased travel articles about cities, hotels, restaurants and activities in a variety of destinations through tripadvisor.com and its localized international versions as well as through its various travel media content properties within TripAdvisor Media Group. Our Egencia segment provides managed travel services to corporate customers in North America, Europe, and the Asia Pacific region.

Our segment disclosure includes intersegment revenues, which primarily consist of advertising and media services provided by our TripAdvisor Media Group segment to our Leisure segment. These intersegment transactions are recorded by each segment at amounts that generally approximate fair value as if the transactions were with third parties and, therefore, impact segment performance. However, the revenue and corresponding expense are eliminated in consolidation. The elimination of such intersegment transactions is included within Corporate and Eliminations in the table below.

Corporate and Eliminations also includes unallocated corporate functions and expenses. In addition, we record amortization of intangible assets and any related impairment, as well as stock-based compensation expense and certain other costs or benefits, as disclosed in the table below, in Corporate and Eliminations.

The following tables present our segment information for the three and six months ended June 30, 2011 and 2010. As a significant portion of our property and equipment is not allocated to our operating segments, we do not report the assets or related depreciation expense as it would not be meaningful, nor do we regularly provide such information to our chief operating decision makers.

|   | Three months ended June 30, 2011 |                            |                           |                             | Total             |
|---|----------------------------------|----------------------------|---------------------------|-----------------------------|-------------------|
|   | Leisure                          | TripAdvisor<br>Media Group | Egencia<br>(In thousands) | Corporate &<br>Eliminations |                   |
| Third-party revenue                                 | \$ 866,144                       | \$ 110,043                 | \$ 47,447                 | \$                          | \$ 1,023,634      |
| Intersegment revenue                                |                                  | 59,199                     |                           | (59,199)                    |                   |
| Revenue   | \$ 866,144                       | \$ 169,242                 | \$ 47,447                 | \$ (59,199)                 | \$ 1,023,634      |
| Operating Income Before Amortization                | \$ 212,147                       | \$ 89,389                  | \$ 6,652                  | \$ (64,904)                 | \$ 243,284        |
| Amortization of intangible assets                   |                                  |                            |                           | (7,046)                     | (7,046)           |
| Spin-off costs                                      |                                  |                            |                           | (2,108)                     | (2,108)           |
| Stock-based compensation                            |                                  |                            |                           | (13,481)                    | (13,481)          |
| Realized loss on revenue hedges                     | 6,320                            |                            |                           |                             | 6,320             |
| Operating income (loss)                             | \$ 218,467                       | \$ 89,389                  | \$ 6,652                  | \$ (87,539)                 | 226,969           |
| Other expense, net                                  |                                  |                            |                           |                             | (30,629)          |
| Income before income taxes                          |                                  |                            |                           |                             | 196,340           |
| Provision for income taxes                          |                                  |                            |                           |                             | (55,450)          |
| Net income  |                                  |                            |                           |                             | 140,890           |
| Net income attributable to noncontrolling interests |                                  |                            |                           |                             | (497)             |
| <b>Net income attributable to Expedia, Inc.</b>     |                                  |                            |                           |                             | <b>\$ 140,393</b> |



**Table of Contents****Notes to Consolidated Financial Statements (Continued)**

|   | Three months ended June 30, 2010 |                            |                           |                             | Total             |
|---|----------------------------------|----------------------------|---------------------------|-----------------------------|-------------------|
|   | Leisure                          | TripAdvisor<br>Media Group | Egencia<br>(In thousands) | Corporate &<br>Eliminations |                   |
| Third-party revenue                                 | \$ 715,998                       | \$ 82,423                  | \$ 35,539                 | \$                          | \$ 833,960        |
| Intersegment revenue                                |                                  | 42,987                     |                           | (42,987)                    |                   |
| <b>Revenue</b>                                      | <b>\$ 715,998</b>                | <b>\$ 125,410</b>          | <b>\$ 35,539</b>          | <b>\$ (42,987)</b>          | <b>\$ 833,960</b> |
| Operating Income Before Amortization                | \$ 206,017                       | \$ 72,854                  | \$ 4,770                  | \$ (64,169)                 | \$ 219,472        |
| Amortization of intangible assets                   |                                  |                            |                           | (8,344)                     | (8,344)           |
| Stock-based compensation                            |                                  |                            |                           | (14,651)                    | (14,651)          |
| Realized gain on revenue hedges                     | (2,787)                          |                            |                           |                             | (2,787)           |
| Operating income (loss)                             | \$ 203,230                       | \$ 72,854                  | \$ 4,770                  | \$ (87,164)                 | 193,690           |
| Other expense, net                                  |                                  |                            |                           |                             | (18,171)          |
| Income before income taxes                          |                                  |                            |                           |                             | 175,519           |
| Provision for income taxes                          |                                  |                            |                           |                             | (60,166)          |
| Net income  |                                  |                            |                           |                             | 115,353           |
| Net income attributable to noncontrolling interests |                                  |                            |                           |                             | (1,091)           |
| <b>Net income attributable to Expedia, Inc.</b>     |                                  |                            |                           |                             | <b>\$ 114,262</b> |

|  | Six months ended June 30, 2011 |                            |                           |                             | Total               |
|--|--------------------------------|----------------------------|---------------------------|-----------------------------|---------------------|
|  | Leisure                        | TripAdvisor<br>Media Group | Egencia<br>(In thousands) | Corporate &<br>Eliminations |                     |
| Third-party revenue                          | \$ 1,551,816                   | \$ 204,385                 | \$ 89,610                 | \$                          | \$ 1,845,811        |
| Intersegment revenue                         |                                | 113,143                    |                           | (113,143)                   |                     |
| <b>Revenue</b>                               | <b>\$ 1,551,816</b>            | <b>\$ 317,528</b>          | <b>\$ 89,610</b>          | <b>\$ (113,143)</b>         | <b>\$ 1,845,811</b> |
| Operating Income Before Amortization         | \$ 324,031                     | \$ 169,605                 | \$ 11,571                 | \$ (132,665)                | \$ 372,542          |
| Amortization of intangible assets            |                                |                            |                           | (14,997)                    | (14,997)            |
| Spin-off costs                               |                                |                            |                           | (2,108)                     | (2,108)             |
| Legal reserves and occupancy tax assessments |                                |                            |                           | (1,100)                     | (1,100)             |
| Stock-based compensation                     |                                |                            |                           | (30,753)                    | (30,753)            |
| Realized loss on revenue hedges              | 11,626                         |                            |                           |                             | 11,626              |
| Operating income (loss)                      | \$ 335,657                     | \$ 169,605                 | \$ 11,571                 | \$ (181,623)                | 335,210             |
| Other expense, net                           |                                |                            |                           |                             | (64,685)            |
| Income before income taxes                   |                                |                            |                           |                             | 270,525             |
| Provision for income taxes                   |                                |                            |                           |                             | (77,426)            |

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|   |                   |
|---|-------------------|
| Net income  | 193,099           |
| Net income attributable to noncontrolling interests | (667)             |
| <b>Net income attributable to Expedia, Inc.</b>     | <b>\$ 192,432</b> |

**Table of Contents****Notes to Consolidated Financial Statements (Continued)**

|   | Six months ended June 30, 2010 |                            |                           |                             | Total               |
|---|--------------------------------|----------------------------|---------------------------|-----------------------------|---------------------|
|   | Leisure                        | TripAdvisor<br>Media Group | Egencia<br>(In thousands) | Corporate &<br>Eliminations |                     |
| Third-party revenue                                 | \$ 1,328,628                   | \$ 153,924                 | \$ 69,327                 | \$                          | \$ 1,551,879        |
| Intersegment revenue                                |                                | 85,068                     |                           | (85,068)                    |                     |
| <b>Revenue</b>                                      | <b>\$ 1,328,628</b>            | <b>\$ 238,992</b>          | <b>\$ 69,327</b>          | <b>\$ (85,068)</b>          | <b>\$ 1,551,879</b> |
| Operating Income Before Amortization                | \$ 335,122                     | \$ 139,315                 | \$ 10,046                 | \$ (122,467)                | \$ 362,016          |
| Amortization of intangible assets                   |                                |                            |                           | (17,372)                    | (17,372)            |
| Stock-based compensation                            |                                |                            |                           | (33,543)                    | (33,543)            |
| Realized gain on revenue hedges                     | (5,237)                        |                            |                           |                             | (5,237)             |
| Operating income (loss)                             | \$ 329,885                     | \$ 139,315                 | \$ 10,046                 | \$ (173,382)                | 305,864             |
| Other expense, net                                  |                                |                            |                           |                             | (38,211)            |
| Income before income taxes                          |                                |                            |                           |                             | 267,653             |
| Provision for income taxes                          |                                |                            |                           |                             | (91,701)            |
| Net income  |                                |                            |                           |                             | 175,952             |
| Net income attributable to noncontrolling interests |                                |                            |                           |                             | (2,295)             |
| <b>Net income attributable to Expedia, Inc.</b>     |                                |                            |                           |                             | <b>\$ 173,657</b>   |

During the first quarter of 2011, we changed our allocation methodology for information technology expenses, which resulted in more expenses being allocated to our Leisure and Egencia segments. We revised prior year OIBA by segment to conform to our current year presentation. There was no impact on consolidated OIBA as a result of these changes.

**NOTE 9 Guarantor and Non-Guarantor Supplemental Financial Information**

Condensed consolidating financial information of Expedia, Inc. (the Parent), our subsidiaries that are guarantors of our debt facility and instruments (the Guarantor Subsidiaries), and our subsidiaries that are not guarantors of our debt facility and instruments (the Non-Guarantor Subsidiaries) is shown below. The debt facility and instruments are guaranteed by certain of our wholly-owned domestic subsidiaries and rank equally in right of payment with all of our existing and future unsecured and unsubordinated obligations. The guarantees are full, unconditional, joint and several. In this financial information, the Parent and Guarantor Subsidiaries account for investments in their wholly-owned subsidiaries using the equity method.

We revised the prior year condensed consolidating statements of operations to conform to our current year presentation. There was no impact on net income for the Parent or the Guarantor or Non-Guarantor Subsidiaries as a result of these changes.



