

EXPEDIA, INC.

FORM 10-Q (Quarterly Report)

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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 March 31, 2012

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
(State or other jurisdiction of
incorporation or organization)

20-2705720
(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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The number of shares outstanding of each of the registrant's classes of common stock as of April 13, 2012 was:

Common stock, \$0.0001 par value per share	114,283,330 shares
Class B common stock, \$0.0001 par value per share	12,799,999 shares

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Expedia, Inc.
Form 10-Q
For the Quarter Ended March 31, 2012
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Part I. Item 1. Consolidated Financial Statements

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

	Three months ended March 31,	
	2012	2011
Revenue	\$816,488	\$727,835
Costs and expenses:		
Cost of revenue (1)	200,098	175,610
Selling and marketing (including \$51,361 and \$53,944 with a related party)(1)	377,072	350,908
Technology and content (1)	108,911	86,807
General and administrative (1)	78,578	71,160
Amortization of intangible assets	3,422	5,834
Legal reserves, occupancy tax and other	(276)	2,358
Operating income	48,683	35,158
Other income (expense):		
Interest income	5,743	3,335
Interest expense	(21,392)	(22,522)
Other, net	(6,207)	(7,182)
Total other expense, net	(21,856)	(26,369)
Income from continuing operations before income taxes	26,827	8,789
Provision for income taxes	(5,240)	(2,886)
Income from continuing operations	21,587	5,903
Discontinued operations, net of taxes	(23,889)	46,306
Net income (loss)	(2,302)	52,209
Net income attributable to noncontrolling interests	(979)	(170)
Net income (loss) attributable to Expedia, Inc.	<u>\$ (3,281)</u>	<u>\$ 52,039</u>
Amounts attributable to Expedia, Inc.:		
Income from continuing operations	\$ 20,608	\$ 5,826
Discontinued operations, net of taxes	(23,889)	46,213
Net income (loss)	<u>\$ (3,281)</u>	<u>\$ 52,039</u>
Earnings per share from continuing operations attributable to Expedia, Inc. available to common stockholders:		
Basic	\$ 0.15	\$ 0.04
Diluted	0.15	0.04
Earnings (loss) per share attributable to Expedia, Inc. available to common stockholders:		
Basic	\$ (0.02)	\$ 0.38
Diluted	(0.02)	0.37
Shares used in computing earnings per share:		
Basic	133,202	136,930
Diluted	139,306	139,084
Dividends declared per common share	\$ 0.09	\$ 0.14
(1) Includes stock-based compensation as follows:		
Cost of revenue	\$ 919	\$ 810
Selling and marketing	4,445	3,509
Technology and content	4,284	3,863
General and administrative	7,303	6,616

See accompanying notes.

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EXPEDIA, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(Unaudited)

	Three months ended March 31,	
	2012	2011
Net income (loss)	\$ (2,302)	\$52,209
Other comprehensive income, net of tax		
Currency translation adjustments	12,951	25,080
Unrealized gains (losses) on available for sale securities, net of taxes	1,402	(34)
Other comprehensive income	<u>14,353</u>	<u>25,046</u>
Comprehensive income	12,051	77,255
Less: Comprehensive income attributable to noncontrolling interests	(990)	(775)
Comprehensive income attributable to Expedia, Inc.	<u>\$11,061</u>	<u>\$76,480</u>

See accompanying notes.

