

Expedia, Inc.
Form 10-Q
July 30, 2009

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2009

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 ☒ 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 the 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 ☐ Smaller reporting company ☐
(Do not check if a 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 17, 2009 was:

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Common stock, \$0.001 par value per share	262,863,254 shares
Class B common stock, \$0.001 par value per share	25,599,998 shares

Expedia, Inc.

Form 10-Q

For the Quarter Ended June 30, 2009

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EXPEDIA, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Revenue	\$ 769,768	\$ 795,048	\$ 1,405,480	\$ 1,482,865
Costs and expenses:				
Cost of revenue (1)	148,762	170,027	292,275	322,287
Selling and marketing (1)	271,492	300,361	507,376	588,356
Technology and content (1)	77,881	71,544	155,553	143,490
General and administrative (1)	67,380	63,915	135,289	131,482
Amortization of intangible assets	9,302	18,660	18,371	36,711
Restructuring charges	6,098		14,816	
Occupancy tax assessments and legal reserves	74,211		74,211	
Operating income	114,642	170,541	207,589	260,539
Other income (expense):				
Interest income	1,417	9,073	4,088	17,188
Interest expense	(20,805)	(13,342)	(42,450)	(29,042)
Other, net	(19,073)	(5,098)	(26,020)	(8,771)
Total other expense, net	(38,461)	(9,367)	(64,382)	(20,625)
Income before income taxes	76,181	161,174	143,207	239,914
Provision for income taxes	(34,338)	(65,944)	(61,610)	(94,916)
Net income	41,843	95,230	81,597	144,998
Net (income) loss attributable to noncontrolling interests	(941)	859	(1,311)	2,397
Net income attributable to Expedia, Inc.	\$ 40,902	\$ 96,089	\$ 80,286	\$ 147,395
Earnings per share attributable to Expedia, Inc. available to common stockholders:				
Basic	\$ 0.14	\$ 0.34	\$ 0.28	\$ 0.52
Diluted	0.14	0.33	0.28	0.50
Shares used in computing earnings per share:				
Basic	288,180	285,986	287,764	285,547
Diluted	290,889	293,999	289,384	294,010

(1) Includes stock-based compensation as follows:

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Cost of revenue	\$ 514	\$ 663	\$ 1,225	\$ 1,243
Selling and marketing	2,780	2,719	6,771	6,471
Technology and content	3,412	3,406	8,588	8,228
General and administrative	6,870	8,066	15,564	16,718
Total stock-based compensation	\$ 13,576	\$ 14,854	\$ 32,148	\$ 32,660

See accompanying notes.

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EXPEDIA, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	June 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 862,294	\$ 665,412
Restricted cash and cash equivalents	20,569	3,356
Short-term investments	47,861	92,762
Accounts receivable, net of allowance of \$13,509 and \$12,584	371,417	267,270
Prepaid merchant bookings	102,077	66,081
Prepaid expenses and other current assets	112,748	103,833
Total current assets	1,516,966	1,198,714
Property and equipment, net	235,232	247,954
Long-term investments and other assets	54,901	75,593
Intangible assets, net	829,741	833,419
Goodwill	3,569,225	3,538,569
TOTAL ASSETS	\$ 6,206,065	\$ 5,894,249

LIABILITIES AND STOCKHOLDERS EQUITY

Current liabilities:		
Accounts payable, merchant	\$ 741,907	\$ 625,059
Accounts payable, other	194,501	150,534
Deferred merchant bookings	1,112,913	523,563
Deferred revenue	20,596	15,774
Accrued expenses and other current liabilities	322,732	251,238
Total current liabilities	2,392,649	1,566,168
Long-term debt	894,811	894,548
Credit facility		650,000
Deferred income taxes, net	198,005	189,541
Other long-term liabilities	230,534	213,028
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	342	340
Authorized shares: 1,600,000		

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Shares issued: 341,519 and 339,525		
Shares outstanding: 262,738 and 261,374		
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	6,001,925	5,979,484
Treasury stock Common stock, at cost	(1,736,669)	(1,731,235)
Shares: 78,781 and 78,151		
Retained earnings (deficit)	(1,835,273)	(1,915,559)
Accumulated other comprehensive loss	(5,760)	(16,002)
Total Expedia, Inc. stockholders' equity	2,424,591	2,317,054
Noncontrolling interest	65,475	63,910
Total stockholders' equity	2,490,066	2,380,964
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 6,206,065	\$ 5,894,249

See accompanying notes.

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EXPEDIA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six months ended June 30,	
	2009	2008
Operating activities:		
Net income	\$ 81,597	\$ 144,998
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property and equipment, including internal-use software and website development	49,429	35,364
Amortization of intangible assets and stock-based compensation	50,519	69,371
Deferred income taxes	(7,112)	(9,082)
Gain on derivative instruments assumed at Spin-Off		(4,580)
Equity in (income) loss of unconsolidated affiliates	(184)	1,916
Foreign exchange loss on cash and cash equivalents, net	8,540	2,314
Realized gain on foreign currency forwards	(29,957)	
Other	7,982	1,147
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(99,853)	(118,404)
Prepaid merchant bookings and prepaid expenses	(40,883)	(90,067)
Accounts payable, merchant	115,710	124,336
Accounts payable, other, accrued expenses and other current liabilities	115,807	98,432
Deferred merchant bookings	589,298	608,288
Deferred revenue	3,657	7,021
Net cash provided by operating activities	844,550	871,054
Investing activities:		
Capital expenditures, including internal-use software and website development	(42,052)	(70,733)
Acquisitions, net of cash acquired	(8,363)	(178,313)
Changes in long-term investments and deposits	1,522	(11,106)
Proceeds from sale of business to a related party		1,624
Distribution from Reserve Primary Fund	9,083	
Net settlement of foreign currency forwards	29,957	
Maturities of short-term investments	45,091	
Net cash provided by (used in) investing activities	35,238	(258,528)
Financing activities:		
Credit facility borrowings		90,000
Credit facility repayments	(650,000)	(675,000)
Proceeds from issuance of long-term debt, net of issuance costs		393,818
Changes in restricted cash and cash equivalents	(17,213)	(11,838)
Proceeds from exercise of equity awards	567	3,709
Excess tax benefit on equity awards	13	1,551
Treasury stock activity	(5,434)	(11,215)
Other, net	(5,907)	

Net cash used in financing activities	(677,974)	(208,975)
Effect of exchange rate changes on cash and cash equivalents	(4,932)	6,616
Net increase in cash and cash equivalents	196,882	410,167
Cash and cash equivalents at beginning of period	665,412	617,386
Cash and cash equivalents at end of period	\$ 862,294	\$ 1,027,553
Supplemental cash flow information		
Cash paid for interest	\$ 39,682	\$ 28,990
Income tax payments, net	99,303	48,657

See accompanying notes.

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Notes to Consolidated Financial Statements

June 30, 2009

(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. These travel products and services are offered through a diversified portfolio of brands including: Expedia.com®, hotels.com®, Hotwire.com™, Expedia Affiliate Network (formerly Worldwide Travel Exchange and Interactive Affiliate Network), Classic Vacations, Egencia®, eLong™, Inc. (eLong), TripAdvisor Media Network 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.

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 future 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, 2008, previously filed with the Securities and Exchange Commission (SEC).

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 relating to our prior period results to conform to our current period presentation. During the first quarter of 2009, our development and information technology teams were effectively combined to better support our global brands. As a result of our reorganization, in addition to costs to develop and maintain our website and internal use applications, technology and content expense now also includes the majority of information technology costs such as costs to support and operate our network and back-office applications (including related data center costs), system monitoring and network security, and other technology leadership and support functions. The most significant reclassification of costs occurred between general and administrative expense and technology and content expense as,

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

historically, a significant portion of the information technology costs were within general and administrative expense. Technology costs to operate our live site and call center applications in production remained in cost of revenue.

The following table presents a summary of the amounts as reported and as reclassified in our consolidated statements of operations for the three and six months ended June 30, 2008:

	Three months ended June 30, 2008		Six months ended June 30, 2008	
	As reported	As reclassified	As reported	As reclassified
	(In thousands)			
Cost of revenue	\$ 168,874	\$ 170,027	\$ 320,817	\$ 322,287
Selling and marketing	299,550	300,361	586,672	588,356
Technology and content	52,744	71,544	105,046	143,490
General and administrative	84,679	63,915	173,080	131,482

There was no change to operating income as a result of these reclassifications.

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, 2008, we adopted certain provisions of Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS 157 applies when another standard requires or permits assets or liabilities to be measured at fair value. Accordingly, SFAS 157 does not require any new fair value measurements. On January 1, 2009, we adopted the remaining provisions of SFAS 157 as it relates to nonfinancial assets and liabilities that are not recognized or disclosed at fair value on a recurring basis. The adoption of SFAS 157 did not materially impact our consolidated financial statements.

On January 1, 2009, we adopted SFAS No. 141R, *Business Combinations* (SFAS 141R), which replaces SFAS 141. SFAS 141R applies to all transactions or other events in which an entity obtains control of one or more businesses and requires that all assets and liabilities of an acquired business as well as any noncontrolling interest in the acquiree be recorded at their fair values at the acquisition date. Contingent consideration arrangements are recognized at their acquisition date fair values, with subsequent changes in fair value generally reflected in earnings. Pre-acquisition contingencies are also typically recognized at their acquisition date fair values. In subsequent periods, contingent liabilities are measured at the higher of their acquisition date fair values or the estimated amounts to be realized. The adoption of SFAS 141R did not materially impact our consolidated financial statements but does change our accounting treatment for business combinations on a prospective basis.

On January 1, 2009, we adopted SFAS No. 160, *Accounting and Reporting on Non-controlling Interest in Consolidated Financial Statements, an Amendment of ARB 51* (SFAS 160). SFAS 160 states that accounting and reporting for minority interests are to be recharacterized as noncontrolling interests and classified as a component of equity. The calculation of earnings per share continues to be based on income amounts attributable to the parent. SFAS 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but affects only those entities that have an

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

outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. Beginning on January 1, 2009, upon adoption of SFAS 160, we recharacterized our minority interest as a noncontrolling interest and classified it as a component of stockholders' equity in our consolidated financial statements with the exception of shares redeemable at the option of the minority holders, which are not significant and have been classified as a liability.

On January 1, 2009, we adopted SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161). SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities, including how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The adoption of SFAS 161 did not materially impact our consolidated financial statements. See *Derivatives* below for applicable disclosures under SFAS 161.