**Table of Contents****Notes to Consolidated Financial Statements (Continued)****CONDENSED CONSOLIDATING STATEMENT OF OPERATION****Three Months Ended June 30, 2011****(In thousands)**

|   | <b>Parent</b>     | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---|-------------------|-----------------------------------|---------------------------------------|---------------------|---------------------|
| Revenue   | \$                | \$ 887,495                        | \$ 145,411                            | \$ (9,272)          | \$ 1,023,634        |
| Costs and expenses:                                     |                   |                                   |                                       |                     |                     |
| Cost of revenue   |                   | 169,313                           | 29,069                                | 162                 | 198,544             |
| Selling and marketing                                   |                   | 273,186                           | 130,327                               | (9,544)             | 393,969             |
| Technology and content                                  |                   | 84,928                            | 25,287                                | (54)                | 110,161             |
| General and administrative                              |                   | 60,456                            | 24,217                                | 164                 | 84,837              |
| Amortization of intangible assets                       |                   | 1,925                             | 5,121                                 |                     | 7,046               |
| Spin-off costs  |                   | 2,108                             |                                       |                     | 2,108               |
| Legal reserves and occupancy tax assessments            |                   |                                   |                                       |                     |                     |
| Intercompany (income) expense, net                      |                   | 209,073                           | (209,073)                             |                     |                     |
| Operating income  |                   | 86,506                            | 140,463                               |                     | 226,969             |
| Other income (expense):                                 |                   |                                   |                                       |                     |                     |
| Equity in pre-tax earnings of consolidated subsidiaries | 157,599           | 111,792                           |                                       | (269,391)           |                     |
| Other, net  | (29,540)          | (7,615)                           | 6,526                                 |                     | (30,629)            |
| Total other income (expense), net                       | 128,059           | 104,177                           | 6,526                                 | (269,391)           | (30,629)            |
| Income before income taxes                              | 128,059           | 190,683                           | 146,989                               | (269,391)           | 196,340             |
| Provision for income taxes                              | 12,334            | (32,216)                          | (35,568)                              |                     | (55,450)            |
| Net income  | 140,393           | 158,467                           | 111,421                               | (269,391)           | 140,890             |
| Net income attributable to noncontrolling interests     |                   |                                   | (497)                                 |                     | (497)               |
| <b>Net income attributable to Expedia, Inc.</b>         | <b>\$ 140,393</b> | <b>\$ 158,467</b>                 | <b>\$ 110,924</b>                     | <b>\$ (269,391)</b> | <b>\$ 140,393</b>   |

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****Three Months Ended June 30, 2010****(in thousands)**

|                     | <b>Parent</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---------------------|---------------|-----------------------------------|---------------------------------------|---------------------|---------------------|
| Revenue             | \$            | \$ 736,351                        | \$ 108,368                            | \$ (10,759)         | \$ 833,960          |
| Costs and expenses: |               |                                   |                                       |                     |                     |
| Cost of revenue     |               | 150,712                           | 19,035                                | (1,176)             | 168,571             |

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|   |                   |                   |                  |                     |
|---|-------------------|-------------------|------------------|---------------------|
| Selling and marketing                                   | 209,413           | 96,986            | (9,569)          | 296,830             |
| Technology and content                                  | 70,130            | 17,290            |                  | 87,420              |
| General and administrative                              | 58,356            | 20,763            | (14)             | 79,105              |
| Amortization of intangible assets                       | 2,951             | 5,393             |                  | 8,344               |
| Intercompany (income) expenses, net                     | 76,949            | (76,949)          |                  |                     |
| <b>Operating income</b>                                 | <b>167,840</b>    | <b>25,850</b>     |                  | <b>193,690</b>      |
| Other income (expense):                                 |                   |                   |                  |                     |
| Equity in pre-tax earnings of consolidated subsidiaries | 125,239           | 11,313            | (136,552)        |                     |
| Other, net  | (18,157)          | 20,742            | (20,756)         | (18,171)            |
| <b>Total other income (expense), net</b>                | <b>107,082</b>    | <b>32,055</b>     | <b>(20,756)</b>  | <b>(136,552)</b>    |
| <b>Income before income taxes</b>                       | <b>107,082</b>    | <b>199,895</b>    | <b>5,094</b>     | <b>(136,552)</b>    |
| Provision for income taxes                              | 7,180             | (73,849)          | 6,503            | (60,166)            |
| <b>Net income</b>                                       | <b>114,262</b>    | <b>126,046</b>    | <b>11,597</b>    | <b>(136,552)</b>    |
| Net income attributable to noncontrolling interest      |                   |                   | (1,091)          | (1,091)             |
| <b>Net income attributable to Expedia, Inc.</b>         | <b>\$ 114,262</b> | <b>\$ 126,046</b> | <b>\$ 10,506</b> | <b>\$ (136,552)</b> |
|   |                   |                   |                  | <b>\$ 114,262</b>   |

**Table of Contents****Notes to Consolidated Financial Statements (Continued)****CONDENSED CONSOLIDATING STATEMENT OF OPERATION****Six Months Ended June 30, 2011****(In thousands)**

|   | <b>Parent</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---|---------------|-----------------------------------|---------------------------------------|---------------------|---------------------|
| Revenue   | \$            | \$ 1,603,289                      | \$ 261,623                            | \$ (19,101)         | \$ 1,845,811        |
| Costs and expenses:                                     |               |                                   |                                       |                     |                     |
| Cost of revenue   |               | 322,074                           | 54,095                                | 217                 | 376,386             |
| Selling and marketing                                   |               | 510,637                           | 243,884                               | (19,394)            | 735,127             |
| Technology and content                                  |               | 166,387                           | 47,012                                | (54)                | 213,345             |
| General and administrative                              |               | 120,118                           | 47,290                                | 130                 | 167,538             |
| Amortization of intangible assets                       |               | 3,877                             | 11,120                                |                     | 14,997              |
| Spin-off costs  |               | 2,108                             |                                       |                     | 2,108               |
| Legal reserves and occupancy tax assessments            |               | 1,100                             |                                       |                     | 1,100               |
| Intercompany (income) expense, net                      |               | 378,039                           | (378,039)                             |                     |                     |
| Operating income  |               | 98,949                            | 236,261                               |                     | 335,210             |
| Other income (expense):                                 |               |                                   |                                       |                     |                     |
| Equity in pre-tax earnings of consolidated subsidiaries | 227,314       | 187,564                           |                                       | (414,878)           |                     |
| Other, net  | (59,050)      | (28,847)                          | 23,212                                |                     | (64,685)            |
| Total other income (expense), net                       | 168,264       | 158,717                           | 23,212                                | (414,878)           | (64,685)            |
| Income before income taxes                              | 168,264       | 257,666                           | 259,473                               | (414,878)           | 270,525             |
| Provision for income taxes                              | 24,168        | (28,692)                          | (72,902)                              |                     | (77,426)            |
| Net income  | 192,432       | 228,974                           | 186,571                               | (414,878)           | 193,099             |
| Net income attributable to noncontrolling interests     |               |                                   | (667)                                 |                     | (667)               |
| <b>Net income attributable to Expedia, Inc.</b>         | \$ 192,432    | \$ 228,974                        | \$ 185,904                            | \$ (414,878)        | \$ 192,432          |

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****Six Months Ended June 30, 2010****(in thousands)**

|                     | <b>Parent</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---------------------|---------------|-----------------------------------|---------------------------------------|---------------------|---------------------|
| Revenue             | \$            | \$ 1,366,204                      | \$ 205,743                            | \$ (20,068)         | \$ 1,551,879        |
| Costs and expenses: |               |                                   |                                       |                     |                     |
| Cost of revenue     |               | 282,730                           | 45,167                                | (1,296)             | 326,601             |

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|   |                   |                   |                  |                     |
|---|-------------------|-------------------|------------------|---------------------|
| Selling and marketing                                   | 411,191           | 185,254           | (18,777)         | 577,668             |
| Technology and content                                  | 139,280           | 34,918            | 13               | 174,211             |
| General and administrative                              | 109,181           | 40,990            | (8)              | 150,163             |
| Amortization of intangible assets                       | 6,414             | 10,958            |                  | 17,372              |
| Intercompany (income) expenses, net                     | 166,507           | (166,507)         |                  |                     |
| <b>Operating income</b>                                 | <b>250,901</b>    | <b>54,963</b>     |                  | <b>305,864</b>      |
| Other income (expense):                                 |                   |                   |                  |                     |
| Equity in pre-tax earnings of consolidated subsidiaries | 195,910           | 24,802            | (220,712)        |                     |
| Other, net  | (36,337)          | 32,543            | (34,417)         | (38,211)            |
| <b>Total other income (expense), net</b>                | <b>159,573</b>    | <b>57,345</b>     | <b>(34,417)</b>  | <b>(220,712)</b>    |
| Income before income taxes                              | 159,573           | 308,246           | 20,546           | (220,712)           |
| Provision for income taxes                              | 14,084            | (109,876)         | 4,091            | (91,701)            |
| <b>Net income</b>                                       | <b>173,657</b>    | <b>198,370</b>    | <b>24,637</b>    | <b>(220,712)</b>    |
| Net income attributable to noncontrolling interest      |                   |                   | (2,295)          | (2,295)             |
| <b>Net income attributable to Expedia, Inc.</b>         | <b>\$ 173,657</b> | <b>\$ 198,370</b> | <b>\$ 22,342</b> | <b>\$ (220,712)</b> |
|   |                   |                   |                  | <b>\$ 173,657</b>   |

**Table of Contents****Notes to Consolidated Financial Statements (Continued)****CONDENSED CONSOLIDATING BALANCE SHEET****June 30, 2011****(in thousands)**

|                            | <b>Parent</b>       | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b>   | <b>Consolidated</b> |
|----------------------------|---------------------|-----------------------------------|---------------------------------------|-----------------------|---------------------|
| <b>ASSETS</b>              |                     |                                   |                                       |                       |                     |
| Total current assets       | \$ 119,363          | \$ 2,390,153                      | \$ 924,674                            | \$ (480,190)          | \$ 2,954,000        |
| Investment in subsidiaries | 4,943,107           | 1,395,469                         |                                       | (6,338,576)           |                     |
| Intangible assets, net     |                     | 670,413                           | 123,069                               |                       | 793,482             |
| Goodwill                   |                     | 3,057,350                         | 621,188                               |                       | 3,678,538           |
| Other assets, net          | 7,595               | 456,614                           | 155,048                               |                       | 619,257             |
| <b>TOTAL ASSETS</b>        | <b>\$ 5,070,065</b> | <b>\$ 7,969,999</b>               | <b>\$ 1,823,979</b>                   | <b>\$ (6,818,766)</b> | <b>\$ 8,045,277</b> |