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

	<u>March 31,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
	<u>(Unaudited)</u>	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,272,508	\$ 689,134
Restricted cash and cash equivalents	23,274	19,082
Short-term investments	725,179	648,819
Accounts receivable, net of allowance of \$9,050 and \$7,959	414,555	339,427
Prepaid expenses and other current assets	134,796	121,541
Current assets of discontinued operations	14,330	456,426
Total current assets	2,584,642	2,274,429
Property and equipment, net	343,540	320,282
Long-term investments and other assets	262,213	289,348
Intangible assets, net	738,858	743,898
Goodwill	2,888,930	2,877,301
TOTAL ASSETS	\$ 6,818,183	\$ 6,505,258
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, merchant	\$ 843,376	\$ 777,602
Accounts payable, other	200,872	173,855
Deferred merchant bookings	1,636,076	833,625
Deferred revenue	16,913	15,238
Accrued expenses and other current liabilities	304,952	333,237
Current liabilities of discontinued operations	—	419,800
Total current liabilities	3,002,189	2,553,357
Long-term debt	1,249,296	1,249,281
Deferred income taxes, net	287,925	279,962
Other long-term liabilities	123,274	117,491
Commitments and contingencies		
Stockholders' equity:		
Common stock \$.0001 par value	18	18
Authorized shares: 1,600,000		
Shares issued: 178,777 and 176,378		
Shares outstanding: 117,240 and 120,781		
Class B common stock \$.0001 par value	1	1
Authorized shares: 400,000		
Shares issued and outstanding: 12,800 and 12,800		
Additional paid-in capital	5,510,732	5,474,653
Treasury stock - Common stock, at cost	(2,733,383)	(2,535,219)
Shares: 61,537 and 55,597		
Retained earnings (deficit)	(725,520)	(722,239)
Accumulated other comprehensive loss	(3,008)	(17,350)
Total Expedia, Inc. stockholders' equity	2,048,840	2,199,864
Noncontrolling interest	106,659	105,303
Total stockholders' equity	2,155,499	2,305,167
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 6,818,183	\$ 6,505,258

See accompanying notes.

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

	Three months ended March 31,	
	2012	2011
Operating activities:		
Net income (loss)	\$ (2,302)	\$ 52,209
Less: Discontinued operations, net of tax	(23,889)	46,306
Net income from continuing operations	21,587	5,903
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation of property and equipment, including internal-use software and website development	34,314	29,185
Amortization of stock-based compensation	16,951	14,798
Amortization of intangible assets	3,422	5,834
Deferred income taxes	10,323	379
Foreign exchange gain on cash, cash equivalents and short-term investments, net	(12,021)	(4,371)
Realized gain on foreign currency forwards	(6,637)	(844)
Other	3,921	(7,391)
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(71,836)	(81,995)
Prepaid expenses and other current assets	(18,389)	(22,909)
Accounts payable, merchant	64,299	100,605
Accounts payable, other, accrued expenses and other current liabilities	(2,248)	(26,054)
Deferred merchant bookings	802,457	677,597
Deferred revenue	1,673	1,914
Net cash provided by operating activities from continuing operations	847,816	692,651
Investing activities:		
Capital expenditures, including internal-use software and website development	(50,814)	(46,086)
Purchases of investments	(293,190)	(676,568)
Sales and maturities of investments	240,641	297,295
Net settlement of foreign currency forwards	6,637	844
Other, net	(1,031)	430
Net cash used in investing activities from continuing operations	(97,757)	(424,085)
Financing activities:		
Treasury stock activity	(198,164)	(47,928)
Payment of dividends to stockholders	(12,204)	(19,352)
Proceeds from exercise of equity awards	31,801	3,285
Excess tax benefit on equity awards	7,492	1,087
Changes in restricted cash and cash equivalents	(4,197)	(5,716)
Other, net	21	1,141
Net cash used in financing activities from continuing operations	(175,251)	(67,483)
Net cash provided by continuing operations	574,808	201,083
Net cash provided by (used in) discontinued operations	(7,607)	40,202
Effect of exchange rate changes on cash and cash equivalents	16,173	8,769
Net increase in cash and cash equivalents	583,374	250,054
Cash and cash equivalents at beginning of period	689,134	621,199
Cash and cash equivalents at end of period	\$ 1,272,508	\$ 871,253
Supplemental cash flow information		
Cash paid for interest from continuing operations	\$ 42,667	\$ 43,391
Income tax payments (refunds), net from continuing operations	(17,231)	3,109

See accompanying notes.

**Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)**

Note 1 – Basis of Presentation

Description of Business

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

TripAdvisor Spin-Off

On December 20, 2011, following the close of trading on the Nasdaq Stock Market, we completed the spin-off of TripAdvisor, Inc. (“TripAdvisor”), which consisted of the domestic and international operations previously associated with our TripAdvisor Media Group, to Expedia stockholders. We refer to this transaction as the “spin-off.” Immediately prior to the spin-off, Expedia effected a one-for-two reverse stock split. Accordingly, the results of operations, financial condition and cash flows of TripAdvisor have been presented as discontinued operations for all periods presented. Further, all Expedia common stock share information and related per share amounts in prior periods have been adjusted to reflect Expedia’s one-for-two reverse stock split.

Basis of Presentation

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

We have prepared the accompanying unaudited consolidated financial statements in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial reporting. We have included all adjustments necessary for a fair presentation of the results of the interim period. These adjustments consist of normal recurring items. Our interim unaudited consolidated financial statements are not necessarily indicative of results that may be expected for any other interim period or for the full year. These interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2011, previously filed with the Securities and Exchange Commission.

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; loyalty program liabilities; stock-based compensation and accounting for derivative instruments.

Notes to Consolidated Financial Statements - (Continued)

Reclassifications

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

Seasonality

We generally experience seasonal fluctuations in the demand for our travel products and services. For example, traditional leisure travel bookings are generally the highest in the first three quarters as travelers plan and book their spring, summer and holiday travel. The number of bookings typically decreases in the fourth quarter. Because revenue in our merchant business is generally recognized when the travel takes place rather than when it is booked, revenue typically lags bookings by several weeks or longer. The seasonal revenue impact is exacerbated with respect to income by the more stable nature of our fixed costs. As a result, revenue and income are typically the lowest in the first quarter and highest in the third quarter. In addition, as a result of the spin-off, the seasonal fluctuation on our revenue and operating income will be more pronounced, particularly in the first quarter.

Note 2 – Summary of Significant Accounting Policies

Recently Adopted Accounting Pronouncements

On January 1, 2012, we adopted the new Financial Accounting Standards Board guidance on the presentation of comprehensive income. Specifically, the new guidance allows an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements, which is the approach we have selected. The new guidance eliminated the option to report other comprehensive income and its components in the statement of changes in stockholders' equity. While the new guidance changed the presentation of comprehensive income, there were no changes to the components that are recognized in net income or other comprehensive income from that of previous accounting guidance.

NOTE 3 – Acquisitions and Dispositions

Business Acquisitions. In March 2012, Egencia entered into an agreement to acquire VIA Travel, a travel management company in the Nordics. The transaction is expected to close in the second quarter of 2012.

Discontinued Operations. On December 20, 2011, we completed the spin-off of TripAdvisor, Inc., which included its flagship brand as well as 18 other travel media brands. Accordingly, we have presented the financial condition and results of operations of our former TripAdvisor Media Group segment in the consolidated financial statements through December 20, 2011 as discontinued operations. Additionally, the first quarter 2012 loss incurred to extinguish our 8.5% senior notes due 2016 (the "8.5% Notes") as a result of the spin-off was recorded as discontinued operations. See below for a full description of the extinguishment. Financial data for the discontinued operations for the three months ended

Notes to Consolidated Financial Statements - (Continued)

March 31, 2012 and 2011 were as follows:

	<u>Three months ended March 31,</u>	
	<u>2012</u>	<u>2011</u>
	(In thousands)	
Revenue	\$ —	\$ 148,286
Income (loss) before income taxes	(37,568)	65,396
Provision for income taxes	13,679	(19,090)
Net income (loss)	(23,889)	46,306
Net income attributable to noncontrolling interest	—	(93)
Net income (loss) attributable to discontinued operations	\$ (23,889)	\$ 46,213
Earnings (loss) per share:		
Basic	\$ (0.18)	\$ 0.34
Diluted	(0.17)	0.33
Shares used in computing earnings per share:		
Basic	133,202	136,930
Diluted	139,306	139,084