During the second quarter of 2009, we adopted the three Staff Positions (FSPs) the Financial Accounting Standards Board (FASB) issued in April 2009 that are intended to provide additional application guidance and enhance disclosures about fair value measurements and impairments of securities. FSP FAS 157-4 clarifies the objective and method of fair value measurement even when there has been a significant decrease in market activity for the asset being measured. FSP FAS 115-2 and FAS 124-2 establishes a new model for measuring other-than-temporary impairments for debt securities, including establishing criteria for when to recognize a write-down through earnings versus other comprehensive income. FSP FAS 107-1 and APB 28-1 expands the fair value disclosures required for all financial instruments within the scope of SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, to interim periods. The adoption of FSP FAS 157-4 and FSP FAS 115-2 and FAS 124-2 did not materially impact our consolidated financial statements. FSP FAS 107-1 and APB 28-1 resulted in increased disclosures related to our debt.

During the second quarter of 2009, we adopted SFAS No. 165, *Subsequent Events* (SFAS 165), on a prospective basis. SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The adoption did not materially impact our consolidated financial statements. We have evaluated subsequent events through the time that we filed our financial statements on July 30, 2009.

New Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. This standard replaces SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, and establishes only two levels of U.S. GAAP, authoritative and nonauthoritative. The FASB Accounting Standards Codification (the *Codification*) will become the source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the SEC, which are sources of authoritative GAAP for SEC registrants. All other nongrandfathered, non-SEC accounting literature not included in the *Codification* will become nonauthoritative. This standard is effective for financial statements for interim or annual reporting periods ending after September 15, 2009. We will begin to use the new guidelines and numbering system prescribed by the *Codification* when referring to GAAP in the third quarter of 2009. As the *Codification* does not change or alter existing GAAP, it will not have any impact on our consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS 167). SFAS 167 amends the consolidation guidance applicable to variable interest entities and is effective for fiscal years beginning after November 15, 2009. We are currently evaluating the impact the adoption of SFAS 167 will have on our consolidated financial statements.

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets, an amendment to SFAS No. 140*. The new standard eliminates the concept of a qualifying special-purpose entity, changes the requirements for derecognizing financial assets, and requires greater transparency of related disclosures. SFAS No. 166 is effective for fiscal years beginning after November 15, 2009. The adoption of SFAS 166 will not have an impact on our consolidated financial statements.

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

At December 31, 2008, we had \$16 million in redemptions of money market holdings due from the Reserve Primary Fund (the Fund). During the first half of 2009, we received \$9 million in distributions from the Fund. At June 30, 2009, we had a remaining \$7 million in redemptions due from the Fund, of which \$1 million was included in prepaid and other current assets and \$6 million in long-term investments and other assets. We classified a portion of our holdings as long-term due to the Fund's February 2009 announcement that it would not distribute a certain amount of fund assets until such time as pending claims and litigation against the Fund are settled. The timing of distribution of the remaining fund assets, including amounts set aside for pending litigation, cannot be determined at this time and we may be required to record additional losses in future periods as further information becomes available from the Fund.

Derivatives

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 merchant accounts payable and deferred merchant bookings balances. 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 are recorded at fair value with gains and losses recorded in other, net. Valuation of the foreign currency forward contracts is based on foreign currency exchange rates in active markets (a Level 2 input). We had a net forward asset of \$1 million recorded in prepaid and other current assets as of June 30, 2009 and a net liability of \$1 million recorded in accrued expenses and other current liabilities as of December 31, 2008. We recorded \$28 million and \$29 million in net gains from foreign currency forward contracts during the three and six months ended June 30, 2009.

Note 3 Debt

The following table sets forth our outstanding debt:

	June 30, 2009	December 31, 2008
	(In thousands)	
8.5% senior notes due 2016, net of discount	\$ 394,811	\$ 394,548
7.456% senior notes due 2018	500,000	500,000
Long-term debt	894,811	894,548
Credit facility		650,000
Total long-term indebtedness	\$ 894,811	\$ 1,544,548

Long-term Debt

Our \$400 million of senior unsecured notes outstanding at June 30, 2009 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, beginning January 1, 2009. 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. Prior to July 1, 2011, in the event of a qualified equity offering, we may redeem up to 35% of the 8.5% Notes at a redemption price of 108.5% of the principal plus accrued interest. Additionally, we may redeem the 8.5% Notes prior to July 1, 2012 in whole or in part at a redemption price of 100% of the principal plus accrued interest, plus a 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.

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Notes to Consolidated Financial Statements (Continued)

Our \$500 million in registered senior unsecured notes outstanding at June 30, 2009 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 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 in accordance with the terms of the agreement, in whole or in part at any time at our option.

Based on quoted market prices, the fair value of our 7.456% Notes was approximately \$478 million and \$365 million as of June 30, 2009 and December 31, 2008, and the fair value of our 8.5% Notes was approximately \$387 million and \$280 million as of June 30, 2009 and December 31, 2008.

The 7.456% and 8.5% 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 10 Guarantor and Non-Guarantor Supplemental Financial Information. Accrued interest related to the 7.456% and 8.5% Notes was \$31 million and \$32 million as of June 30, 2009 and December 31, 2008.

Credit Facility

Expedia, Inc. maintains a \$1 billion unsecured revolving credit facility with a group of lenders, which is unconditionally guaranteed by certain domestic Expedia subsidiaries and expires in August 2010. No amounts were outstanding as of June 30, 2009. We had \$650 million outstanding under the revolving credit facility as of December 31, 2008. The facility bears interest based on market interest rates plus a spread, which is determined based on our financial leverage. The interest rate was 1.34% as of December 31, 2008. On February 18, 2009, we amended our credit facility to replace a tangible net worth covenant with a minimum interest coverage covenant, among other changes. As part of this amendment our leverage ratio was tightened, pricing on our borrowings increased by 200 basis points and we paid approximately \$6 million in fees, which is being amortized over the remaining term of the credit facility. The annual fee to maintain the facility ranges from 0.4% to 0.5% on the unused portion of the facility, or approximately \$4 million to \$5 million if all of the facility is unused. The facility also contains financial covenants consisting of a leverage ratio and an interest expense coverage ratio.

The amount of stand-by letters of credit (LOC) issued under the facility reduces the credit amount available. As of June 30, 2009, and December 31, 2008, there was \$50 million and \$58 million of outstanding stand-by LOCs issued under the facility.

Note 4 Stockholders Equity

Stock-based Awards

Stock-based compensation expense relates primarily to expense for restricted stock units (RSUs) and stock options. Our RSUs generally vest over five years and our stock options generally vest over four years.

As of June 30, 2009, we had stock-based awards outstanding representing approximately 27 million shares of our common stock consisting of options to purchase approximately 19 million shares of our common stock with a weighted average exercise price of \$15.47 and weighted average remaining life of 5.6 years and approximately 8 million RSUs.

Annual employee stock-based award grants typically occur during the first quarter of each year. In the first quarter of 2009, we awarded stock options as our primary form of stock-based compensation. During the six months ended June 30, 2009, we granted 10 million options and 1 million RSUs. During the six months ended June 30, 2008, we granted 3 million RSUs.

The fair value of the stock options granted during the six months ended June 30, 2009 was estimated at the date of grant using the Black-Scholes option-pricing model and was \$33 million.

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

Comprehensive income was \$77 million and \$96 million for the three months ended June 30, 2009 and 2008, and \$91 million and \$143 million for the six months ended June 30, 2009 and 2008. The primary difference between net income attributable to Expedia, Inc. as reported and comprehensive income was foreign currency translation adjustments.

Note 5 Earnings Per Share

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

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	(In thousands, except per share data)			
Net income attributable to Expedia, Inc.	\$ 40,902	\$ 96,089	\$ 80,286	\$ 147,395
Earnings per share attributable to Expedia, Inc. available to common stockholders:				
Basic	\$ 0.14	\$ 0.34	\$ 0.28	\$ 0.52
Diluted	0.14	0.33	0.28	0.50
Weighted average number of shares outstanding:				
Basic	288,180	285,986	287,764	285,547
Dilutive effect of:				
Options to purchase common stock	2,067	1,270	1,090	1,371
Warrants to purchase common stock	32	5,457	16	5,540
Other dilutive securities	610	1,286	514	1,552
Diluted	290,889	293,999	289,384	294,010

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.

Note 6 Other, Net

The following table presents the components of other, net:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands)			
Foreign exchange rate losses, net	\$ (14,457)	\$ (3,808)	\$ (20,833)	\$ (11,632)
Noncontrolling investment basis adjustment	(5,158)		(5,158)	
Equity income (loss) of unconsolidated affiliates	512	(1,093)	184	(1,916)
Gain (loss) on derivative instruments assumed at Spin-Off		(400)		4,580
Other	30	203	(213)	197
Total	\$ (19,073)	\$ (5,098)	\$ (26,020)	\$ (8,771)

During the second quarter of 2009, we acquired an additional interest in one of our equity method investments for \$3 million in cash, resulting in a 60% majority ownership interest in that entity. In conjunction with the acquisition, we remeasured our previously held equity interest to fair value and recognized the resulting loss of \$5 million in other, net during the period. The fair value was determined based on various valuation techniques, including market comparables and discounted cash flow projections (Level 3 inputs). Our investment agreement contains certain rights, whereby we may acquire and the investee may sell to us the additional shares of the company, at fair value or at established multiples of future earnings at our discretion, during the first quarter of 2011 and 2013.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****Note 7 Restructuring Charges**

In conjunction with the reorganization of our business around our global brands, we recognized \$15 million in restructuring charges during the six months ended June 30, 2009. The domestic restructuring charges are expected to be substantially completed by the end of 2009, and our international restructuring charges in the first half of 2010.

The following table summarizes the restructuring activity for the six months ended June 30, 2009:

	Employee Severance and Benefits	Other (In thousands)	Total
Accrued liability as of January 1, 2009	\$	\$	\$
Charges	13,475	1,341	14,816
Payments	(5,812)	(350)	(6,162)
Non-cash items	(101)	(613)	(714)
Accrued liability as of June 30, 2009	\$ 7,562	\$ 378	\$ 7,940

Note 8 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. Lawsuits have been filed by fifty-four cities and counties involving hotel occupancy taxes. In addition, there have been six consumer lawsuits filed relating to taxes and fees. The municipality and consumer lawsuits are in various stages ranging from responding to the complaint to dismissal or settlement. We continue to defend these lawsuits vigorously. To date, sixteen of the municipality lawsuits have been dismissed. Most of these dismissals have been without prejudice and, generally, allow the municipality to seek administrative remedies prior to pursuing further litigation. Five dismissals (Pitt County, North Carolina; Findlay, Ohio; Columbus and Dayton, Ohio; City of Orange, Texas; and Louisville, Kentucky) were based on a finding that the defendants were not subject to the local hotel occupancy tax ordinance. As a result of this litigation and other attempts by certain jurisdictions to levy similar taxes, we have established a reserve for the potential settlement of issues related to hotel occupancy taxes in the amount of \$21 million and \$20 million at June 30, 2009 and December 31, 2008. Our reserve is based on our best estimate and the ultimate resolution of these issues may be greater or less than the liabilities recorded.