**LIABILITIES AND STOCKHOLDERS EQUITY**

|  |                     |                     |                     |                       |                     |
|--|---------------------|---------------------|---------------------|-----------------------|---------------------|
| Total current liabilities                            | \$ 410,980          | \$ 2,719,103        | \$ 348,226          | \$ (480,190)          | \$ 2,998,119        |
| Long-term debt                                       | 1,645,237           |                     |                     |                       | 1,645,237           |
| Other liabilities                                    |                     | 306,585             | 81,488              |                       | 388,073             |
| Stockholders equity                                  | 3,013,848           | 4,944,311           | 1,394,265           | (6,338,576)           | 3,013,848           |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS<br/>EQUITY</b> | <b>\$ 5,070,065</b> | <b>\$ 7,969,999</b> | <b>\$ 1,823,979</b> | <b>\$ (6,818,766)</b> | <b>\$ 8,045,277</b> |

**CONDENSED CONSOLIDATING BALANCE SHEET****December 31, 2010****(In thousands)**

|                            | <b>Parent</b>       | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b>   | <b>Consolidated</b> |
|----------------------------|---------------------|-----------------------------------|---------------------------------------|-----------------------|---------------------|
| <b>ASSETS</b>              |                     |                                   |                                       |                       |                     |
| Total current assets       | \$ 95,195           | \$ 1,305,807                      | \$ 578,332                            | \$ (277,707)          | \$ 1,701,627        |
| Investment in subsidiaries | 4,589,428           | 1,061,282                         |                                       | (5,650,710)           |                     |
| Intangible assets, net     |                     | 674,290                           | 123,417                               |                       | 797,707             |
| Goodwill                   |                     | 3,057,547                         | 584,813                               |                       | 3,642,360           |
| Other assets, net          | 8,415               | 399,593                           | 101,292                               |                       | 509,300             |
| <b>TOTAL ASSETS</b>        | <b>\$ 4,693,038</b> | <b>\$ 6,498,519</b>               | <b>\$ 1,387,854</b>                   | <b>\$ (5,928,417)</b> | <b>\$ 6,650,994</b> |

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**LIABILITIES AND STOCKHOLDERS EQUITY**

|  |                     |                     |                     |                       |                     |
|--|---------------------|---------------------|---------------------|-----------------------|---------------------|
| Total current liabilities                        | \$ 311,441          | \$ 1,619,260        | \$ 236,426          | \$ (277,707)          | \$ 1,889,420        |
| Long-term debt                                   | 1,644,894           |                     |                     |                       | 1,644,894           |
| Other liabilities                                |                     | 290,287             | 89,690              |                       | 379,977             |
| Stockholders equity                              | 2,736,703           | 4,588,972           | 1,061,738           | (5,650,710)           | 2,736,703           |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b> | <b>\$ 4,693,038</b> | <b>\$ 6,498,519</b> | <b>\$ 1,387,854</b> | <b>\$ (5,928,417)</b> | <b>\$ 6,650,994</b> |

**Table of Contents****Notes to Consolidated Financial Statements (Continued)****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****Six Months Ended June 30, 2011****(In thousands)**

|   | <b>Parent</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Consolidated</b> |
|---|---------------|-----------------------------------|---------------------------------------|---------------------|
| <b>Operating activities:</b>  |               |                                   |                                       |                     |
| Net cash provided by operating activities                                     | \$            | \$ 1,118,488                      | \$ 101,303                            | \$ 1,219,791        |
| <b>Investing activities:</b>  |               |                                   |                                       |                     |
| Purchases of investments  |               | (759,121)                         | (94,324)                              | (853,445)           |
| Sales and maturities of investments   |               | 405,506                           | 27,360                                | 432,866             |
| Capital expenditures, including internal-use software and website development |               | (96,398)                          | (12,642)                              | (109,040)           |
| Other, net  |               | (3,563)                           | (11,870)                              | (15,433)            |
| Net cash used in investing activities   |               | (453,576)                         | (91,476)                              | (545,052)           |
| <b>Financing activities:</b>  |               |                                   |                                       |                     |
| Treasury stock activity   | (49,227)      |                                   |                                       | (49,227)            |
| Payment of dividends to stockholders  | (38,584)      |                                   |                                       | (38,584)            |
| Purchase of additional interests in controlled subsidiaries                   |               |                                   | 70,626                                | 70,626              |
| Transfers (to) from related parties   | 69,838        | (69,838)                          |                                       |                     |
| Other, net  | 17,973        | (7,250)                           | 5,799                                 | 16,522              |
| Net cash provided by (used in) financing activities                           |               | (77,088)                          | 76,425                                | (663)               |
| Effect of exchange rate changes on cash and cash equivalents                  |               | 14,154                            | 6,446                                 | 20,600              |
| <b>Net increase in cash and cash equivalents</b>                              |               | <b>601,978</b>                    | <b>92,698</b>                         | <b>694,676</b>      |
| Cash and cash equivalents at beginning of period                              |               | 363,754                           | 350,578                               | 714,332             |
| <b>Cash and cash equivalents at end of period</b>                             | <b>\$</b>     | <b>\$ 965,732</b>                 | <b>\$ 443,276</b>                     | <b>\$ 1,409,008</b> |

**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****Six Months Ended June 30, 2010****(in thousands)**

|   | <b>Parent</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Consolidated</b> |
|---|---------------|-----------------------------------|---------------------------------------|---------------------|
| <b>Operating activities:</b>              |               |                                   |                                       |                     |
| Net cash provided by operating activities | \$            | \$ 824,676                        | \$ 108,657                            | \$ 933,333          |

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|  |           |            |            |            |
|--|-----------|------------|------------|------------|
| <b>Investing activities:</b>                                 |           |            |            |            |
| Purchases of investments                                     |           | (395,756)  | (33,727)   | (429,483)  |
| Sales and maturities of investments                          |           |            | 46,912     | 46,912     |
| Other, net   |           | (61,621)   | (47,146)   | (108,767)  |
| Net cash used in investing activities                        |           | (457,377)  | (33,961)   | (491,338)  |
| <b>Financing activities:</b>                                 |           |            |            |            |
| Payment of dividends to stockholders                         | (40,122)  |            |            | (40,122)   |
| Treasury stock activity                                      | (198,504) |            |            | (198,504)  |
| Transfers (to) from related parties                          | 203,874   | (203,874)  |            |            |
| Other, net   | 34,752    | (10,299)   | (26,607)   | (2,154)    |
| Net cash used in financing activities                        |           | (214,173)  | (26,607)   | (240,780)  |
| Effect of exchange rate changes on cash and cash equivalents |           | (10,119)   | (37,786)   | (47,905)   |
| <b>Net increase in cash and cash equivalents</b>             |           | 143,007    | 10,303     | 153,310    |
| Cash and cash equivalents at beginning of period             |           | 418,855    | 223,689    | 642,544    |
| <b>Cash and cash equivalents at end of period</b>            |           | \$ 561,862 | \$ 233,992 | \$ 795,854 |



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### **Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

#### **Forward-Looking Statements**

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect the views of our management regarding current expectations and projections about future events and are based on currently available information. Actual results could differ materially from those contained in these forward-looking statements for a variety of reasons, including, but not limited to, those discussed in our Annual Report on Form 10-K for the year ended December 31, 2010, Part I, Item 1A, Risk Factors, as well as those discussed elsewhere in this report. Other unknown or unpredictable factors also could have a material adverse effect on our business, financial condition and results of operations. Accordingly, readers should not place undue reliance on these forward-looking statements. The use of words such as anticipates, estimates, expects, intends, plans and believes, among others, generally identify forward-looking statements; however, these words are not the exclusive means of identifying such statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. These forward-looking statements are inherently subject to uncertainties, risks and changes in circumstances that are difficult to predict. We are not under any obligation to, and do not intend to, publicly update or review any of these forward-looking statements, whether as a result of new information, future events or otherwise, even if experience or future events make it clear that any expected results expressed or implied by those forward-looking statements will not be realized. Please carefully review and consider the various disclosures made in this report and in our other reports filed with the Securities and Exchange Commission (SEC) that attempt to advise interested parties of the risks and factors that may affect our business, prospects and results of operations.

The information included in this management's discussion and analysis of financial condition and results of operations should be read in conjunction with our consolidated financial statements and the notes included in this Quarterly Report, and the audited consolidated financial statements and notes and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2010.

#### **Overview**

Expedia, Inc. is an online travel company, empowering business and leisure travelers with the tools and information they need to efficiently research, plan, book and experience travel. We have created a global travel marketplace used by a broad range of leisure and corporate travelers, offline retail travel agents and travel service providers. We make available, on a stand-alone and package basis, travel products and services provided by numerous airlines, lodging properties, car rental companies, destination service providers, cruise lines and other travel product and service companies. We also offer travel and non-travel advertisers access to a potential source of incremental traffic and transactions through our various media and advertising offerings on both TripAdvisor® Media Group and on our transaction-based websites.

Our portfolio of brands includes Expedia.com®, Hotels.com®, Hotwire.com™, TripAdvisor Media Group, Expedia Affiliate Network, Classic Vacations, Expedia Local Expert™, Expedia® CruiseShipCenters®, Egencia™, eLong™, and Venere Net SpA (Venere). In addition, many of these brands have related international points of sale. For additional information about our portfolio of brands, see Portfolio of Brands in Part I, Item 1, Business, in our Annual Report on Form 10-K for the year ended December 31, 2010.

