Expedia, Inc.
Form 10-Q
July 29, 2011
Table of Contents

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)

Delaware	**20-2705720**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

333 108th 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 x 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 x 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 x	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 x

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

Table of Contents

Expedia, Inc.

Form 10-Q

For the Quarter Ended June 30, 2011

Contents

Part I	Financial Information	
Item 1	Consolidated Financial Statements	
	Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2011 and 2010 (unaudited)	2
	Consolidated Balance Sheets as of June 30, 2011 (unaudited), and December 31, 2010	3
	Consolidated Statements of Cash Flows for the Three and Six Months Ended June 30, 2011 and 2010 (unaudited)	4
	Notes to Consolidated Financial Statements (unaudited)	5
Item 2	Management s Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3	Quantitative and Qualitative Disclosures about Market Risk	33
Item 4	Controls and Procedures	34
Part II	Other Information	
Item 1	Legal Proceedings	35
Item 1A	Risk Factors	37
Item 6	Exhibits	38
Signature		39

Table of Contents

Part I. Item 1. Consolidated Financial Statements

EXPEDIA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except for per share data)

(Unaudited)

	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 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)
Net income attributable to Expedia, Inc.	$ 140,393	$ 114,262	$ 192,432	$ 173,657
Earnings per share attributable to Expedia, Inc. available to common stockholders:				
Basic	$ 0.51	$ 0.40	$ 0.70	$ 0.61
Diluted	0.50	0.40	0.69	0.60
Shares used in computing earnings per share:				
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

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, 2011 (Unaudited)	December 31, 2010
ASSETS		
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
Total current assets	2,954,000	1,701,627
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
TOTAL ASSETS	$ 8,045,277	$ 6,650,994
LIABILITIES AND STOCKHOLDERS EQUITY		
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
Total current liabilities	2,998,119	1,889,420
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		

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
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 8,045,277	$ 6,650,994

See accompanying notes.

Table of Contents

EXPEDIA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six months ended June 30,	
	2011	2010
Operating activities:		
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
Net cash provided by operating activities	1,219,791	933,333
Investing activities:		
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
Net cash used in investing activities	(545,052)	(491,338)
Financing activities:		
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)
Net cash used in financing activities	(663)	(240,780)
Effect of exchange rate changes on cash and cash equivalents	20,600	(47,905)
Net increase in cash and cash equivalents	694,676	153,310
Cash and cash equivalents at beginning of period	714,332	642,544

Cash and cash equivalents at end of period	$ 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.

Table of Contents

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).

Table of Contents

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 (In thousands)	Level 2
Assets			
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
Total assets	$ 1,900,142	$ 771,863	$ 1,128,279
Liabilities			
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 (In thousands)	Level 2
Assets			
Cash equivalents:			
Money market funds	$ 359,169	$ 359,169	$
Investments:			
Time deposits	434,315		434,315
Corporate debt securities	243,963		243,963
Total assets	$ 1,037,447	$ 359,169	$ 678,278
Liabilities			
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 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.

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, 2011	December 31, 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, 2011	December 31, 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 Per Share	Record Date	Total Amount (in thousands)	Payment Date
Six months ended June 30, 2011:				
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
Six months ended June 30, 2010:				
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	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
	(In thousands, except per share data)			
Net income attributable to Expedia, Inc.	$ 140,393	$ 114,262	$ 192,432	$ 173,657
Earnings per share attributable to Expedia, Inc. available to common stockholders:				
Basic	$ 0.51	$ 0.40	$ 0.70	$ 0.61
Diluted	0.50	0.40	0.69	0.60
Weighted average number of shares outstanding:				
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.

10

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				
	Leisure	TripAdvisor Media Group	Egencia	Corporate & Eliminations	Total
			(In thousands)		
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)
Net income attributable to Expedia, Inc.					$ 140,393

Table of Contents

Notes to Consolidated Financial Statements (Continued)

	Leisure	TripAdvisor Media Group	Egencia	Corporate & Eliminations	Total
	Three months ended June 30, 2010 (In thousands)				
Third-party revenue	$ 715,998	$ 82,423	$ 35,539	$	$ 833,960
Intersegment revenue		42,987		(42,987)	
Revenue	$ 715,998	$ 125,410	$ 35,539	$ (42,987)	$ 833,960
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)
Net income attributable to Expedia, Inc.					$ 114,262

	Leisure	TripAdvisor Media Group	Egencia	Corporate & Eliminations	Total
	Six months ended June 30, 2011 (In thousands)				
Third-party revenue	$ 1,551,816	$ 204,385	$ 89,610	$	$ 1,845,811
Intersegment revenue		113,143		(113,143)	
Revenue	$ 1,551,816	$ 317,528	$ 89,610	$ (113,143)	$ 1,845,811
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)

Net income		193,099
Net income attributable to noncontrolling interests		(667)
Net income attributable to Expedia, Inc.	$	192,432

13

Table of Contents

Notes to Consolidated Financial Statements (Continued)

	Six months ended June 30, 2010				
	Leisure	TripAdvisor Media Group	Egencia (In thousands)	Corporate & Eliminations	Total
Third-party revenue	$ 1,328,628	$ 153,924	$ 69,327	$	$ 1,551,879
Intersegment revenue		85,068		(85,068)	
Revenue	$ 1,328,628	$ 238,992	$ 69,327	$ (85,068)	$ 1,551,879
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)
Net income attributable to Expedia, Inc.					$ 173,657

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)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
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)
Net income attributable to Expedia, Inc.	$ 140,393	$ 158,467	$ 110,924	$ (269,391)	$ 140,393

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Three Months Ended June 30, 2010

(in thousands)

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

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)		
Operating income		167,840	25,850		193,690
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)
Total other income (expense), net	107,082	32,055	(20,756)	(136,552)	(18,171)
Income before income taxes	107,082	199,895	5,094	(136,552)	175,519
Provision for income taxes	7,180	(73,849)	6,503		(60,166)
Net income	114,262	126,046	11,597	(136,552)	115,353
Net income attributable to noncontrolling interest			(1,091)		(1,091)
Net income attributable to Expedia, Inc.	$ 114,262	$ 126,046	$ 10,506	$ (136,552)	$ 114,262

Table of Contents

Notes to Consolidated Financial Statements (Continued)

CONDENSED CONSOLIDATING STATEMENT OF OPERATION

Six Months Ended June 30, 2011

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
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)	