In connection with various occupancy tax audits and assessments, certain jurisdictions may assert that tax payers 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 similar tax ordinances. 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 will continue to defend our position vigorously. On March 30, 2009, the California Superior Court for Orange County determined we are not required to make a payment in order to litigate in Anaheim, California. During the quarter ended June 30, 2009, we accrued and, on July 13, 2009, we paid \$35 million to the City of San Francisco for amounts assessed for hotel occupancy tax from January 2000 to March 2009. We have also accrued \$20 million for additional assessments that it is probable we will pay in the third quarter of 2009 related to the same issue. We paid and expect to pay 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

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

subject to the city's hotel occupancy tax ordinance. If we prevail in the litigation, the city will be required to repay these amounts, plus interest.

Class Action Lawsuit. We are a defendant in a class action lawsuit filed in Seattle, Washington alleging that certain practices related to our service fees breached our Terms of Use and violated Washington's Consumer Protection Act from 2001 through 2008. In May 2009, the court granted the plaintiffs' motion for summary judgment on their breach of contract claim, without the benefit of an actual trial on the merits, and denied the plaintiffs' motion for summary judgment on their Consumer Protection Act claim. The court concluded that the damages for the alleged breach were approximately \$185 million. We have entered into a Settlement Agreement providing for the settlement of all claims alleged in the lawsuit. The Settlement is subject to court approval and a preliminary settlement hearing is currently scheduled for August 10, 2009; final approval of the Settlement is not expected until late 2009. We have denied and continue to deny all of the allegations and claims asserted in the lawsuit, including claims that the plaintiffs have suffered any harm or damages. We do not admit liability or the truth of any of the allegations in the lawsuit and are attempting to settle the case to avoid costly and time-consuming litigation. We have estimated the range of possible loss associated with the settlement to be \$19 million to \$134 million and have accrued \$19 million as of June 30, 2009, our best estimate of the low end of the range of the losses probable to be incurred.

Note 9 Segment Information

Beginning in the first quarter of 2009, we have three reportable segments: Leisure, the TripAdvisor Media Network and Egencia. The change from two reportable segments, North America and Europe, was a result of the reorganization of our business around our global brands. 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 and facilities, and our Leisure segment includes the total costs of our Partner Services Group. 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, information technology and legal to our reportable segments. We include these expenses in Corporate and Eliminations.

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 Network 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 the TripAdvisor Media Network. Our Egencia segment provides managed travel services to corporate customers in North America, Europe, and the Asia Pacific region.

Concurrent with the change to three reportable segments, we have expanded our segment disclosure to include intersegment revenues, which primarily consist of advertising and media services provided by our TripAdvisor Media Network segment to our Leisure segment. These intersegment transactions are recorded by each segment at estimated 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, restructuring charges and other items excluded from segment operating performance in Corporate and Eliminations. Such amounts are detailed in our segment reconciliation below.

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

The following tables present our segment information for the three and six months ended June 30, 2009 and 2008. 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, 2009				
	Leisure	TripAdvisor Media Network	Egencia	Corporate & Eliminations	Total
	(In thousands)				
Third-party Revenue	\$ 689,975	\$ 53,159	\$ 26,634	\$	\$ 769,768
Intersegment Revenue		36,916		(36,916)	
Revenue	\$ 689,975	\$ 90,075	\$ 26,634	\$ (36,916)	\$ 769,768
Operating Income Before Amortization	\$ 233,199	\$ 52,010	\$ (128)	\$ (72,665)	\$ 212,416
Amortization of intangible assets				(9,302)	(9,302)
Stock-based compensation				(13,576)	(13,576)
Restructuring charges				(6,098)	(6,098)
Occupancy tax assessments and legal reserves				(74,211)	(74,211)
Realized loss on revenue hedges				5,413	5,413
Operating income (loss)	\$ 233,199	\$ 52,010	\$ (128)	\$ (170,439)	114,642
Other expense, net					(38,461)
Income before income taxes					76,181
Provision for income taxes					(34,338)
Net income					41,843
Net income attributable to noncontrolling interests					(941)
Net income attributable to Expedia, Inc.					\$ 40,902

	Three months ended June 30, 2008				
	Leisure	TripAdvisor Media Network	Egencia	Corporate & Eliminations	Total
	(In thousands)				
Third-party Revenue	\$ 711,652	\$ 53,495	\$ 29,901	\$	\$ 795,048
Intersegment Revenue		25,948		(25,948)	
Revenue	\$ 711,652	\$ 79,443	\$ 29,901	\$ (25,948)	\$ 795,048

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Operating Income Before					
Amortization	\$ 231,206	\$ 44,618	\$ 2,091	\$ (73,860)	\$ 204,055
Amortization of intangible assets				(18,660)	(18,660)
Stock-based compensation				(14,854)	(14,854)
Operating income (loss)	\$ 231,206	\$ 44,618	\$ 2,091	\$ (107,374)	170,541
Other expense, net					(9,367)
Income before income taxes					161,174
Provision for income taxes					(65,944)
Net income					95,230
Net loss attributable to noncontrolling interests					859
Net income attributable to Expedia, Inc.					\$ 96,089

Table of Contents**Notes to Consolidated Financial Statements (Continued)****Six months ended June 30, 2009**

				Corporate &	
	Leisure	TripAdvisor Media Network	Egencia (In thousands)	Eliminations	Total
Third-party Revenue	\$ 1,249,174	\$ 104,633	\$ 51,673	\$	\$ 1,405,480
Intersegment Revenue		70,944		(70,944)	
Revenue	\$ 1,249,174	\$ 175,577	\$ 51,673	\$ (70,944)	\$ 1,405,480
Operating Income Before Amortization	\$ 383,600	\$ 100,091	\$ (1,348)	\$ (140,140)	\$ 342,203
Amortization of intangible assets				(18,371)	(18,371)
Stock-based compensation				(32,148)	(32,148)
Restructuring charges				(14,816)	(14,816)
Occupancy tax assessments and legal reserves				(74,211)	(74,211)
Realized loss on revenue hedges				4,932	4,932
Operating income (loss)	\$ 383,600	\$ 100,091	\$ (1,348)	\$ (274,754)	207,589
Other expense, net					(64,382)
Income before income taxes					143,207
Provision for income taxes					(61,610)
Net income					81,597
Net income attributable to noncontrolling interests					(1,311)
Net income attributable to Expedia, Inc.					\$ 80,286

Six months ended June 30, 2008

				Corporate &	
	Leisure	TripAdvisor Media Network	Egencia (In thousands)	Eliminations	Total
Third-party Revenue	\$ 1,324,474	\$ 100,841	\$ 57,550	\$	\$ 1,482,865
Intersegment Revenue		50,472		(50,472)	
Revenue	\$ 1,324,474	\$ 151,313	\$ 57,550	\$ (50,472)	\$ 1,482,865

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Operating Income Before					
Amortization	\$ 394,337	\$ 79,972	\$ 3,989	\$ (148,388)	\$ 329,910
Amortization of intangible assets				(36,711)	(36,711)
Stock-based compensation				(32,660)	(32,660)
Operating income (loss)	\$ 394,337	\$ 79,972	\$ 3,989	\$ (217,759)	260,539
Other expense, net					(20,625)
Income before income taxes					239,914
Provision for income taxes					(94,916)
Net income					144,998
Net loss attributable to noncontrolling interests					2,397
Net income attributable to Expedia, Inc.					\$ 147,395

Table of Contents**Notes to Consolidated Financial Statements (Continued)****NOTE 10 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.

CONDENSED CONSOLIDATING STATEMENT OF INCOME**Three Months Ended June 30, 2009**

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated
Revenue	\$	\$ 660,787	\$ 205,433	\$ (96,452)	\$ 769,768
Costs and expenses:					
Cost of revenue		119,740	30,284	(1,262)	148,762
Selling and marketing		257,164	109,517	(95,189)	271,492
Technology and content		62,411	15,464	6	77,881
General and administrative		44,789	22,598	(7)	67,380
Amortization of intangible assets		2,841	6,461		9,302
Restructuring charges		3,771	2,327		6,098
Occupancy tax assessments and legal reserves		74,211			74,211
Operating income		95,860	18,782		114,642
Other income (expense):					
Equity in pre-tax earnings of consolidated subsidiaries	52,566	1,269		(53,835)	
Other, net	(18,188)	(13,966)	(6,307)		(38,461)
Total other income (expense), net	34,378	(12,697)	(6,307)	(53,835)	(38,461)
Income before income taxes	34,378	83,163	12,475	(53,835)	76,181
Provision for income taxes	6,524	(29,247)	(11,615)		(34,338)
Net income	40,902	53,916	860	(53,835)	41,843
Net income attributable to noncontrolling interest			(941)		(941)
Net income (loss) attributable to Expedia, Inc.	\$ 40,902	\$ 53,916	\$ (81)	\$ (53,835)	\$ 40,902

CONDENSED CONSOLIDATING STATEMENT OF INCOME**Three Months Ended June 30, 2008**

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated
Revenue	\$	\$ 717,789	\$ 189,752	\$ (112,493)	\$ 795,048

Costs and expenses:					
Cost of revenue		143,007	28,027	(1,007)	170,027
Selling and marketing		298,769	113,013	(111,421)	300,361
Technology and content		57,884	13,645	15	71,544
General and administrative		41,071	22,924	(80)	63,915
Amortization of intangible assets		15,905	2,755		18,660
Operating income		161,153	9,388		170,541
Other income (expense):					
Equity in pre-tax earnings of consolidated subsidiaries	102,598	5,413		(108,011)	
Other, net	(10,468)	4,635	(3,534)		(9,367)
Total other income (expense), net	92,130	10,048	(3,534)	(108,011)	(9,367)
Income before income taxes	92,130	171,201	5,854	(108,011)	161,174
Provision for income taxes	3,959	(67,702)	(2,201)		(65,944)
Net income	96,089	103,499	3,653	(108,011)	95,230
Net loss attributable to noncontrolling interest			859		859
Net income attributable to Expedia, Inc.	\$ 96,089	\$ 103,499	\$ 4,512	\$ (108,011)	\$ 96,089