On April 7, 2011, we announced a plan to separate Expedia, Inc. into two publicly traded companies:

TripAdvisor, which will include the domestic and international operations associated with the TripAdvisor Media Group, which includes its flagship brand as well as 18 other travel media brands, and

Expedia, Inc., which will continue to include the domestic and international operations of our travel transaction brands including Expedia.com, Hotels.com, eLong, Hotwire, Egencia, Expedia Affiliate Network, CruiseShipCenters, Venere, Classic Vacations and carrentals.com.

On July 27, 2011, the Company filed a Form S-4 with information pertaining to the transaction. The transaction is subject to final approval by our Board of Directors and we expect to receive a favorable private letter ruling from the Internal Revenue Service on the tax-free nature of the spin-off. In addition, it is expected that we



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will seek stockholder approval of the transaction. The proposed spin-off is expected to be completed in the fourth quarter of 2011. The disclosures within this Management Discussion and Analysis of Financial Condition and Results of Operations are on a consolidated Expedia, Inc. basis and do not take into account the proposed spin-off of TripAdvisor.

All percentages within this section are calculated on actual, unrounded numbers.

### ***Trends***

The travel industry, including offline agencies, online agencies and other suppliers of travel products and services, has historically been characterized by intense competition, as well as rapid and significant change. Throughout 2010 and into 2011, the travel industry has been gradually improving after weathering the recession in 2009. However, natural disasters, such as the earthquake and tsunami in Japan, political and social unrest in the Middle East and North Africa, the rising price of oil, and ongoing sovereign debt issues in several European countries, all contribute to a somewhat tenuous improvement in the environment for travel. As such, global economic conditions remain uncertain and our near-term visibility remains limited.

### ***Airline Sector***

The airline sector in particular has historically experienced significant turmoil. In recent years, there has been increased air carrier consolidation, generally resulting in lower overall capacity and higher fares. In addition, air carriers have made significant efforts to keep seat capacity relatively low in order to ensure that demand for seats remains high and that flights are as full as possible. Reduced seating capacities are generally negative for Expedia as there is less air supply available on our websites, and in turn less opportunity to facilitate hotel rooms, car rental and other services on behalf of air travelers. Ticket prices on Expedia sites grew 10% in 2010 and 12% in the first half of 2011. Air capacity discipline appears to generally remain in place, and though there had been signs in late 2010 that carriers were beginning to add some capacity, the sharply rising price of oil and a tepid economic recovery curbed those intentions and in 2011 carriers have generally been trimming their capacity growth plans.

We could encounter pressure on air remuneration as certain supply agreements renew, and as air carriers and global distribution system ( GDS ) intermediaries re-negotiate their long-term agreements in 2011. For example, in late 2010, American Airlines began to pursue a new distribution strategy requiring online travel agents to agree to connect directly to American Airlines systems, rather than through GDSs, and our contract with American Airlines expired without renewal resulting in their fares being removed from our leisure travel sites. We have since reached an agreement with American Airlines and their tickets were placed back on the sites in early April 2011.

In part as a result of sharply rising average ticket prices and the absence of American Airlines tickets, our ticket volumes decreased by 6% in the first half of 2011 after having grown by 11% in the full year 2010.

### ***Hotel Sector***

Hotel occupancies and average daily rates ( ADRs ) in the lodging industry have generally improved since early 2010 in a gradually improving overall travel environment. Our room night growth has been healthy, with room nights growing 14% in 2010 and 18% in the first half of 2011. ADRs for rooms booked on Expedia sites grew 1% in 2010 and 5% in the first half of 2011. We believe that the economics for our hotel business are largely stable.

### ***Online Travel***

Increased usage and familiarity with the internet have driven rapid growth in online penetration of travel expenditures. According to PhoCusWright, an independent travel, tourism and hospitality research firm, in 2010, approximately 54% of U.S. leisure, unmanaged and corporate travel expenditures occurred online, compared with approximately 37% of European travel. Online penetration in the Asia Pacific region is estimated to be around 20%, lagging behind that of Europe. These penetration rates have generally increased over the past few years, and are expected to continue growing. This significant growth has attracted many competitors to online travel. The industry is expected to remain highly competitive for the foreseeable future.

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Competitive entrants such as metasearch companies have in some cases been able to introduce differentiated features and content compared with the legacy online travel agency companies. New models, such as daily deals and private sale sites have also begun proliferating. We have recently entered the private sale and daily deals arena with TripAdvisor's SniqueAway brand launched in 2010 and more recently a partnership with Groupon called Groupon Getaways with Expedia™. Some competitors in this space have raised significant amounts of capital and have begun to aggressively market their service offerings. In addition, we have seen increased interest in the online travel industry from search engine companies as evidenced by recent innovations and proposed and actual acquisitions by companies such as Google and Microsoft.

In addition to the growth of online travel agencies, airlines and lodging companies have aggressively pursued direct online distribution of their products and services, in effect competing with the travel agencies who also distribute their products. We believe this competition will continue into the future.

The online travel industry has also seen the development of alternative business models and variations in the timing of payment by travelers and to suppliers, which in some cases place pressure on historical business models. In particular, the agency hotel model has seen rapid adoption in Europe. While our own agency hotel model is an important component of our hotel strategy, we expect it will continue to take time for Expedia to drive meaningful demand to those hotels. We expect to continue to evaluate the use of both the merchant and agency hotel models in various geographies around the world, and may over time, pursue one or the other model, or both at the same time, more aggressively in certain regions depending on our assessment of the market demands.

Intense competition has also historically led to aggressive marketing spend by the travel suppliers and intermediaries, and a meaningful reduction in our overall marketing efficiencies and operating margins. After the global recession, beginning the first quarter of 2010, our marketing spend increased significantly as the economy has improved and as we have increased marketing spend associated with our international growth opportunities. We believe that over the long term we can manage our sales and marketing expense largely in line with revenue growth.

### ***Strategy***

We play a fundamental role in facilitating travel, whether for leisure, unmanaged business or managed business travelers. We are committed to providing travelers, travel suppliers and advertisers the world over with the best set of resources to serve their travel needs by leveraging Expedia's critical assets—our brand portfolio, our technology and commitment to continuous innovation, our global reach and our breadth of product offering. In addition, we intelligently utilize our growing base of knowledge about destinations, activities, suppliers and travelers and our central position in the travel value chain to more effectively merchandise our partners' travel offerings.

A discussion of the critical assets that we leverage in achieving our business strategy follows:

*Portfolio of Travel Brands.* We seek to appeal to the broadest possible range of travelers, suppliers and advertisers through our collection of industry-leading brands. We target several different demographics, from the value-conscious traveler through our Hotwire brand to luxury travelers seeking a high-touch, customized vacation package through our Classic Vacations brand.

We believe our flagship Expedia brand appeals to the broadest range of travelers, with our extensive product offering ranging from single item bookings of discounted product to dynamic bundling of higher-end travel packages. Our Hotels.com site and its international versions target travelers with premium hotel content such as 360-degree tours and hotel reviews. In the United States, Hotels.com generally appeals to travelers with shorter booking windows who prefer to drive to their destinations, and who make a significant portion of their travel bookings over the telephone.

We have a robust and growing advertising business, led primarily by the efforts of the TripAdvisor Media Group, which offers travel and other advertisers a host of alternatives for reaching customers in our prime demographic. The majority of advertising revenue is generated through click-based advertising, but we also have a growing display advertising business as well as other new products such as hotel business listings, vacation rentals, and a private sale site, SniqueAway. TripAdvisor generates customer traffic to its sites by offering a broad and deep selection of hotel reviews and other user-generated content to help travelers make decisions about where to travel, where to stay and what to do while on vacation. We also generate advertising revenue on our transaction sites, primarily through efforts of Expedia Media Solutions and Hotwire.

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Egencia makes travel products and services available on a managed basis to corporate travelers in North America, Europe and the Asia Pacific region.

We believe our appeal to suppliers and advertisers is further enhanced by our geographic breadth and range of business models, allowing them to offer their products and services to the industry's broadest range of travelers using our various agency, merchant and advertising business models. We intend to continue supporting and investing in our brand portfolio, geographic footprint and business models for the benefit of our travelers, suppliers and advertisers.

*Technology and Continuous Innovation.* Expedia has an established tradition of technology innovation, from Expedia.com's inception as a division of Microsoft to more recent innovations such as Expedia's introduction of opaque hotel inventory through its new Unpublished Rates product, new mobile websites and applications across nearly all of our travel brands, a new loyalty program at Expedia called Expedia Rewards™ and a new exclusive loyalty program at Hotels.com for its most frequent customers called FIVESTAR™. Our focus on mobile offerings increased in 2010 when we acquired Mobiata, a mobile application development company, to accelerate these efforts.

We intend to continue innovating on behalf of our travelers, suppliers and advertisers with particular focus on improving the traveler experience through social and mobile efforts, supplier integration and presentation, platform improvements, search engine marketing and search engine optimization.

*Global Reach.* Our Expedia, Hotels.com and TripAdvisor Media Group brands operate both in the United States and internationally. We also offer Chinese travelers an array of products and services through our majority ownership in eLong and through our TripAdvisor brands daodao.com and kuxun.cn, and we offer hotels to European-based travelers through Venere. During the first half of 2011, approximately 39% of our worldwide gross bookings and 41% of worldwide revenue were international.

Egencia, our corporate travel business, currently operates in North America, Europe, the Middle East, Africa, and the Asia Pacific region using direct points of sale as well as strategic partnerships. We believe the corporate travel sector represents a significant opportunity for Expedia, and we believe we offer a compelling technology solution to businesses seeking to optimize travel costs and improve their employees' travel experiences. We intend to continue investing in and expanding the geographic footprint and technology infrastructure of Egencia.

In expanding our global reach, we leverage significant investments in technology, operations, brand building, supplier relationships and other initiatives that we have made since the launch of Expedia.com in 1996. We intend to continue leveraging this investment when launching additional points of sale in new countries, introducing new website features, adding supplier products and services, and offering proprietary and user-generated content for travelers.

Our scale of operations enhances the value of the products and services we introduce on behalf of our travelers and suppliers. We believe that our size and scale affords us the ability to negotiate competitive rates with our supply partners, provide breadth of choice and travel deals to our traveling customers through an increasingly larger supply portfolio, and create new value added offers for our customers such as our recently launched loyalty programs. The size of our worldwide traveler base makes our sites an increasingly appealing channel for travel suppliers to reach customers. In addition, our increasing scale enhances our websites' appeal to travel and non-travel advertisers.