The indenture governing our \$400 million aggregate principal amount of 8.5% Notes contained certain covenants that could have restricted implementation of the spin-off. On December 20, 2011, prior to consummation of the spin-off, we gave “Notice of Redemption” to the bondholders, the effect of which was the bonds became due and payable on the redemption date at the redemption price. The redemption price was equal to 100% of the principal amount plus a make-whole premium as of, and accrued and unpaid interest to, the redemption date. The redemption date was defined as 30 days after the Notice of Redemption was given. In order to complete the Notice of Redemption, we were required to irrevocably deposit, with the Trustee, funds sufficient to pay the redemption price plus accrued interest on the 8.5% Notes (approximately \$451 million). The 8.5% Notes were fully redeemed on January 19, 2012, the redemption date, for approximately \$450 million. In connection with the redemption, we incurred a pre-tax loss from early extinguishment of debt of approximately \$38 million (or \$24 million net of tax), which included an early redemption premium of \$33 million and the write-off of \$5 million of unamortized debt issuance and discount costs. This loss was recorded within discontinued operations in the first quarter of 2012, as that was the period in which the bonds were legally extinguished.

As a result of the above, at December 31, 2011, we had a current asset of discontinued operations of \$456 million primarily related to the deposit for the redemption price of the 8.5% Notes as well as a current liability of discontinued operations of \$420 million for the 8.5% Notes, accrued interest expense related to the 8.5% Notes and accrued spin-off costs. At March 31, 2012, the current asset of discontinued operations included a \$14 million tax benefit primarily related to the loss on the extinguishment of debt.

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Notes to Consolidated Financial Statements - (Continued)

Note 4 – Fair Value Measurements

Financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2012 are classified using the fair value hierarchy in the table below:

	<u>Total</u>	<u>Level 1</u> (In thousands)	<u>Level 2</u>
Assets			
Cash equivalents:			
Money market funds	\$ 754,146	\$754,146	\$ —
Time deposits	18,109	—	18,109
Investments:			
Time deposits	650,683	—	650,683
Corporate debt securities	260,812	—	260,812
Total assets	<u>\$1,683,750</u>	<u>\$754,146</u>	<u>\$929,604</u>
Liabilities			
Foreign currency forward contracts	<u>\$ 1,215</u>	<u>\$ —</u>	<u>\$ 1,215</u>

Financial assets measured at fair value on a recurring basis as of December 31, 2011 are classified using the fair value hierarchy in the table below:

	<u>Total</u>	<u>Level 1</u> (In thousands)	<u>Level 2</u>
Assets			
Cash equivalents:			
Money market funds	\$ 310,075	\$310,075	\$ —
Derivatives:			
Foreign currency forward contracts	1,043	—	1,043
Investments:			
Time deposits	592,162	—	592,162
Corporate debt securities	268,664	—	268,664
Total assets	<u>\$1,171,944</u>	<u>\$310,075</u>	<u>\$861,869</u>

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

As of March 31, 2012 and December 31, 2011, our cash and cash equivalents consisted primarily of prime institutional money market funds with maturities of 90 days or less, time deposits as well as bank account balances.

We invest in investment grade corporate debt securities all of which are classified as available for sale. As of March 31, 2012, we had \$75 million of short-term and \$186 million of long-term available for sale investments and the amortized cost basis of the investments approximated their fair value with gross unrealized gains of \$3 million and gross unrealized losses of less than \$1 million. As of December 31, 2011, we had \$57 million of short-term and \$212 million of long-term available for sale investments and the amortized cost basis of these investments approximated their fair value with gross unrealized gains of \$2 million and gross unrealized losses of \$1 million.

We also hold time deposit investments with financial institutions. Time deposits with original maturities of less than 90 days are classified as cash equivalents and those with remaining maturities of less than one year are classified as short-term investments. Of the total time deposit investments, \$250 million and \$228 million as of March 31, 2012 and December 31, 2011 related to balances held by our majority-owned subsidiaries.

Notes to Consolidated Financial Statements - (Continued)

Derivative instruments are carried at fair value on our consolidated balance sheets. We use foreign currency forward contracts to economically hedge certain merchant revenue exposures and in lieu of holding certain foreign currency cash for the purpose of economically hedging our foreign currency-denominated operating liabilities. Our goal in managing our foreign exchange risk is to reduce, to the extent practicable, our potential exposure to the changes that exchange rates might have on our earnings, cash flows and financial position. Our foreign currency forward contracts are typically short-term and, as they do not qualify for hedge accounting treatment, we classify the changes in their fair value in other, net. As of March 31, 2012, we were party to outstanding forward contracts hedging our liability and revenue exposures with a total net notional value of \$128 million. We had a net forward liability of \$1 million as of March 31, 2012 recorded in accrued expenses and other current liabilities and a net forward asset of \$1 million as of December 31, 2011 recorded in prepaid expenses and other current assets. We recorded \$1 million in net gains and \$2 million in net losses from foreign currency forward contracts during the three months ended March 31, 2012 and 2011.