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Notes to Consolidated Financial Statements (Continued)
CONDENSED CONSOLIDATING STATEMENT OF INCOME
Six Months Ended June 30, 2009
(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	\$	\$ 1,210,843	\$ 369,746	\$ (175,109)	\$ 1,405,480
Costs and expenses:					
Cost of revenue		237,533	57,146	(2,404)	292,275
Selling and marketing		473,772	206,278	(172,674)	507,376
Technology and content		125,042	30,502	9	155,553
General and administrative		90,916	44,413	(40)	135,289
Amortization of intangible assets		5,680	12,691		18,371
Restructuring charges		10,775	4,041		14,816
Occupancy tax assessments and legal reserves		74,211			74,211
Operating income		192,914	14,675		207,589
Other income (expense):					
Equity in pre-tax earnings (losses) of consolidated subsidiaries	103,376	(1,551)		(101,825)	
Other, net	(36,363)	(20,777)	(7,242)		(64,382)
Total other income (expense), net	67,013	(22,328)	(7,242)	(101,825)	(64,382)
Income before income taxes	67,013	170,586	7,433	(101,825)	143,207
Provision for income taxes	13,273	(64,901)	(9,982)		(61,610)
Net income (loss)	80,286	105,685	(2,549)	(101,825)	81,597
Net income attributable to noncontrolling interest			(1,311)		(1,311)
Net income (loss) attributable to Expedia, Inc.	\$ 80,286	\$ 105,685	\$ (3,860)	\$ (101,825)	\$ 80,286

CONDENSED CONSOLIDATING STATEMENT OF INCOME
Six Months Ended June 30, 2008
(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	\$	\$ 1,337,103	\$ 362,740	\$ (216,978)	\$ 1,482,865
Costs and expenses:					
Cost of revenue		270,586	53,842	(2,141)	322,287

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Selling and marketing	580,438	222,746	(214,828)	588,356
Technology and content	118,333	25,124	33	143,490
General and administrative	86,484	45,040	(42)	131,482
Amortization of intangible assets	31,903	4,808		36,711
Operating income	249,359	11,180		260,539
Other income (expense):				
Equity in pre-tax earnings of consolidated subsidiaries	154,816	3,004	(157,820)	
Other, net	(14,983)	5,251	(10,893)	(20,625)
Total other income (expense), net	139,833	8,255	(10,893)	(20,625)
Income before income taxes	139,833	257,614	287	239,914
Provision for income taxes	7,562	(101,122)	(1,356)	(94,916)
Net income (loss)	147,395	156,492	(1,069)	144,998
Net loss attributable to noncontrolling interest			2,397	2,397
Net income attributable to Expedia, Inc.	\$ 147,395	\$ 156,492	\$ 1,328	\$ (157,820)
			\$ 147,395	

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Notes to Consolidated Financial Statements (Continued)
CONDENSED CONSOLIDATING BALANCE SHEET

June 30, 2009

(In thousands)

		GuarantorNon-Guarantor			
	Parent	Subsidiaries	Subsidiaries	Eliminations	Consolidated
ASSETS					
Total current assets	\$ 55,344	\$ 1,895,449	\$ 392,924	\$ (826,751)	\$ 1,516,966
Investment in subsidiaries	3,915,163	569,048		(4,484,211)	
Intangible assets, net		680,104	149,637		829,741
Goodwill		3,015,769	553,456		3,569,225
Other assets, net	3,590	192,034	94,509		290,133
TOTAL ASSETS	\$ 3,974,097	\$ 6,352,404	\$ 1,190,526	\$ (5,310,962)	\$ 6,206,065

LIABILITIES AND STOCKHOLDERS' EQUITY

Total current liabilities	\$ 589,220	\$ 2,088,603	\$ 541,577	\$ (826,751)	\$ 2,392,649
Long-term debt	894,811				894,811
Other liabilities		337,588	90,951		428,539
Stockholders' equity	2,490,066	3,926,213	557,998	(4,484,211)	2,490,066
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 3,974,097	\$ 6,352,404	\$ 1,190,526	\$ (5,310,962)	\$ 6,206,065

CONDENSED CONSOLIDATING BALANCE SHEET

December 31, 2008

(In thousands)

		Guarantor		Non-Guarantor	
	Parent	Subsidiaries	Subsidiaries	Eliminations	Consolidated
ASSETS					
Total current assets	\$ 42,084	\$ 1,784,614	\$ 348,496	\$ (976,480)	\$ 1,198,714
Investment in subsidiaries	3,799,986	545,401		(4,345,387)	
Intangible assets, net		687,786	145,633		833,419
Goodwill		3,015,958	522,611		3,538,569
Other assets, net	4,063	214,663	104,821		323,547
TOTAL ASSETS	\$ 3,846,133	\$ 6,248,422	\$ 1,121,561	\$ (5,321,867)	\$ 5,894,249

LIABILITIES AND STOCKHOLDERS' EQUITY

Total current liabilities	\$ 570,621	\$ 1,433,356	\$ 538,671	\$ (976,480)	\$ 1,566,168
Long-term debt	894,548				894,548

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Credit facility		650,000			650,000
Other liabilities		355,561	47,008		402,569
Stockholders' equity	2,380,964	3,809,505	535,882	(4,345,387)	2,380,964
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		\$ 3,846,133	\$ 6,248,422	\$ 1,121,561	\$ (5,321,867) \$ 5,894,249

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Notes to Consolidated Financial Statements (Continued)
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Six Months Ended June 30, 2009
(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
Operating activities:				
Net cash provided by operating activities	\$	\$ 824,351	\$ 20,199	\$ 844,550
Investing activities:				
Net cash provided by investing activities		11,270	23,968	35,238
Financing activities:				
Credit facility repayments		(650,000)		(650,000)
Transfers (to) from related parties	4,895	(12,866)	7,971	
Other, net	(4,895)	(14,009)	(9,070)	(27,974)
Net cash used in financing activities		(676,875)	(1,099)	(677,974)
Effect of exchange rate changes on cash and cash equivalents		(8,587)	3,655	(4,932)
Net increase in cash and cash equivalents		150,159	46,723	196,882
Cash and cash equivalents at beginning of period		538,341	127,071	665,412
Cash and cash equivalents at end of period	\$	\$ 688,500	\$ 173,794	\$ 862,294

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Six Months Ended June 30, 2008
(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
Operating activities:				
Net cash provided by operating activities	\$	\$ 739,072	\$ 131,982	\$ 871,054
Investing activities:				
Acquisitions, net of cash acquired			(178,313)	(178,313)
Other, net		(70,382)	(9,833)	(80,215)
Net cash used in investing activities		(70,382)	(188,146)	(258,528)
Financing activities:				
Credit facility borrowings		90,000		90,000
Credit facility repayments		(675,000)		(675,000)
Proceeds from issuance of long-term debt, net of issuance costs	393,818			393,818
Transfers (to) from related parties	(383,710)	307,630	76,080	

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Other, net	(10,108)	(11,850)	4,165	(17,793)
Net cash provided by (used in) financing activities		(289,220)	80,245	(208,975)
Effect of exchange rate changes on cash and cash equivalents		9,707	(3,091)	6,616
Net increase in cash and cash equivalents		389,177	20,990	410,167
Cash and cash equivalents at beginning of period		379,199	238,187	617,386
Cash and cash equivalents at end of period	\$	\$ 768,376	\$ 259,177	\$ 1,027,553

Table of Contents**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, 2008, 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, 2008.

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 the TripAdvisor Media Network and on our transaction-based websites.

Our portfolio of brands includes Expedia.com®, hotels.com®, Hotwire.com™, Expedia Affiliate Network (formerly Worldwide Travel Exchange and Interactive Affiliate Network), Classic Vacations, Egenia eLong™, TripAdvisor® Media Network 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, 2008.

Table of Contents***Trends***

The travel industry, including offline agencies, online agencies and other suppliers of travel products and services, has been characterized by intense competition, as well as rapid and significant change. In addition, beginning in late 2008, global economic and financial market conditions worsened markedly, creating uncertainty for travelers and suppliers. This macroeconomic downturn has pressured discretionary spending on travel and advertising, with weakness initially identified in the United States and the United Kingdom markets increasing and spreading to all geographies. We cannot predict the magnitude or duration of this downturn, and our current limited visibility does not suggest any meaningful, near-term improvement.

In late April 2009, the World Health Organization acknowledged an outbreak of swine influenza, which was categorized as a pandemic in June 2009, with reported cases in Mexico and eight other countries. In response, travel advisories were issued by several countries against non-essential travel, primarily to Mexico. We are unable to predict the longer-term impact of the swine flu outbreak on the travel industry generally, or our business in particular. However, concerns relating to the health-risk posed by the swine flu could result in a decrease and/or delay in demand for our travel services. This decrease and/or delay in demand, depending on its scope and duration, could adversely affect our business and financial performance.

Airline Sector

The airline sector in particular has historically experienced significant turmoil. U.S. airlines have responded to chronic overcapacity, financial losses and extreme volatility in oil prices by aggressively reducing their cost structures and seating capacities. 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. Many carriers have continued reducing capacity in 2009, and have delayed or cancelled plans for capacity expansion in 2010 and beyond.

In 2008, many carriers raised their per seat yields by increasing fares, assessing fuel surcharges and increasing the use of a la carte pricing for such items as baggage, food and beverage and preferred seating. Fare increases, fuel surcharges and other fees are also generally negative for Expedia's business, as they may negatively impact traveler demand with no corresponding increase in our remuneration as our air revenue is tied principally to ticket volumes, not prices. Fare increases were especially pronounced through the first three quarters of 2008, but began to moderate in the fourth quarter of 2008. In the first half of 2009, airfares have declined 18% as carriers attempt to fill planes in a time of slower demand.

In addition to capacity and pricing actions, carriers have responded to industry conditions by aggressively reducing costs in every aspect of their operations, including distribution costs. Prior to 2008, airlines lowered (and in some cases, eliminated) travel agent commissions and overrides, and increased direct distribution through their proprietary websites. Carriers also reduced payments to global distribution systems (GDS) intermediaries, which have historically passed on a portion of these payments to large travel agents, including Expedia. In 2009, Expedia.com and other major online travel agencies began offering air tickets to consumers without an associated online booking fee, matching the airline supplier sites, which also do not charge online booking fees. The fee removal contributed to lower revenue per ticket for Expedia in the first half of 2009.

Primarily as a result of decreased costs of distribution and reduced access to excess air supply, Expedia's revenue per air ticket decreased more than 10% in each of 2005, 2006 and 2007, and by 2008 air revenue constituted less than 15% of the Company's global revenue. We saw greater stability in air revenue per ticket during 2008 due to our signing long-term agreements with nine of the top ten domestic carriers and three GDS providers in prior years, as well as an increase in booking fees for Expedia.com travelers. However, in the first half of 2009, in part due to our booking fee removal, our revenue per ticket has declined 22%. We may encounter additional pressure on air remuneration as certain supply agreements renew in 2009 and beyond.

In addition to the above challenges, larger carriers participating in the Expedia marketplace have generally reduced their share of total air seat capacity, while leading low-cost carriers such as Southwest in the United States and EasyJet in Europe have increased their relative capacities, but have generally chosen not to participate in the Expedia marketplace. This trend

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has negatively impacted our ability to obtain supply in our air business, and increased the relative attractiveness of some other online and offline sales channels.