We intend to continue investing in and growing our international points of sale. We anticipate launching points of sale in additional countries where we find large travel markets and rapid growth of online commerce. Future launches may occur under any of our brands, or through acquisition of third party brands, as in the case of Egencia, eLong, Kuxun and Venere, or other partnerships, such as the joint venture with AirAsia launched in July 2011.

*Breadth of Product Offering.* We offer a comprehensive array of innovative travel products and services to our travelers. We plan to continue improving and growing these offerings, as well as expand them to our worldwide points of sale over time. Travelers can interact with us how and when they prefer, including via our 24/7 1-800 telesales service, which is an integral part of our appeal to travelers. We offer travelers access to almost 140,000 hotels and over 300 airlines in over 200 countries around the world.

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In the first half of 2011, approximately 62% of our revenue came from transactions involving the booking of hotel reservations, with 11% of our worldwide revenue derived from the sale of airline tickets. We facilitate travel products and services either as stand-alone products or as part of package transactions. We have emphasized growing our merchant hotel and packages businesses as these result in higher revenue per transaction. We also seek to continue diversifying our revenue mix beyond core air and hotel products to car rental, destination services, cruise and other product offerings. We have been working toward increasing the mix of advertising and media revenue from both the expansion of our TripAdvisor Media Group, as well as increasing advertising revenue from our worldwide websites such as Expedia.com and Hotels.com, which have historically been focused on transaction revenue. During the first half of 2011, advertising and media revenue accounted for approximately 14% of worldwide revenue.

### ***Seasonality***

We generally experience seasonal fluctuations in the demand for our travel products and services. For example, traditional leisure travel bookings are generally the highest in the first three quarters as travelers plan and book their spring, summer and holiday travel. The number of bookings typically decreases in the fourth quarter. Because revenue in our merchant business is generally recognized when the travel takes place rather than when it is booked, revenue typically lags bookings by several weeks or longer. As a result, revenue is typically the lowest in the first quarter and highest in the third quarter. The continued growth of our international operations or a change in our product mix may influence the typical trend of our seasonality in the future.

### **Critical Accounting Policies and Estimates**

Critical accounting policies and estimates are those that we believe are important in the preparation of our consolidated financial statements because they require that we use judgment and estimates in applying those policies. We prepare our consolidated financial statements and accompanying notes in accordance with generally accepted accounting principles in the United States ( GAAP ). Preparation of the consolidated financial statements and accompanying notes requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements as well as revenue and expenses during the periods reported. We base our estimates on historical experience, where applicable, and other assumptions that we believe are reasonable under the circumstances. Actual results may differ from our estimates under different assumptions or conditions.

There are certain critical estimates that we believe require significant judgment in the preparation of our consolidated financial statements. We consider an accounting estimate to be critical if:

It requires us to make an assumption because information was not available at the time or it included matters that were highly uncertain at the time we were making the estimate; and

Changes in the estimate or different estimates that we could have selected may have had a material impact on our financial condition or results of operations.

For additional information about our critical accounting policies and estimates, see the disclosure included in our Annual Report on Form 10-K for the year ended December 31, 2010.

### **New Accounting Pronouncements**

For a discussion of new accounting pronouncements, see Note 2 Summary of Significant Accounting Policies in the notes to the consolidated financial statements.

### **Occupancy Taxes**

We are currently involved in 51 lawsuits brought by or against states, cities and counties over issues involving the payment of hotel occupancy taxes. We continue to defend these lawsuits vigorously. With respect to the principal claims in these matters, we believe that the ordinances at issue do not apply to the services we provide, namely the facilitation of hotel reservations, and, therefore, that we do not owe the taxes that are claimed to be owed. We believe that the ordinances at issue generally impose occupancy and other taxes on entities that own, operate or control hotels (or similar businesses) or furnish or provide hotel rooms or similar accommodations.



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Recent developments include:

Lawsuits have been brought by Volusia County, Florida and the town of Breckenridge, Colorado against the online travel companies.

The Missouri Supreme Court affirmed the dismissal of the lawsuit for hotel occupancy taxes brought by the city of St. Louis.

The Kentucky Court of Appeals has affirmed the dismissal of the lawsuit brought by the City of Bowling Green.

The trial court judge in the Columbus, Georgia litigation has reversed his earlier oral ruling in favor of the city on its motion for summary judgment, and now has denied the city's motion.

The Georgia Supreme Court affirmed the ruling of the trial court in Atlanta that online travel companies are not liable for the payment of back taxes to the City of Atlanta, but that to the extent that the companies collect tax amounts from consumers they must collect taxes to cover the room rate.

The trial court judge in the San Antonio litigation has entered findings of fact and conclusions of law holding the online travel companies liable for hotel occupancy taxes.

The City of Baltimore and the Expedia companies have entered a settlement agreement in the City of Baltimore litigation. Orange County and the Expedia companies have agreed to a settlement in principle of the Orange County, Florida Litigation.

On July 26, 2011, the court in Santa Monica entered final judgment in favor of the online travel companies. For additional information on recent developments, see Part II, Item 1, Legal Proceedings.

We have established a reserve for the potential settlement of issues related to hotel occupancy tax litigation, consistent with applicable accounting principles and in light of all current facts and circumstances, in the amount of \$15 million as of June 30, 2011 and \$24 million as of December 31, 2010. A variety of factors could affect the ultimate amount we pay, if any, in connection with any of the occupancy tax-related matters. In addition, as of June 30, 2011 and December 31, 2010, we had an accrual totaling \$17 million and \$13 million related to court decisions and final settlements. Changes to these settlement reserves and accruals are included within general and administrative expenses.

Certain jurisdictions may require us to pay tax assessments, including occupancy tax assessments, prior to contesting any such assessments. This requirement is commonly referred to as "pay-to-play." Payment of these amounts is not an admission that the taxpayer believes it is subject to such taxes. During 2010 and 2009, we expensed \$3 million and \$48 million related to monies paid in advance of litigation in occupancy tax proceedings in the cities of Santa Monica and San Francisco. Such amounts were expensed when incurred within legal reserves and occupancy tax assessments. We do not believe that the amounts we retain as compensation are subject to the cities' hotel occupancy tax ordinances. If we prevail in the litigation (including any appeal), the cities will be required to repay these amounts, plus interest. However, any significant pay-to-play payment or litigation loss could negatively impact our liquidity.

In addition, certain jurisdictions, including the states of New York, North Carolina and Minnesota, the city of New York, and the District of Columbia, have enacted legislation seeking to tax online travel company services as part of sales taxes for hotel occupancy.

## **Segments**



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We have three reportable segments: Leisure, TripAdvisor Media Group and Egencia. We determined our segments based on how our chief operating decision makers manage our business, make operating decisions and evaluate operating performance.

Our Leisure segment provides a full range of travel and advertising services to our worldwide customers through a variety of brands including: Expedia.com and Hotels.com in the United States and localized Expedia and Hotels.com websites throughout the world, Expedia Affiliate Network, Hotwire.com, Venere, eLong and Classic Vacations. Our TripAdvisor Media Group segment provides advertising services to travel suppliers on its websites, which aggregate traveler opinions and unbiased travel articles about cities, hotels, restaurants and activities in a variety of destinations through tripadvisor.com and its localized international versions as well as through its various travel media content properties within TripAdvisor Media Group. Our Egencia segment provides managed travel services to corporate customers in North America, Europe and the Asia Pacific region.

**Table of Contents****Operating Metrics**

Our operating results are affected by certain metrics, such as gross bookings and revenue margin, which we believe are necessary for an understanding and evaluation of Expedia's Leisure and Egencia segments. Gross bookings represent the total retail value of transactions booked for both agency and merchant transactions, recorded at the time of booking reflecting the total price due for travel by travelers, including taxes, fees and other charges, and are generally reduced for cancellations and refunds. As travelers have increased their use of the internet to book travel arrangements, we have generally seen our gross bookings increase, reflecting the growth in the online travel industry and our business acquisitions. Revenue margin is defined as revenue as a percentage of gross bookings.

**Gross Bookings and Revenue Margin**

|   | Three months ended June 30, |                 |            | Six months ended June 30, |                  |            |
|---|-----------------------------|-----------------|------------|---------------------------|------------------|------------|
|   | 2011                        | 2010            | % Change   | 2011                      | 2010             | % Change   |
|   | (\$ in millions)            |                 |            | (\$ in millions)          |                  |            |
| <b>Gross Bookings</b>                     |                             |                 |            |                           |                  |            |
| Leisure                                   | \$ 7,268                    | \$ 6,194        | 17%        | \$ 13,920                 | \$ 12,355        | 13%        |
| TripAdvisor Media Group <sup>(1)</sup>    |                             |                 | N/A        |                           |                  | N/A        |
| Egencia                                   | 683                         | 489             | 40%        | 1,325                     | 960              | 38%        |
| <b>Total gross bookings</b>               | <b>\$ 7,951</b>             | <b>\$ 6,683</b> | <b>19%</b> | <b>\$ 15,245</b>          | <b>\$ 13,315</b> | <b>14%</b> |
| <b>Revenue Margin</b>                     |                             |                 |            |                           |                  |            |
| Leisure                                   | 11.9%                       | 11.6%           |            | 11.1%                     | 10.8%            |            |
| TripAdvisor Media Group <sup>(1)</sup>    | N/A                         | N/A             |            | N/A                       | N/A              |            |
| Egencia                                   | 6.9%                        | 7.3%            |            | 6.8%                      | 7.2%             |            |
| <b>Total revenue margin<sup>(1)</sup></b> | <b>12.9%</b>                | <b>12.5%</b>    |            | <b>12.1%</b>              | <b>11.7%</b>     |            |

(1) TripAdvisor Media Group, which is comprised of media businesses that differ from both our transaction-based websites and our Egencia business, does not measure associated gross bookings or revenue margin. Third-party revenue from the TripAdvisor Media Group is included in revenue used to calculate total revenue margin.

The increase in worldwide gross bookings for the three and six months ended June 30, 2011, as compared to the same periods in 2010, was primarily due to a 15% and 11% increase in transactions in addition to rising average airline ticket prices and ADRs for hotel rooms in both periods.

The increase in revenue margin for the three and six months ended June 30, 2011, as compared to the same periods in 2010, was primarily due to strong growth in our higher margin hotel business partially offset by rising average air ticket prices.

**Table of Contents****Results of Operations****Revenue**

|   | Three months ended June 30, |               |            | Six months ended June 30, |                 |            |
|---|-----------------------------|---------------|------------|---------------------------|-----------------|------------|
|   | 2011                        | 2010          | % Change   | 2011                      | 2010            | % Change   |
|   | (\$ in millions)            |               |            | (\$ in millions)          |                 |            |
| <b>Revenue by Segment</b>                     |                             |               |            |                           |                 |            |
| Leisure                                       | \$ 866                      | \$ 716        | 21%        | \$ 1,552                  | \$ 1,329        | 17%        |
| TripAdvisor Media Group (Third-party revenue) | 110                         | 82            | 34%        | 204                       | 154             | 33%        |
| Egencia                                       | 48                          | 36            | 34%        | 90                        | 69              | 29%        |
| <b>Total revenue</b>                          | <b>\$ 1,024</b>             | <b>\$ 834</b> | <b>23%</b> | <b>\$ 1,846</b>           | <b>\$ 1,552</b> | <b>19%</b> |

Revenue increased for the three and six months ended June 30, 2011, compared to the same periods in 2010, primarily due to an increase in worldwide hotel revenue within our Leisure segment as well as an increase in advertising and media revenue within our TripAdvisor Media Group segment.

Worldwide hotel revenue increased 27% and 22% for the three and six months ended June 30, 2011, compared to the same periods in 2010, driven by a 21% and 18% increase in room nights stayed and a 5% and 3% increase in revenue per room night. Revenue per room night increased in both periods due to higher ADRs.

Worldwide air revenue decreased 1% for the three months ended June 30, 2011, compared to the same period in 2010, due to a 3% decrease in air tickets sold, partially offset by a 1% increase in revenue per air ticket. The decrease in air tickets sold was partially due to an 11% increase in average air ticket prices. Worldwide air revenue increased 2% for the six months ended June 30, 2011, compared to the same period in 2010, due to a 9% increase in revenue per air ticket, partially offset by a 6% decrease in air tickets sold. The increase in revenue per ticket was primarily due to a 12% increase in average air ticket prices. The decrease in air tickets sold was partially due to increasing average air ticket prices and the lack of American Airlines content for the duration of first quarter 2011. American Airlines tickets were placed back on the sites in early April 2011.

The remaining worldwide revenue other than hotel and air discussed above, which includes advertising and media, car rental, destination services, insurance and agency cruise, increased by 23% and 19% for the three and six months ended June 30, 2011, compared to the same periods in 2010, primarily due to an increase in our advertising and media revenue and to a lesser extent an increase in insurance and fees related to our corporate travel business.

In addition to the above segment and product revenue discussion, our revenue by business model is as follows:

|                                      | Three months ended June 30, |               |            | Six months ended June 30, |                 |            |
|--------------------------------------|-----------------------------|---------------|------------|---------------------------|-----------------|------------|
|                                      | 2011                        | 2010          | % Change   | 2011                      | 2010            | % Change   |
|                                      | (\$ in millions)            |               |            | (\$ in millions)          |                 |            |
| <b>Revenue by Business Model</b>     |                             |               |            |                           |                 |            |
| Merchant                             | \$ 686                      | \$ 548        | 25%        | \$ 1,206                  | \$ 999          | 21%        |
| Agency                               | 200                         | 178           | 12%        | 381                       | 347             | 10%        |
| Advertising and media <sup>(1)</sup> | 138                         | 108           | 27%        | 259                       | 206             | 25%        |
| <b>Total revenue</b>                 | <b>\$ 1,024</b>             | <b>\$ 834</b> | <b>23%</b> | <b>\$ 1,846</b>           | <b>\$ 1,552</b> | <b>19%</b> |

(1) Includes third-party revenue from TripAdvisor Media Group as well as our Leisure transaction-based websites.

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Merchant revenue increased for the three and six months ended June 30, 2011, compared to the same period in 2010, due to the increase in merchant hotel revenue primarily driven by an increase in room nights stayed.

Agency revenue increased for the three and six months ended June 30, 2011, compared to the same period in 2010, primarily due to growth in our agency hotel business and to a lesser extent higher fees related to our corporate travel business and destination service revenue.

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Advertising and media revenue increased for the three and six months ended June 30, 2011, compared to the same period in 2010, primarily due to a 34% and 33% increase in advertising revenue at TripAdvisor Media Group. TripAdvisor experienced accelerated growth during the periods in cost-per-click ( CPC ) based revenue, display advertising revenue and growth in other revenue, primarily comprised of subscription-based products.

**Cost of Revenue**

|                        | Three months ended June 30, |        |          | Six months ended June 30, |        |          |
|------------------------|-----------------------------|--------|----------|---------------------------|--------|----------|
|                        | 2011                        | 2010   | % Change | 2011                      | 2010   | % Change |
|                        | (\$ in millions)            |        |          | (\$ in millions)          |        |          |
| Customer operations    | \$ 94                       | \$ 82  | 12%      | \$ 177                    | \$ 160 | 10%      |
| Credit card processing | 64                          | 53     | 21%      | 119                       | 98     | 21%      |
| Data center and other  | 41                          | 34     | 27%      | 80                        | 69     | 19%      |
| Total cost of revenue  | \$ 199                      | \$ 169 | 18%      | \$ 376                    | \$ 327 | 15%      |
| % of revenue           | 19.4%                       | 20.2%  |          | 20.4%                     | 21.0%  |          |

Cost of revenue primarily consists of (1) customer operations, including our customer support and telesales as well as fees to air ticket fulfillment vendors, (2) credit card processing, including merchant fees, charge backs and fraud, and (3) other costs, primarily including data center costs to support our websites, certain promotions, destination supply and stock-based compensation.

During the three and six months ended June 30, 2011, the primary drivers of the increase in cost of revenue expense were higher credit card processing costs related to our merchant transaction growth as well as higher data center costs, partially offset by efficiencies achieved within our customer service operations due in part to prior technology investments including interactive call routing and agent desktop technology.

**Selling and Marketing**

|                             | Three months ended June 30, |        |          | Six months ended June 30, |        |          |
|-----------------------------|-----------------------------|--------|----------|---------------------------|--------|----------|
|                             | 2011                        | 2010   | % Change | 2011                      | 2010   | % Change |
|                             | (\$ in millions)            |        |          | (\$ in millions)          |        |          |
| Direct costs                | \$ 286                      | \$ 216 | 32%      | \$ 529                    | \$ 418 | 26%      |
| Indirect costs              | 108                         | 81     | 34%      | 206                       | 160    | 30%      |
| Total selling and marketing | \$ 394                      | \$ 297 | 33%      | \$ 735                    | \$ 578 | 27%      |
| % of revenue                | 38.5%                       | 35.6%  |          | 39.8%                     | 37.2%  |          |

Selling and marketing expense primarily relates to direct costs, including traffic generation costs from search engines and internet portals, television, radio and print spending, private label and affiliate program commissions, public relations and other costs. The remainder of the expense relates to indirect costs, including personnel and related overhead in our Partner Services Group ( PSG ), TripAdvisor Media Group and Egencia and stock-based compensation costs.

Selling and marketing expenses increased \$97 million and \$157 million during the three and six months ended June 30, 2011, compared to the same periods in 2010, driven by increases in both online marketing expenses at Hotels.com and the TripAdvisor Media Group and offline marketing expenses at Expedia and Hotels.com as well as higher personnel expenses driven by additional headcount across most of our brands, primarily at TripAdvisor Media Group and PSG.

**Table of Contents****Technology and Content**

|  | Three months ended June 30, |       |          | Six months ended June 30, |        |          |
|--|-----------------------------|-------|----------|---------------------------|--------|----------|
|  | 2011                        | 2010  | % Change | 2011                      | 2010   | % Change |
|  | (\$ in millions)            |       |          | (\$ in millions)          |        |          |
| Personnel and overhead                             | \$ 61                       | \$ 44 | 38%      | \$ 118                    | \$ 91  | 29%      |
| Depreciation and amortization of technology assets | 23                          | 20    | 18%      | 45                        | 36     | 25%      |
| Other  | 26                          | 23    | 9%       | 50                        | 47     | 8%       |
| Total technology and content                       | \$ 110                      | \$ 87 | 26%      | \$ 213                    | \$ 174 | 22%      |
| % of revenue                                       | 10.8%                       | 10.5% |          | 11.6%                     | 11.2%  |          |

Technology and content expense includes product development and content expense, as well as information technology costs to support our infrastructure, back-office applications and overall monitoring and security of our networks, and is principally comprised of personnel and overhead, depreciation and amortization of technology assets including hardware, and purchased and internally developed software, and other costs including licensing and maintenance expense and stock-based compensation.

The increase of \$23 million and \$39 million in technology and content expense during the three and six months ended June 30, 2011, compared to the same periods in 2010, was primarily due to increased personnel costs for increased headcount to support our corporate technology function, worldwide transaction-based businesses, primarily Expedia, as well as our TripAdvisor Media Group businesses and increased depreciation and amortization of technology assets.

**General and Administrative**

|                                  | Three months ended June 30, |       |          | Six months ended June 30, |        |          |
|----------------------------------|-----------------------------|-------|----------|---------------------------|--------|----------|
|                                  | 2011                        | 2010  | % Change | 2011                      | 2010   | % Change |
|                                  | (\$ in millions)            |       |          | (\$ in millions)          |        |          |
| Personnel and overhead           | \$ 51                       | \$ 43 | 18%      | \$ 100                    | \$ 83  | 19%      |
| Professional fees and other      | 34                          | 36    | (5%)     | 68                        | 67     | 2%       |
| Total general and administrative | \$ 85                       | \$ 79 | 7%       | \$ 168                    | \$ 150 | 12%      |
| % of revenue                     | 8.3%                        | 9.5%  |          | 9.1%                      | 9.7%   |          |

General and administrative expense consists primarily of personnel-related costs, including our executive leadership, finance, legal and human resource functions as well as fees for external professional services including legal, tax and accounting, and other costs including stock-based compensation.