Hotel Sector

In 2008, the hotel sector witnessed continued supply growth and rapidly slowing demand, resulting in declining occupancy rates. Average daily rate (ADR) growth, which had been robust in 2006 and 2007, slowed considerably throughout 2008, and by the fourth quarter was declining year-over-year. Some key leisure travel markets for Expedia, such as Las Vegas and Hawaii, have seen dramatic year-on-year declines in ADRs. In 2009, we have experienced a further weakening in ADRs due primarily to weak travel demand and continued supply expansion, resulting in declining industry occupancy rates.

While lower occupancies have historically increased our supply of merchant hotel rooms, and a lower rate of ADR growth can positively impact underlying room night growth, lower ADRs also decrease our revenue per room night as our remuneration varies proportionally with the room price. ADRs on Expedia's worldwide sites grew 7% in 2007, but declined 1% in 2008, including a 10% decrease in the fourth quarter of 2008 compared to the same period in 2007. In the first half of 2009, ADRs declined 19% compared to the same period in 2008. Our hotel remuneration is also impacted by our hotel margins, which have declined recently due to adverse movements in foreign exchange rates, lower fees and more competitive hotel pricing.

Industry sources now forecast year-on-year declines in 2009 occupancies and ADRs that are even more severe than those experienced after the 9/11 terror events. These sources call for additional declines in these metrics in 2010. These trends, combined with softer demand in a weakening economy and lower air capacity into our core leisure travel destinations, create a challenging backdrop for our hotel business, which is the largest source of revenue and profitability for Expedia. Through the first half of 2009, Expedia's ADR declines have exceeded the industry as hotels have made proportionately more promotional inventory available to us.

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 2008 approximately 58% of U.S. leisure, unmanaged and corporate travel expenditures occurred online, compared with approximately 33% of European travel. Online penetration in the Asia Pacific region is estimated to lag behind that of Europe. These penetration rates have increased over the past few years, and are expected to continue growing. This significant growth has attracted many competitors to online travel. This competition has intensified in recent years, and the industry is expected to remain highly competitive for the foreseeable future.

In addition to the growth of online travel agencies, airlines and lodging companies have aggressively pursued direct online distribution of their products and services, and supplier growth has outpaced online agency growth since 2002. As a result, according to PhoCusWright, by 2008 travel supplier sites accounted for 61% of total online travel spend in the United States. PhoCusWright forecasts that suppliers' share of online travel has reached an inflection point, and will remain relatively constant in 2009 and 2010, although recent fee actions by the online travel agencies could lead to a decrease in supplier share in the near-term.

Differentiation among the various website offerings has narrowed dramatically in the past several years, and the travel landscape has grown extremely competitive, with the need for competitors to generally differentiate their offerings on features other than price. Newer competitive entrants such as meta search companies have in some cases been able to introduce differentiated features and content compared with the legacy online travel agency companies; although in most cases they are not providing actual travel booking services. Some of these competitors have raised significant amounts of capital and plan to aggressively advertise their service offerings. In early 2009, TripAdvisor.com launched a competitive meta search travel offering featuring a Fee Estimator enabling customers to see the price of their flight including various airline fees such as baggage charges.

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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, and Expedia has only recently introduced a competitive offering.

Over the long-term, intense competition has also led to aggressive marketing spend by the travel suppliers and intermediaries, and a meaningful reduction in our overall marketing efficiency and operating margins. In the first half of 2009, we have seen a reversal of these trends, but there can be no assurance that reversal will continue in the future.

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 content 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 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.

Through Egencia, we make travel products and services available on a managed basis to corporate travelers in North America, Europe and the Asia Pacific region. Further, our TripAdvisor Media Network allows us to reach a broad range of travelers with travel opinions and user-generated content.

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 Content Innovation. Expedia has an established tradition of technology innovation, from Expedia.com's inception as a division of Microsoft to our introduction of more recent innovations such as Expedia's introduction of its Expedia Easy Manage program, offering smaller properties in secondary and tertiary markets in Europe and Asia Pacific through an agency model hotel program, TripAdvisor's launch of its Business Traveler Center, incorporating Egencia content ranking best hotels for business travelers and FlipKey's launch of self-service listings for vacation property owners to merchandise their offerings.

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

Global Reach. Our Expedia, hotels.com and TripAdvisor Media Network brands operate both in North America and internationally. We also offer Chinese travelers an array of products and services through our majority ownership in eLong, and we offer hotels to European-based travelers through our wholly-owned subsidiary Venere, which we acquired in the third

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quarter of 2008. During the first half of 2009, approximately 31% of worldwide gross bookings and 33% of worldwide revenue were international.

Egencia, our corporate travel business, currently operates in North America, Europe and Asia Pacific. We believe the corporate travel sector represents a large 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 including new business model offerings, as well as proprietary and user-generated content for travelers.

Our scale of operations enhances the value of technology innovations we introduce on behalf of our travelers and suppliers. As an example, our traveler review feature whereby our travelers have created millions of qualified reviews of hotel properties is able to accumulate a larger base of reviews due to the higher base of online traffic that frequents our various websites. 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 eLong, Venere and Egencia.

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 the Company's appeal to travelers.

Over 60% of our revenue is from transactions involving the booking of hotel reservations, with less than 15% 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; however, we are working to grow our global agency hotel business through our Venere brand as well as our Expedia and hotels.com brands. 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 and will continue to work toward increasing the mix of advertising and media revenue from both the expansion of our TripAdvisor Media Network, 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 2009, advertising and media revenue accounted for approximately 11% 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.

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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, 2008.

Stock-based Compensation

In the first quarter of 2009, we awarded stock options as our primary form of employee stock-based compensation. We measure the value of stock option awards on the date of grant at fair value using the Black-Scholes option valuation model. We amortize the fair value, net of estimated forfeitures, over the remaining term on a straight-line basis. The Black-Scholes model requires various highly judgmental assumptions including volatility and expected option life. If any of the assumptions used in the Black-Scholes model change significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period.

We record stock-based compensation expense net of estimated forfeitures. In determining the estimated forfeiture rates for stock-based awards, we periodically conduct an assessment of the actual number of equity awards that have been forfeited to date as well as those expected to be forfeited in the future. We consider many factors when estimating expected forfeitures, including the type of award, the employee class and historical experience. The estimate of stock awards that will ultimately be forfeited requires significant judgment and to the extent that actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period such estimates are revised.

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.

Segments

Beginning in the first quarter of 2009, we have three reportable segments: Leisure, the TripAdvisor Media Network and Egencia. The change from two reportable segments, North America and Europe, was a result of the reorganization of our business around our global brands. 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

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Media Network 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 the TripAdvisor Media Network. Our Egencia segment provides managed travel services to corporate customers in North America, Europe, and the Asia Pacific region.

Reclassifications

During the first quarter of 2009, our development and information technology teams were effectively combined to better support our global brands. As a result of our reorganization, in addition to costs to develop and maintain our website and internal use applications, technology and content expense now also includes the majority of information technology costs such as costs to support and operate our network and back-office applications (including related data center costs), system monitoring and network security, and other technology leadership and support functions. The most significant reclassification of costs occurred between general and administrative expense and technology and content expense as, historically, a significant portion of the information technology costs were within general and administrative expense. Technology costs to operate our live site and call center applications in production remained in cost of revenue. For a detail of the amounts reclassified for the three and six months ended June 30, 2008, see Note 1 Basis of Presentation in the notes to the consolidated financial statements.

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.

Table of Contents***Gross Bookings and Revenue Margin***

	Three months ended June 30,		% Change (1)	Six months ended June 30,		% Change
	2009 (\$ in millions)	2008		2009 (\$ in millions)	2008	
<i>Gross Bookings</i>						
Leisure	\$ 5,293	\$ 5,502	(4%)	\$ 10,197	\$ 11,012	(7%)
TripAdvisor Media Network ⁽²⁾			N/A			N/A
Egencia	330	431	(23%)	651	824	(21%)
Total gross bookings	\$ 5,623	\$ 5,933	(5%)	\$ 10,848	\$ 11,836	(8%)
<i>Revenue Margin</i>						
Leisure	13.0%	12.9%		12.2%	12.0%	
TripAdvisor Media Network ⁽²⁾	N/A	N/A		N/A	N/A	
Egencia	8.1%	6.9%		7.9%	7.0%	
Total revenue margin ⁽²⁾	13.7%	13.4%		13.0%	12.5%	

(1) All percentages within the Management Discussion and Analysis are calculated on unrounded numbers.

(2) The TripAdvisor Media Network, which is comprised of media businesses that differ from our transaction-based websites and our Egencia business, does not have associated gross bookings or revenue margin. However,

third-party revenue from the TripAdvisor Media Network is included in revenue used to calculate total revenue margin.

The decrease in worldwide gross bookings for the three and six months ended June 30, 2009, as compared to the same periods in 2008, was primarily due to a 22% and 18% decrease in airfares and a 19% decrease in hotel ADRs for both periods, partially offset by a 18% and 13% increase in transactions.

The increase in revenue margin for the three and six months ended June 30, 2009, as compared to the same periods in 2008, was primarily due to a reduction in the mix of lower margin air product and an increased mix of advertising and media revenue.

Results of Operations

Revenue

	Three months ended June 30,			Six months ended June 30,		
	2009 (\$ in millions)	2008	% Change	2009 (\$ in millions)	2008	% Change
Revenue by Segment						
Leisure	\$ 690	\$ 712	(3%)	\$ 1,249	\$ 1,324	(6%)
TripAdvisor Media Network (Third-party revenue)	53	53	(1%)	104	101	4%
Egencia	27	30	(11%)	52	58	(10%)
Total revenue	\$ 770	\$ 795	(3%)	\$ 1,405	\$ 1,483	(5%)

Revenue decreased for the three and six months ended June 30, 2009, compared to the same periods in 2008, primarily due to decreases in domestic air and hotel revenue, including declines in package revenue, within our Leisure segment, partially offset by an increase in car rental revenue and advertising and media revenue.

Worldwide hotel revenue decreased 1% and 5% for the three and six months ended June 30, 2009, compared to the same periods in 2008. The decrease was primarily due to a 19% decrease in ADRs for both the three and six months ended June 30, 2009 compared to the same periods in 2008, partially offset by a 26% and 20% increase in room nights stayed, including rooms delivered as a component of packages and nights booked through Venere.

Worldwide air revenue decreased 20% and 19% for the three and six months ended June 30, 2009, compared to the same periods in 2008, due to a 29% and 22% decrease in revenue per air ticket driven by lower consumer booking fees, lower commissions and a lower mix of merchant air tickets. Ticket volumes increased 13% and 4% reflecting ticket volume share gains driven in part by our Expedia.com U.S. booking fee removal beginning in March 2009, partially offset by lower passenger volumes due to carrier capacity cuts and softening in traveler demand.

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The remaining worldwide revenue other than hotel and air discussed above, which includes advertising and media, car rental, destination services, agency cruise, increased by 1% and 3% for the three and six months ended June 30, 2009, compared to the same periods in 2008, primarily due to an increase in our car rental and advertising and media revenue.

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,		
	2009	2008	%	2009	2008	%
	(\$ in millions)			(\$ in millions)		
Revenue by Business Model						
Merchant	\$ 527	\$ 554	(5%)	\$ 936	\$ 1,011	(7%)
Agency	165	167	(1%)	319	334	(5%)
Advertising and media	78	74	5%	150	138	9%
Total revenue	\$ 770	\$ 795	(3%)	\$ 1,405	\$ 1,483	(5%)

The decrease in our merchant revenue for the three and six months ended June 30, 2009, compared to the same periods in 2008, was driven by a decrease in merchant hotel revenue primarily resulting from the lower ADRs, partially offset by higher room nights stayed discussed above.

Agency revenue decreased for the three and six months ended June 30, 2009, compared to the same periods in 2008, due to the decrease in agency air revenue primarily resulting from our Expedia.com U.S. booking fee removal in March 2009, partially offset by higher agency hotel revenue related to Venere, which we acquired during the third quarter of 2008.

Advertising and media revenue increased 5% and 9% for the three and six months ended June 30, 2009, compared to the same periods in 2008, primarily due to increases in advertising revenue at our Leisure transaction-based websites.

Cost of Revenue

	Three months ended June 30,			Six months ended June 30,		
	2009	2008	%	2009	2008	%
	(\$ in millions)			(\$ in millions)		
Customer operations	\$ 72	\$ 81	(10%)	\$ 140	\$ 158	(11%)
Credit card processing	43	57	(25%)	83	105	(20%)
Data center and other	34	32	4%	69	59	16%
Total cost of revenue	\$ 149	\$ 170	(13%)	\$ 292	\$ 322	(9%)
% of revenue	19.3%	21.4%		20.8%	21.7%	

Cost of revenue primarily consists of (1) customer operations including costs of our call centers, telesales and fees paid to fulfillment vendors for processing airline tickets and related customer services, (2) credit card processing costs, including merchant fees, charge backs and fraud, and (3) other costs, primarily including costs of our data centers to support our live sites as well as costs paid to suppliers for certain destination supply.

For the three and six months ended June 30, 2009, compared to the same periods in 2008, the primary drivers of the decrease in cost of revenue expense were a decrease in credit card processing costs as a result of our technology

investments and a decrease in merchant bookings during the current periods, a decrease in call center costs due to various efficiency initiatives in the current periods and a reduction in fulfillment costs primarily resulting from efficiencies realized from bringing some of our air ticket fulfillment in-house.

Table of Contents***Selling and Marketing***

	Three months ended June 30,			Six months ended June 30,		
	2009	2008	% Change	2009	2008	% Change
	(\$ in millions)			(\$ in millions)		
Direct costs	\$ 204	\$ 228	(11%)	\$ 372	\$ 446	(16%)
Indirect costs	67	72	(7%)	135	142	(6%)
Total selling and marketing	\$ 271	\$ 300	(10%)	\$ 507	\$ 588	(14%)
% of revenue	35.3%	37.8%		36.1%	39.7%	

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

Selling and marketing expenses decreased for the three and six months ended June 30, 2009, compared to the same periods in 2008, primarily due to lower online and offline advertising spend resulting from efficiencies and a lower cost advertising environment and lower private label and affiliate expenses associated with the lower overall travel demand environment in the current year periods, and was driven by decreases in our Leisure segment including Expedia branded points of sale in Europe as well as hotels.com in the United States, partially offset by an increase in spend for Venere in Europe which we acquired during the third quarter of 2008.

Technology and Content

	Three months ended June 30,			Six months ended June 30,		
	2009	2008	% Change	2009	2008	% Change
	(\$ in millions)			(\$ in millions)		
Personnel and overhead	\$ 42	\$ 41	3%	\$ 83	\$ 82	2%
Depreciation and amortization of technology assets	16	11	43%	32	22	45%
Other	20	20	0%	41	39	2%
Total technology and content	\$ 78	\$ 72	9%	\$ 156	\$ 143	8%
% of revenue	10.1%	9.0%		11.1%	9.7%	

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, principally related to payroll and related expenses, software development cost amortization, hardware and software expenditures, and licensing and maintenance expenses.

Technology and content expense increased for the three and six months ended June 30, 2009, compared to the same periods of 2008, primarily due to increased depreciation and amortization of technology assets.

Table of Contents***General and Administrative***

	Three months ended June 30,			Six months ended June 30,		
	2009	2008	% Change	2009	2008	% Change
	(\$ in millions)			(\$ in millions)		
Personnel and overhead	\$ 46	\$ 47	(1%)	\$ 91	\$ 93	(2%)
Professional fees	16	13	24%	33	27	19%
Other	5	4	23%	11	11	2%
Total general and administrative	\$ 67	\$ 64	5%	\$ 135	\$ 131	3%
% of revenue	8.8%	8.0%		9.6%	8.9%	

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

General and administrative expenses increased for the three and six months ended June 30, 2009, compared to the same periods in 2008, primarily due to an increase in legal and other professional fees in the current periods.

Amortization of Intangible Assets

	Three months ended June 30,			Six months ended June 30,		
	2009	2008	% Change	2009	2008	% Change
	(\$ in millions)			(\$ in millions)		
Amortization of intangible assets	\$ 9	\$ 19	(50%)	\$ 18	\$ 37	(50%)
% of revenue	1.2%	2.3%		1.3%	2.5%	

Amortization of intangible assets decreased for the three and six months ended June 30, 2009, compared to the same periods in 2008, due primarily to the completion of amortization related to certain distribution agreements as well as technology and supplier relationship intangible assets, partially offset by amortization related to new business acquisitions over the past year.

Restructuring Charges

During the three and six months ended June 30, 2009, in conjunction with the reorganization of our business around our global brands, we recognized \$6 million and \$15 million in restructuring charges primarily related to employee severance and related benefits. For additional information, see Note 7 Restructuring Charges in the notes to the consolidated financial statements.

Occupancy Tax Assessments and Legal Reserves

During the three and six months ended June 30, 2009, we recognized \$55 million related to monies expected to be paid in advance of litigation in the San Francisco occupancy tax proceedings and an accrual of \$19 million for the potential settlement of the Expedia consumer class action lawsuit. For additional information, see Note 8 Commitments and Contingencies in the notes to the consolidated financial statements.

Table of Contents***Operating Income***

	Three months ended June 30,			Six months ended June 30,		
	2009	2008	% Change	2009	2008	% Change
	(\$ in millions)			(\$ in millions)		
Operating income	\$ 115	\$ 171	(33%)	\$ 208	\$ 261	(20%)
% of revenue	14.9%	21.5%		14.8%	17.6%	

Operating income decreased for the three and six months ended June 30, 2009, compared to the same periods in 2008, primarily due to the San Francisco occupancy tax assessments, class action settlement legal reserve and restructuring charges in the current year periods, partially offset by a decline in sales and marketing expense and intangible asset amortization expense.

Interest Income and Expense

	Three months ended June 30,			Six months ended June 30,		
	2009	2008	% Change	2009	2008	% Change
	(\$ in millions)			(\$ in millions)		
Interest income	\$ 1	\$ 9	(84%)	\$ 4	\$ 17	(76%)
Interest expense	(21)	(13)	56%	(42)	(29)	46%

Interest income decreased for the three and six months ended June 30, 2009, compared to the same periods in 2008, primarily due to lower average interest rates. Interest expense increased for the three and six months ended June 30, 2009, compared to the same periods in 2008, primarily resulting from additional interest on the \$400 million senior unsecured notes issued in June 2008.

Other, Net

Other, net is comprised of the following:

	Three months ended June 30,			Six months ended June 30,		
	2009	2008	% Change	2009	2008	% Change
	(\$ in millions)			(\$ in millions)		
Foreign exchange rate losses, net	\$ (15)	\$ (4)	280%	\$ (21)	\$ (12)	79%
Noncontrolling investment basis adjustment	(5)		N/A	(5)		N/A
Equity income (loss) of unconsolidated affiliates	1	(1)	(147%)		(2)	(110%)
Gain on derivative instruments assumed at Spin-Off			N/A		5	(100%)
Total other, net	\$ (19)	\$ (5)	274%	\$ (26)	\$ (9)	197%

Provision for Income Taxes

	Three months ended June 30,			Six months ended June 30,		
	2009	2008	% Change	2009	2008	% Change
	(\$ in millions)			(\$ in millions)		
Provision for income taxes	\$ (34)	\$ (66)	(48%)	\$ (62)	\$ (95)	(35%)
Effective tax rate	45.1%	40.9%		43.0%	39.6%	

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.

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The increase in the effective rate for the first half of 2009 as compared to the same period in 2008 was primarily due to the non-deductible portion of occupancy tax assessments accrued during the second quarter of 2009 as well as a non-deductible loss on one of our equity method investments.

Our effective tax rate was 45.1% and 43.0% for the three and six months ended June 30, 2009, which is higher than the 35% federal statutory rate primarily due to state income taxes and the non-deductible expenses described above.

Our effective tax rate was 40.9% and 39.6% for the three and six months ended June 30, 2008, which is higher than the 35% federal statutory rate primarily due to 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 \$910 million and \$758 million at June 30, 2009, and December 31, 2008 and included \$134 million and \$140 million of cash and short-term investments at eLong, whose results are consolidated into our financial statements due to our controlling voting and economic ownership interest; and our \$1 billion revolving credit facility, of which \$950 million was available as of June 30, 2009. This represents the total \$1 billion facility less \$50 million of outstanding stand-by letters of credit.

On February 18, 2009, we amended our credit facility to replace a tangible net worth covenant with a minimum interest coverage covenant, among other changes. As part of this amendment, our leverage ratio was tightened, pricing on our borrowings increased by 200 basis points and we paid approximately \$6 million in fees, which will be amortized over the remaining term of the credit facility. Outstanding credit facility borrowings bear interest reflecting our financial leverage; based on our June 30, 2009 financial statements, the interest rate would equate to a base rate plus 262.5 basis points. At our discretion, we may choose a base rate on borrowings equal to (1) the greater of the Prime rate or the Federal Funds Rate plus 50 basis points or LIBOR plus 100 basis points or (2) various durations of LIBOR.