The \$6 million increase in general and administrative expense during the three months ended June 30, 2011, compared to the same period in 2010, was due primarily to higher personnel expenses resulting from an increase in headcount, partially offset by a decrease in legal costs and related reserves. The \$18 million increase in general and administrative expense during the six months ended June 30, 2011, compared to the same period in 2010, was due primarily to higher personnel expenses resulting from an increase in headcount.

**Amortization of Intangible Assets**

|                                   | Three months ended June 30, |      |          | Six months ended June 30, |       |          |
|-----------------------------------|-----------------------------|------|----------|---------------------------|-------|----------|
|                                   | 2011                        | 2010 | % Change | 2011                      | 2010  | % Change |
|                                   | (\$ in millions)            |      |          | (\$ in millions)          |       |          |
| Amortization of intangible assets | \$ 7                        | \$ 8 | (16%)    | \$ 15                     | \$ 17 | (14%)    |
| % of revenue                      | 0.7%                        | 1.0% |          | 0.8%                      | 1.1%  |          |



**Table of Contents****Spin-off Costs**

During the three and six months ended June 30, 2011, we recognized \$2 million in non-recurring expenses incurred to affect the spin-off of TripAdvisor Media Group.

**Operating Income**

|                  | Three months ended June 30, |        |          | Six months ended June 30, |        |          |
|------------------|-----------------------------|--------|----------|---------------------------|--------|----------|
|                  | 2011                        | 2010   | % Change | 2011                      | 2010   | % Change |
|                  | (\$ in millions)            |        |          | (\$ in millions)          |        |          |
| Operating income | \$ 227                      | \$ 194 | 17%      | \$ 335                    | \$ 306 | 10%      |
| % of revenue     | 22.2%                       | 23.2%  |          | 18.2%                     | 19.7%  |          |

Operating income increased for the three and six months ended June 30, 2011, compared to the same periods in 2010, primarily due to a growth in revenue, partially offset by increased costs and expenses including a growth in selling and marketing expense and technology and content expense in excess of revenue growth.

**Interest Income and Expense**

|                  | Three months ended June 30, |      |          | Six months ended June 30, |      |          |
|------------------|-----------------------------|------|----------|---------------------------|------|----------|
|                  | 2011                        | 2010 | % Change | 2011                      | 2010 | % Change |
|                  | (\$ in millions)            |      |          | (\$ in millions)          |      |          |
| Interest income  | \$ 6                        | \$ 1 | 353%     | \$ 9                      | \$ 2 | 394%     |
| Interest expense | (31)                        | (20) | 54%      | (62)                      | (41) | 51%      |

Interest income increased for the three and six months ended June 30, 2011, compared to the same periods in 2010, primarily due to higher yields on cash and cash equivalents. Interest expense increased for the three and six months ended June 30, 2011, compared to the same periods in 2010, primarily resulting from additional interest on the \$750 million senior unsecured notes issued in August 2010.

**Other, Net**

Other, net changed from income of \$1 million for the three and six months ended June 30, 2010 to a loss of \$5 million and \$11 million for the three and six months ended June 30, 2011 primarily due to net foreign exchange rate losses from our revenue hedging program during the periods versus gains in the prior year periods.

**Provision for Income Taxes**

|                            | Three months ended June 30, |       |          | Six months ended June 30, |       |          |
|----------------------------|-----------------------------|-------|----------|---------------------------|-------|----------|
|                            | 2011                        | 2010  | % Change | 2011                      | 2010  | % Change |
|                            | (\$ in millions)            |       |          | (\$ in millions)          |       |          |
| Provision for income taxes | \$ 55                       | \$ 60 | (8%)     | \$ 77                     | \$ 92 | (16%)    |
| Effective tax rate         | 28.2%                       | 34.3% |          | 28.6%                     | 34.3% |          |

We determine our provision for income taxes for interim periods using an estimate of our annual effective rate. We record any changes to the estimated annual rate in the interim period in which the change occurs, including discrete tax items.

The decrease in the effective rate for the three and six months ended June 30, 2011 as compared to the same periods in 2010 was primarily due to an increase in estimated earnings in jurisdictions outside the United States.



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Our effective tax rate was 28.2% and 28.6% for the three and six months ended June 30, 2011, which was lower than the 35% federal statutory rate primarily due an increase in estimated earnings in jurisdictions outside the United States, partially offset by state income taxes and accruals related to uncertain tax positions.

Our effective tax rate was 34.3% for both the three and six months ended June 30, 2010, which is lower than the 35% federal statutory rate primarily due to an increase in estimated earnings in jurisdictions outside the United States, partially offset by state income taxes and accruals related to uncertain tax positions.

### **Financial Position, Liquidity and Capital Resources**

Our principal sources of liquidity are cash flows generated from operations; our cash and cash equivalents and short-term investment balances, which were \$2.3 billion and \$1.2 billion at June 30, 2011 and December 31, 2010, including \$280 million and \$153 million of cash and cash equivalents and short-term investment balances of majority-owned subsidiaries; and our \$750 million revolving credit facility. As of June 30, 2011, \$723 million was available under the facility representing the total \$750 million facility less \$27 million of outstanding stand-by letters of credit. The revolving credit facility bears interest based on the Company's credit ratings, with drawn amounts bearing interest at LIBOR plus 250 basis points, and the commitment fee on undrawn amounts at 37.5 basis points as of June 30, 2011.

Our credit ratings are periodically reviewed by rating agencies. In October 2009, our long-term ratings from Moody's and Standard and Poor's were raised to Ba1 and BBB-, respectively. In August 2010, in conjunction with our 5.95% senior notes offering, Fitch issued a BBB- rating for Expedia. Standard and Poor's maintained a stable ratings outlook and Moody's changed its outlook to positive in August 2010. In April 2011, in response to our announcement of the TripAdvisor spin-off, Moody's affirmed its Ba1 rating and changed its outlook to stable, while S&P and Fitch placed the Company's ratings on Credit Watch Negative and Rating Watch Negative, respectively. In July 2011, S&P announced that they were likely to affirm Expedia's ratings at BBB-, assuming the spin-off is completed as proposed. Changes in our operating results, cash flows, or financial position could impact the ratings assigned by the various rating agencies. Should our credit ratings be adjusted downward, we may incur higher costs to borrow, which could have a material impact on our financial condition and results of operations.

The indenture governing our \$400 million aggregate principal amount of outstanding 8.5% senior notes due 2016 contains certain covenants that could restrict implementation of the proposed TripAdvisor spin-off. In light of such covenants, we anticipate taking one or more of the following actions with respect to such notes: seeking consents from the holders to the proposed spin-off or repurchasing, defeasing or redeeming the notes. If we were to decide to redeem such notes, the redemption price would be equal to 100% of the principal amount plus a make-whole premium as of, and accrued and unpaid interest to, the redemption date.

Under the merchant model, we receive cash from travelers at the time of booking and we record these amounts on our consolidated balance sheets as deferred merchant bookings. We pay our airline suppliers related to these merchant model bookings generally within a few weeks after completing the transaction, but we are liable for the full value of such transactions until the flights are completed. For most other merchant bookings, which is primarily our merchant hotel business, we pay after the travelers' use and subsequent billing from the hotel suppliers. Therefore, generally we receive cash from the traveler prior to paying our suppliers, and this operating cycle represents a working capital source of cash to us. As long as the merchant hotel business grows, we expect that changes in working capital related to merchant hotel transactions will positively impact operating cash flows. However, we continue to evaluate the use of the merchant model versus the agency model in each of our markets. If the merchant hotel model declines relative to our other business models that generally consume working capital such as agency hotel, managed corporate travel or media, or if there are changes to the merchant model or booking patterns which compress the time of receipts of cash from travelers to payment to suppliers, our overall working capital benefits could be reduced, eliminated, or even reversed.

Seasonal fluctuations in our merchant hotel bookings affect the timing of our annual cash flows. During the first half of the year, hotel bookings have traditionally exceeded stays, resulting in much higher cash flow related to working capital. During the second half of the year, this pattern reverses and cash flows are typically negative. While we expect the impact of seasonal fluctuations to continue, merchant hotel growth rates, changes to the model or booking patterns, as well as changes in the relative mix of merchant hotel transactions compared with transactions in our working capital consuming businesses may counteract or intensify the anticipated seasonal fluctuations.

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As of June 30, 2011, we had a deficit in our working capital of \$44 million, compared to a deficit of \$188 million as of December 31, 2010.

We continue to invest in the development and expansion of our operations. Ongoing investments include but are not limited to improvements to infrastructure, which include our servers, networking equipment and software, release improvements to our software code, platform migrations and consolidation and search engine marketing and optimization efforts. Our future capital requirements may include capital needs for acquisitions, share repurchases, dividend payments or expenditures in support of our business strategy; thus reducing our cash balance and/or increasing our debt.

Our cash flows are as follows:

|  | Six months ended June 30, |        |           |
|--|---------------------------|--------|-----------|
|  | 2011                      | 2010   | \$ Change |
|  | (In millions)             |        |           |
| Cash provided by (used in):  |                           |        |           |
| Operating activities   | \$ 1,220                  | \$ 933 | \$ 287    |
| Investing activities   | (545)                     | (491)  | (54)      |
| Financing activities   | (1)                       | (241)  | 240       |
| Effect of foreign exchange rate changes on cash and cash equivalents | 21                        | (48)   | 69        |

For the six months ended June 30, 2011, net cash provided by operating activities increased by \$287 million primarily due to increased benefits from working capital changes.

For the six months ended June 30, 2011, net cash used in investing activities increased by \$54 million primarily due to an increased use of cash of \$38 million related to net purchases of investments and higher capital expenditures of \$36 million, partially offset by lower cash used for acquisitions of \$23 million.

Cash used in financing activities for the six months ended June 30, 2011 primarily included cash paid to acquire shares of \$49 million, including the repurchased shares under the 2010 authorization discussed below, as well as \$39 million in cash dividend payments, mostly offset by a net \$71 million inflow related to the May 2011 eLong transaction and our purchase of additional interests in another subsidiary. Cash used in financing activities for the six months ended June 30, 2010 primarily included cash paid to acquire shares of \$199 million, including the repurchased shares under the 2006 authorization discussed below, as well as a \$40 million cash dividend payment, partially offset by \$31 million of proceeds from the exercise of equity awards.