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 supplier, 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 will positively impact operating cash flows. However, due to various factors, including decreases in bookings and technology and process initiatives which have resulted in quicker payments to hotel suppliers, we have experienced a slight reduction in our working capital benefits to cash flows related to changes in our merchant accounts payable and deferred merchant bookings balances for the first half of 2009 compared to the same period in 2008.

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 or changes to the hotel business model or booking patterns as discussed above may affect working capital, which might counteract or intensify the anticipated seasonal fluctuations.

As of June 30, 2009, we had a deficit in our working capital of \$876 million, compared to a deficit of \$367 million as of December 31, 2008 primarily due to the repayment of \$650 million of borrowings under our credit facility in the first quarter of 2009.

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 and search engine optimization efforts. Our future capital requirements may include

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capital needs for acquisitions, share repurchases or expenditures in support of our business strategy. In the event we have acquisitions or share repurchases, this may reduce our cash balance and/or increase our debt.

Our cash flows are as follows:

	Six months ended June 30,		
	2009	2008	\$ Change
		(\$ in millions)	
Cash provided by (used in):			
Operating activities	\$ 845	\$ 871	\$ (26)
Investing activities	35	(259)	294
Financing activities	(678)	(209)	(469)
Effect of foreign exchange rate changes on cash and cash equivalents	(5)	7	(12)

For the six months ended June 30, 2009, net cash provided by operating activities decreased by \$26 million primarily due to an increase in tax and interest payments, partially offset by increased benefits from other working capital changes and growth in operating income after adjusting for the impacts of depreciation and amortization and the expense accruals related to the occupancy tax assessment and the class action litigation.

Cash provided by investing activities represented a positive change of \$294 million in cash flows for the six months ended June 30, 2009 primarily due to an \$170 million decrease in net cash paid for acquisitions, a decrease in capital expenditures of \$29 million and cash provided by the maturities of short-term investments of \$45 million in the current year period.

Cash used in financing activities for the six months ended June 30, 2009 primarily included the repayment of \$650 million of borrowings under the credit facility. Cash used in financing activities for the six months ended June 30, 2008 primarily included the net repayment of \$191 million of debt.

We currently have authorization, for which there is no fixed termination date, from our Board of Directors to repurchase up to 20 million outstanding shares of our common stock; no such repurchases have been made under this authorization as of July 30, 2009. The number of shares we may repurchase under this authorization is subject to certain of our debt covenants.

In connection with various occupancy tax audits and assessments, certain jurisdictions may assert that tax payers 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 also attempt to require that we pay any assessed taxes prior to being allowed to contest or litigate the applicability of similar tax ordinances. 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 will continue to defend our position vigorously. During the second quarter of 2009, we accrued \$55 million related to tax assessments in San Francisco. We expect the total of amounts accrued to be paid by the end of the third quarter of 2009 to the detriment of operating cash flows. As of July 30, 2009, \$35 million in assessed amounts have been paid.

We also have a shelf registration statement filed with the SEC under which Expedia, Inc. may offer from time to time debt securities, guarantees of debt securities, preferred stock, common stock or warrants. The shelf registration statement expires on October 15, 2010.

In our opinion, available cash, funds from operations and available borrowings will provide sufficient capital resources to meet our foreseeable liquidity needs. Our liquidity has not been materially impacted by the current credit environment. There can be no assurance, however, that the cost or availability of future borrowings, including refinancings, if any, will not be impacted by the ongoing capital market disruptions.

Contractual Obligations, Commercial Commitments and Off-balance Sheet Arrangements

As of June 30, 2009, there were no material changes outside the normal course of business to our contractual obligations and commercial commitments since December 31, 2008. Other than our contractual obligations and commercial commitments, we did not have any off-balance sheet arrangements as of June 30, 2009 or December 31, 2008.

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

There has been no material change in our market risk during the six months ended June 30, 2009. 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, 2008.

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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, 2009 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, 2008 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2009. The following are developments regarding such legal proceedings:

Ryanair Limited v. Travelscape, LLC. Trial is scheduled for February 1, 2010.

Consumer Class Action Litigation

hotels.com. On June 23, 2009, plaintiffs filed an amended class action petition. Plaintiff's amended class certification motion is due on September 4, 2009.

Expedia Washington. A hearing on both parties' summary judgment motions was held on May 22, 2009. On May 28, 2009, the court granted the plaintiffs' motion for summary judgment on their breach of contract claim, without the benefit of an actual trial on the merits, and denied plaintiffs' motion of summary judgment on their consumer protection act claim. The plaintiffs' breach of contract claim was based on Expedia's website Terms of Use that were in effect from February 2003 through December 2006. The court concluded that the damages for the alleged breach are \$184,470,451. Expedia entered into a Settlement Agreement providing for the settlement of all claims alleged in the lawsuit. All proceedings currently pending in the trial court and court of appeals, including the trial that was scheduled to begin on July 27, 2009, have been stayed or vacated pending approval of the settlement by the trial court. The plaintiffs intend to file a Motion for Preliminary Approval of the proposed settlement on or before August 3, 2009. The trial court has scheduled a hearing on the Motion for Preliminary Approval for August 10, 2009.

Hotwire. A tentative settlement has been reached. The court entered an order granting preliminary approval of the class action settlement on July 13, 2009. The deadline to object to and request exclusion from the settlement is September 25, 2009. The approval hearing is scheduled for October 23, 2009.

Consumer Case against Expedia Canada. On June 26, 2009, a class action suit against Expedia Canada Corp. was filed in Ontario, Canada, alleging that disclosures related to taxes and service fees were deceptive. *See Magill v. Expedia Canada Corporation and Expedia.ca*, CV-09-381919-00LP (Ontario Superior Court of Justice). The complaint asserts claims under the Competition Act and Consumer Protection Act as well as claims of unjust enrichment, restitution, constructive trust, accounting and disgorgement and breach of contract. It seeks damages in the amount of CA\$50,000,000 for the class as well as interest, fees and alternate damages measures.

Litigation Relating to Hotel Occupancy Taxes

City of Los Angeles Litigation. The case is coordinated with the cases in San Diego and Anaheim. On June 4, 2009, the cases were also coordinated with the San Francisco lawsuit.

City of Findlay, Ohio Litigation. Plaintiffs filed their second amended consolidated complaint on July 7, 2009. On July 17, 2009, defendants filed a motion to dismiss claims related to plaintiffs' new cause of action that were similar to earlier dismissed claims.

City of Rome, Georgia Litigation. On July 10, 2009, the court lifted the stay of the litigation.

Pitt County, North Carolina Litigation. On January 14, 2009, the Fourth Circuit Court of Appeals affirmed the district court's dismissal of the lawsuit. The deadline for plaintiff to appeal the dismissal to the Supreme Court was May 12, 2009.

City of San Diego, California Litigation. The first hearing on the online travel companies' challenges to the city assessments occurred on June 19, 2009. If the hearing examiner ultimately upholds the city's assessments, the online travel companies intend to challenge those assessments in court. In addition, the online travel companies intend to challenge the city's purported right to require them to pay the tax assessment prior to commencing litigation to challenge the applicability of the ordinance. This case is coordinated with the San Francisco, Los Angeles and Anaheim litigation.

Orange County, Florida Litigation. Trial is scheduled for August 23, 2010 or up to three weeks thereafter.

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Part II. Item 1. Legal Proceedings (Continued)

City of Atlanta, Georgia Litigation. On June 1, 2009, the Court of Appeals vacated its ruling dismissing the litigation and remanded the case. On July 10, 2009, the case was transferred to Judge Michael Johnson.

City of Gallup, New Mexico Litigation. On July 7, 2009, the court granted plaintiff's motion for class certification. On July 22, 2009, defendants filed a petition to appeal the order on class certification.

Columbus, Georgia Litigation. On June 15, 2009, the Georgia Supreme Court denied Expedia's appeal and affirmed and modified in part the trial court's ruling. On June 30, 2009, the court denied Expedia's motion to reconsider. Hotels.com's appeal is pending.

Cities of Columbus and Dayton, Ohio Litigation. Plaintiffs filed a second amended complaint on July 7, 2009, which added the Franklin County Convention Facilities Authority (FCCFA) as a plaintiff. On July 17, 2009, defendants filed a motion to dismiss FCCFA's claims. FCCFA's response is due August 20, 2009.

City of Houston, Texas Litigation. Defendants filed first amended original answers on May 29, 2009. Trial is currently scheduled for February 1, 2010.

Jefferson City, Missouri Litigation. Trial is scheduled to begin on March 15, 2010. A tentative settlement has been reached pending city counsel approval. All deadlines have been stayed pending approval.

City of Oakland, California Litigation. On July 16, 2009, the Ninth Circuit affirmed the dismissal for failure to exhaust administrative remedies.

Cities of Goodlettsville and Brentwood, Tennessee Litigation. On March 31, 2009, the court denied defendants' motion to dismiss. Defendants' answers were filed on April 24, 2009.

County of Monroe, Florida Litigation. On May 27, 2009, the court reopened the case. Plaintiff filed its first amended complaint on May 28, 2009. Defendants' motion to dismiss the first amended complaint is pending. Trial is scheduled for April 12, 2010.

Township of Lyndhurst, New Jersey Litigation. On March 18, 2009, the court granted defendants' motion to dismiss for lack of standing. On April 9, 2009, plaintiff's filed a notice of appeal. Appellant's opening brief was filed on July 6, 2009. Appellees' brief is due on August 5, 2009, and appellant's reply brief is due on August 19, 2009.

City of Baltimore Litigation. On June 3, 2009, the court denied defendants' motion to dismiss. This case is coordinated with the Worcester County litigation.

Worcester County, Maryland Litigation. On June 2, 2009, the court denied defendants' motion to dismiss. The court denied defendants' motion for reconsideration of the motion to dismiss on July 21, 2009. Defendants' answer is due on August 4, 2009. This case is coordinated with the Baltimore litigation.

City of Anaheim, California Litigation. On March 30, 2009, the court overruled the city's demurrer to the companies' pay to play motion. As a result, the online travel companies are not required to pay the assessed amounts before challenging those assessments in the trial court. On May 22, 2009, the city sought interlocutory review of the pay first ruling. The lawsuit is coordinated with the San Diego and Los Angeles matters. On June 4, 2009, the lawsuits were also coordinated with the San Francisco lawsuit. On May 15, 2009, the court lifted the stay to allow for discovery on Prop 218 issues and briefing on all other matters. Defendants filed briefs relating to the city's contingency fee agreements with their attorneys. On June 11, 2009, the Court of Appeals denied Anaheim's petition challenging the pay first ruling. Anaheim's pay first ruling is pending in the California Supreme Court. The city filed its motion for denial of writ on July 15, 2009, and defendant's opposition is due July 24, 2009. The hearing on this motion is scheduled for September 23, 2009. Defendants have moved for a continuance of the hearing.