In 2006, our Board of Directors authorized a share repurchase of up to 20 million outstanding shares of our common stock. On October 25, 2010, the Executive Committee, acting on behalf of the Board of Directors, authorized an additional repurchase of up to 20 million outstanding shares of our common stock. During the six months ended June 30, 2011 and 2010, we repurchased, through open market transactions, 2.0 million and 8.4 million shares under these authorizations for a total cost of \$41 million and \$188 million, excluding transaction costs. As of June 30, 2011, 17.4 million shares remain authorized for repurchase under the October 2010 authorization. No additional repurchases have been made under this authorization as of July 28, 2011.

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During the six months ended June 30, 2011 and 2010, the Executive Committee, acting on behalf of the Board of Directors, declared and we paid the following dividends:

| <b>Declaration Date</b>                | <b>Dividend<br/>Per<br/>Share</b> | <b>Record Date</b> | <b>Total Amount<br/>(in<br/>thousands)</b> | <b>Payment Date</b> |
|--|-----------------------------------|--------------------|--|---------------------|
| <b>Six months ended June 30, 2011:</b> |                                   |                    |  |                     |
| February 9, 2011                       | \$ 0.07                           | March 11, 2011     | \$ 19,352                                  | March 31, 2011      |
| April 27, 2011                         | \$ 0.07                           | May 27, 2011       | 19,232                                     | June 17, 2011       |
| <b>Six months ended June 30, 2010:</b> |                                   |                    |  |                     |
| February 10, 2010                      | \$ 0.07                           | March 11, 2010     | 20,220                                     | March 31, 2010      |
| April 27, 2010                         | \$ 0.07                           | May 27, 2010       | 19,902                                     | June 17, 2010       |

In addition, on July 25, 2011, the Executive Committee, acting on behalf of the Board of Directors, declared a quarterly cash dividend of \$0.07 per share of outstanding common stock to stockholders of record as of the close of business on August 26, 2011. Future declarations of dividends are subject to final determination of our Board of Directors.

The effect of foreign exchange on our cash balances denominated in foreign currency for the six months ended June 30, 2011 showed a net increase of \$69 million reflecting appreciations in currencies and higher foreign-denominated cash balances in the current year period.

In our opinion, available cash, funds from operations and available borrowings will provide sufficient capital resources to meet our foreseeable liquidity needs. There can be no assurance, however, that the cost or availability of future borrowings, including refinancings, if any, will be available on terms acceptable to us.

***Contractual Obligations, Commercial Commitments and Off-balance Sheet Arrangements***

There have been no material changes outside the normal course of business to our contractual obligations and commercial commitments since December 31, 2010. Other than our contractual obligations and commercial commitments, we did not have any off-balance sheet arrangements as of June 30, 2011 or December 31, 2010.

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**Part I. Item 3. Quantitative and Qualitative Disclosures About Market Risk**

**Market Risk Management**

There has been no material changes in our market risk during the three and six months ended June 30, 2011. For additional information, see Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in Part II of our Annual Report on Form 10-K for the year ended December 31, 2010.

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**Part I. Item 4. Controls and Procedures**

***Evaluation of disclosure controls and procedures.***

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the Exchange Act), our management, including our Chairman and Senior Executive, Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act). Based upon that evaluation, our Chairman and Senior Executive, Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

***Changes in internal control over financial reporting.***

There were no changes to our internal control over financial reporting that occurred during the quarter ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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### **Part II. Item 1. Legal Proceedings**

In the ordinary course of business, Expedia and its subsidiaries are parties to legal proceedings and claims involving property, personal injury, contract, alleged infringement of third party intellectual property rights and other claims. A discussion of certain legal proceedings can be found in the section titled "Legal Proceedings," of our Annual Report on Form 10-K for the year ended December 31, 2010 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011. The following are developments regarding such legal proceedings:

#### **Litigation Relating to Hotel Occupancy Taxes**

##### *Actions Filed by Individual States, Cities and Counties*

*San Diego Litigation.* San Diego filed a motion for judgment denying the online travel companies' writ of mandate on May 6, 2011. The online travel companies filed a motion for judgment granting their writ of mandate on May 6, 2011.

*City of Santa Monica, California Litigation.* On July 26, 2011, the court in Santa Monica entered final judgment in favor of the online travel companies.

*Orange County, Florida Litigation.* The County and the Expedia companies have reached a settlement in principle.

*City of Atlanta Litigation.* On May 16, 2011, the Georgia Supreme Court affirmed the trial court decision that online travel companies are not liable for back taxes, but to the extent that the companies collect tax amounts from consumers they must collect taxes on the room rate.

*City of San Antonio Litigation.* On July 1, 2011, the court entered findings of fact and conclusions of law holding defendant online travel companies liable for hotel occupancy taxes.

*Columbus, Georgia Litigation.* On July 1, 2011, the court reversed its earlier oral decision granting summary judgment in favor of the city and has now denied the city's motion for summary judgment.

*Nassau County, New York Litigation.* The court has dismissed the case for lack of jurisdiction.

*Myrtle Beach, South Carolina Litigation.* The parties signed a settlement agreement on July 14, 2011.

*City of Baltimore Litigation.* The Expedia companies and the City entered a settlement agreement dated June 17, 2011.

*City of Bowling Green, Kentucky Litigation.* On April 29, 2011 the Kentucky Court of Appeals affirmed the dismissal of the suit. The City has filed a motion for discretionary review to the Kentucky Supreme Court.

*St. Louis, Missouri Litigation.* On June 28, 2011, the Missouri Supreme Court affirmed the dismissal of the lawsuit for hotel occupancy taxes brought by the city of St. Louis.

*County of Genesee, County of Calhoun, County of Ingham and County of Saginaw, Michigan Litigation.* Trial is scheduled for September 12, 2012.

*Palm Beach, Florida Litigation.* Defendant online travel companies have filed a motion for summary judgment.

*City of Birmingham, Alabama Litigation.* The City has filed a notice of appeal of the March 24, 2011 trial court order granting defendants' motion for summary judgment and dismissing the case.

*Hilton Head, South Carolina Litigation.* The parties entered a settlement agreement in May 2011.

*McAllister Arkansas Citizen Taxpayer Litigation.* Defendant online travel companies have filed a motion to dismiss.

*District of Columbia Litigation.* Defendant online travel companies have filed a motion to dismiss.

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*Montgomery County, Maryland Litigation.* The court granted in part and denied in part defendant online travel companies' motion to dismiss.

In addition, the following cases were filed and/or served during the second quarter of 2011:

*Volusia County, Florida Litigation.* On April 28, 2011, Volusia County brought suit against a number of online travel companies, including Hotels.com, Expedia and Hotwire. *Volusia County v. Expedia, et al.*, Case No. 2011-10834-CIDL (In the Circuit Court, Seventh Judicial Circuit, in and for Volusia County, Florida). The complaint includes claims for Tourist Development Tax, Convention Development Tax, Transient Rentals Tax, and School Capital Outlay Surtax. Defendant online travel companies have filed a motion to dismiss.

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**Part II. Item 1. Legal Proceedings**

*Notices of Audit or Tax Assessments*

At various times, the Company has also received notices of audit, or tax assessments from municipalities and other taxing jurisdictions concerning our possible obligations with respect to state and local hotel occupancy or related taxes, which are listed in the section titled "Legal Proceedings" of our Annual Report on Form 10-K for the year ended December 31, 2010 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011. In addition, the State of Arkansas has begun or attempted to pursue formal or informal audits or administrative procedures, or stated that they may assert claims against us relating to allegedly unpaid state or local hotel occupancy or related taxes.

The Company believes that the claims discussed above lack merit and will continue to defend vigorously against them.

*Actions Filed by Expedia*

*Broward County, Florida Litigation.* Broward County has moved to amend its claims to assert a claim for punitive damages.

*Hawaii Tax Court Litigation.* On March 1, 2011, Expedia, Hotels.com, Hotwire and other online travel companies filed notices of appeal to the Hawaii Tax Appeal Court from notices of assessments dated February 3, 2011. *In the Matter of the Appeal of Expedia, Inc.*, Case No. 11-1-0023; *In the Matter of the Appeal of Hotels.com, LP*, Case No. 11-1-0027 and *In the Matter of the Appeal of Hotwire, Inc.*, Case No. 11-1-0026.



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**Part II. Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed below and in Part I, Item 1A, Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2010 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, which could materially affect our business, financial condition or future results. The risks described below and in our Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

**Table of Contents****Part II. Item 6. Exhibits**

The exhibits listed below are filed as part of this Quarterly Report on Form 10-Q.

| Exhibit No. | Exhibit Description  | Filed Herewith | Incorporated by Reference |              |                     |
|-------------|--|----------------|---------------------------|--------------|---------------------|
|             |  |                | Form                      | SEC File No. | Exhibit Filing Date |
| 31.1        | Certification of the Chairman and Senior Executive Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   | X              |                           |              |                     |
| 31.2        | Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   | X              |                           |              |                     |
| 31.3        | Certification of the Chief Financial Officer pursuant Section 302 of the Sarbanes-Oxley Act of 2002  | X              |                           |              |                     |
| 32.1        | Certification of the Chairman and Senior Executive pursuant Section 906 of the Sarbanes-Oxley Act of 2002  | X              |                           |              |                     |
| 32.2        | Certification of the Chief Executive Officer pursuant Section 906 of the Sarbanes-Oxley Act of 2002  | X              |                           |              |                     |
| 32.3        | Certification of the Chief Financial Officer pursuant Section 906 of the Sarbanes-Oxley Act of 2002  | X              |                           |              |                     |
| 101*        | The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, formatted in XBRL: (i) Consolidated Statements of Operations, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Cash Flows, and (iv) Notes to Consolidated Financial Statements. |                |                           |              |                     |

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**Signature**

Pursuant to the requirements of the Section 13 or 15(d) Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

July 28, 2011

Expedia, Inc.

By: /s/ MICHAEL B. ADLER

Michael B. Adler  
Chief Financial Officer