City of San Francisco, California. On May 11, 2009, the online travel companies filed a petition for writ of mandate in the California superior court seeking to vacate the decision of the hearing examiner and asking for a

Table of Contents**Part II. Item 1. Legal Proceedings (Continued)**

declaratory judgment that the online travel companies are not subject to San Francisco's hotel occupancy tax. *Expedia, Inc. v. City and County of San Francisco, et. al.*; *Hotwire, Inc. v. City and County of San Francisco, et. al.*, Superior Court of the State of California, County of San Francisco). A motion to coordinate the case with the Los Angeles, Anaheim and San Diego lawsuits was granted on June 4, 2009. On May 22, 2009, the city served a notice of intent to seek summary judgment. On June 19, 2009, the court granted the city's demurrer on the pay first issue relating to pay-to-play provisions. Expedia and Hotwire's appeal of the pay first decision was denied and Expedia and Hotwire paid the assessed amounts on July 13, 2009. The companies have filed a claim for refund. Amended petitions are due on August 3, 2009. A hearing on defendants' motion to disqualify contingency fee counsel will be held on August 17, 2009. A hearing on the hotels.com assessment appeal is scheduled for August 12, 2009.

City of Jacksonville Litigation. On April 8, 2009, defendants filed their answers. The parties have agreed to dismiss IAC.

The following cases relating to hotel occupancy taxes have been filed in addition the legal proceedings discussing in the Legal Proceedings of our Annual Report on Form 10-K for the year ended December 31, 2008 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2009.

City of Bowling Green, Kentucky. On March 10, 2009, the city of Bowling Green, Kentucky filed an individual action against a number of internet travel companies, including Expedia, Inc., hotels.com LP and Hotwire, Inc. *City of Bowling Green, Kentucky vs. hotels.com, L.P., et. al.*, Civil Action 09-CI-409, Commonwealth of Kentucky, Warren Circuit Court. The complaint alleges that the defendants have failed to pay transient room taxes as required by municipal ordinance. Defendants' motion to dismiss is pending.

County of Genesee, County of Calhoun, County of Ingham and County of Saginaw, Michigan. On February 24, 2009, four Michigan Counties, Genesee, Calhoun, Ingham and Saginaw filed an individual action against a number of internet travel companies, including Expedia, Inc., hotels.com L.P., hotels.com GP, LLC and TravelNow.com, Inc. *County of Genesee, Michigan v. hotels.com, L.P., et. al.*, 09-265-CZ (Circuit Court for the County of Ingham, Michigan). The complaint alleges that the defendants have failed to pay hotel accommodation taxes as required by county ordinance. Defendants' filed a motion for summary disposition on June 29, 2009. Plaintiffs' response is due on August 14, 2009. Hearing on the motion for summary disposition is scheduled for August 21, 2009.

South Carolina Litigation. On March 16, 2009, Travelscape, LLC filed a notice of appeal in the South Carolina Court of Appeals. *Travelscape, LLC v. South Carolina Department of Revenue*, 2008-ALJ-17-0076-CC (State of South Carolina Court of Appeals). Plaintiff appeals the Administrative Law Court's order of February 13, 2009, relating to the South Carolina Department of Revenue's assessment of sales and accommodations taxes against plaintiffs. Plaintiff filed its initial brief on May 13, 2009. The DOR's response brief was received on July 17, 2009. Travelscape's reply is due on July 30, 2009.

Broward County, Florida Litigation. On January 12, 2009, Expedia, hotels.com, L.P. and Hotwire filed separate actions against Broward County, Florida and the Florida Department of Revenue. *Expedia, Inc. v. Broward County Florida, et. al.*, Case Nos., 37 2009 CA 000131, 37 2009 CA 000129, and 37 2009 000128 (Second Judicial Circuit Court, State of Florida, Leon County). The complaints contest the assessments against plaintiffs on the grounds that plaintiffs are not subject to the tourist development tax, among other claims. Defendants answered and asserted counterclaims on February 2, 2009. Plaintiffs' motion to dismiss defendants' counterclaims is pending. On May 13, 2009, the court consolidated all cases for all purposes except trial on any Broward counterclaims.

St. Louis County, Missouri Litigation. On July 6, 2009, St. Louis County, Missouri filed an action against a number of online travel companies, including Expedia, Inc. (DE), Expedia, Inc. (WA), hotels.com, hotels.com, L.P., hotels.com GP, LLC, Hotwire, Inc., and TravelNow.com, Inc. *St. Louis County, Missouri v. Prestige Travel, Inc., et. al.*, Case No. 09SL-CC02912 (21st Judicial Circuit Court, St. Louis County, Missouri). The complaint alleges

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Part II. Item 1. Legal Proceedings (Continued)

that the defendants have failed to collect and/or pay taxes under the county's tourism and hotel tax ordinances. Some of the Expedia defendants were served on July 20, 2009.

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. The states of South Carolina, Texas, Pennsylvania, Florida, Georgia, Indiana, New Mexico, New York, West Virginia, Wisconsin and Kansas; the counties of Miami-Dade, Broward and Duvall, Florida; the cities of Alpharetta, Atlanta, Augusta, Cartersville, Cedartown, Clayton, College Park, Columbus, Dalton, East Point, Hart, Hartwell, Macon, Richmond, Rockmart, Rome, Tybee Island and Warner Robins, Georgia; the counties of Cobb, DeKalb, Fulton and Gwinnett, Georgia; the cities of Los Angeles, San Diego, San Francisco, Anaheim, West Hollywood, South Lake Tahoe, Palm Springs, Monterey County, Sacramento, Long Beach, Napa, Newport Beach, Oakland, Irvine, Fresno, La Quinta, Dana Point, Laguna Beach, Riverside, Eureka, La Palma, Twenty-nine Palms, Laguna Hills, Garden Grove, Corte Madera, Santa Rosa, Manhattan Beach, Huntington Beach, Ojai, Orange, Sacramento, Sunnyvale, Truckee, Walnut Creek, Carson, Cypress, Lompoc, San Bruno, San Jose, and Santa Barbara, California; the cities of Phoenix, Scottsdale, Tucson and Peoria, Arizona; undisclosed cities in Alabama; Jefferson County, Arkansas; the cities of Pine Bluff, and North Little Rock, Arkansas; the city of Chicago, Illinois; the cities of New Orleans and Lafayette Parish, Louisiana; the city of Baltimore, Maryland; New York City; and the city of Madison, Wisconsin, among others, have 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 in all of the lawsuits relating to hotel occupancy taxes lack merit and will continue to defend vigorously against them.

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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 in Part I, Item 1A, Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2008, which could materially affect our business, financial condition or future results. The risks described 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 4 Submission of Matters to a Vote of Security Holders**

On June 2, 2009, the Company's annual meeting of stockholders (the Annual Meeting) was held. Stockholders present in person or by proxy, representing 241,866,292 shares of Expedia common stock (entitled to one vote per share), 25,599,998 shares of Expedia Class B common stock (entitled to ten votes per share) and no shares of Expedia Series A preferred stock (entitled to two votes per share), voted on the following matters:

Proposal 1. Election of Directors The stockholders elected ten directors of the Company, three of whom were elected by holders of common stock only, and seven of whom were elected by holders of common stock, Class B common stock and Series A preferred stock, voting together as a single class, each to hold office until the next annual meeting of stockholders or until their successors have been duly elected and qualified (or, if earlier, such director's removal or resignation from the Board of Directors). The affirmative vote of a plurality of the total number of votes cast was required to elect each director. Stockholders eligible to vote, voted as follows:

Holders of Expedia Common Stock, voting as a separate class:

	Votes in Favor	Votes Withheld
A. George Skip Battle	232,865,235	9,001,057
Craig A. Jacobson	236,916,883	4,949,409
Peter M. Kern	227,473,196	14,393,096

Holders of Expedia Common Stock, Expedia Class B Common Stock and Expedia Series A Preferred Stock, voting together as a single class:

	Votes in Favor	Votes Withheld
Barry Diller	383,442,322	114,423,950
Dara Khosrowshahi	432,739,226	65,127,046
Victor A. Kaufman	418,362,296	79,503,976
Jonathan L. Dolgen	479,685,610	18,180,662
William R. Fitzgerald	391,005,251	106,861,021
John C. Malone	421,281,791	76,584,481
José A. Tazón	489,163,261	8,703,011

Proposal 2. Approval of Amendment to the Amended and Restated Expedia, Inc. 2005 Stock and Annual Incentive Plan to Increase the Number of Shares Authorized for Issuance Thereunder by 26,000,000 The holders of Expedia Common Stock, Expedia Class B Common Stock and Expedia Series A Preferred Stock, voting as a single class, also approved the increase of shares authorized for issuance under the Amended and Restated Expedia, Inc. 2005 Stock and Annual Incentive Plan by 26 million. The affirmative vote of a majority of the total voting power of those shares of Expedia Common Stock, Class B Common Stock and Series A Preferred Stock present in person or represented by proxy at the Annual Meeting, voting together as a single class, was required to approve Proposal 2. Those stockholders eligible to vote, voted as follows:

Votes in Favor	Votes Against	Votes Abstaining	Broker Non-Votes
369,689,047	114,253,777	64,768	13,858,680

Proposal 3. Ratification of Appointment of Independent Registered Public Accounting Firm The holders of Expedia Common Stock, Expedia Class B Common Stock and Expedia Series A Preferred Stock, voting as a single class, also ratified the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the year ending December 31, 2009. The affirmative vote of a majority of the total voting power of those shares of Expedia Common Stock, Class B Common Stock and Series A Preferred Stock present in person

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Part II. Item 4 Submission of Matters to a Vote of Security Holders (Continued)

or represented by proxy at the Annual Meeting, voting together as a single class, was required to approve Proposal 3. Those stockholders eligible to vote, voted as follows:

Votes in Favor	Votes Against	Votes Abstaining
497,633,837	125,598	106,837
	41	

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	Form	Incorporated by Reference		Filing Date
				SEC File No.	Exhibit	
10.1	Employment Agreement between Dara Khosrowshahi and Expedia, Inc., effective as of May 28, 2009.	X				
10.2	Amended and Restated Restricted Stock Unit Agreement between Dara Khosrowshahi and Expedia, Inc., dated as of April 8, 2009.	X				
10.3	Amended and Restated Employment Agreement between Burke F. Norton and Expedia, Inc., effective as of May 28, 2009.	X				
10.4	Amended and Restated Employment Agreement between Michael B. Adler and Expedia, Inc., effective as of May 16, 2009.	X				
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				

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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 30, 2009

Expedia, Inc.

By: /s/ MICHAEL B. ADLER
Michael B. Adler
Chief Financial Officer