Note 5 – Debt

The following table sets forth our outstanding debt:

	March 31, 2012	December 31, 2011
	(In thousands)	
7.456% senior notes due 2018	\$ 500,000	\$ 500,000
5.95% senior notes due 2020, net of discount	749,296	749,281
Long-term debt	<u>\$1,249,296</u>	<u>\$1,249,281</u>

We have excluded from the above table the \$400 million 8.5% Notes, which were included in current liabilities of discontinued operations as of December 31, 2011 in the consolidated balance sheets, which were redeemed on January 19, 2012. For further information, see Note 3 — Acquisitions and Dispositions.

Long-term Debt

Our \$500 million in registered senior unsecured notes outstanding at March 31, 2012 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 at a redemption price of 100% of the principal plus accrued interest, plus a “make-whole” premium, in whole or in part at any time at our option.

Our \$750 million in registered senior unsecured notes outstanding at March 31, 2012 are due in August 2020 and bear interest at 5.95% (the “5.95% Notes”). The 5.95% Notes were issued at 99.893% of par resulting in a discount, which is being amortized over their life. Interest is payable semi-annually in February and August of each year. We may redeem the 5.95% Notes at a redemption price of 100% of the principal plus accrued interest, plus a “make-whole” premium, in whole or in part at any time or from time to time at our option.

The 7.456% and 5.95% Notes (collectively the “Notes”) are senior unsecured obligations guaranteed by certain domestic Expedia subsidiaries and rank equally in right of payment with all of our existing and future unsecured and unsubordinated obligations. For further information, see Note 12 — Guarantor and Non-Guarantor Supplemental Financial Information. In addition, the Notes include covenants that limit our ability (i) to create or incur liens, (ii) to enter into sale/leaseback transactions and (iii) to merge or consolidate with or into another entity. Accrued interest related to the Notes was \$10 million and \$31 million as of March 31, 2012 and December 31, 2011.

Based on quoted market prices, the approximate fair value of 7.456% Notes was approximately \$566 million and \$563 million as of March 31, 2012, and December 31, 2011, and the approximate fair value of 5.95% Notes was approximately \$773 million and \$760 million as of March 31, 2012, and December 31, 2011.

Notes to Consolidated Financial Statements - (Continued)

Credit Facility

Expedia, Inc. maintains a \$750 million unsecured revolving credit facility with a group of lenders, which is unconditionally guaranteed by certain domestic Expedia subsidiaries that are the same as under the Notes and expires in August 2016. As of March 31, 2012 and December 31, 2011, we had no revolving credit facility borrowings outstanding. The facility bears interest based on the Company’s credit ratings, with drawn amounts bearing interest at LIBOR plus 150 basis points and the commitment fee on undrawn amounts at 22.5 basis points as of March 31, 2012. The facility contains financial covenants including leverage and minimum interest coverage ratios.

The amount of stand-by letters of credit (“LOC”) issued under the facility reduces the credit amount available. As of March 31, 2012, and December 31, 2011, there was \$22 million of outstanding stand-by LOCs issued under the facility.

Note 6 – Stockholders’ Equity

Dividends on our Common Stock

The Executive Committee, acting on behalf of the Board of Directors, declared the following dividends during the periods presented, which have been adjusted for the one-for-two reverse stock split in December 2011:

<u>Declaration Date</u>	<u>Dividend Per Share</u>	<u>Record Date</u>	<u>Total Amount (in thousands)</u>	<u>Payment Date</u>
February 9, 2012	\$ 0.09	March 12, 2012	\$ 12,204	March 30, 2012
February 9, 2011	\$ 0.14	March 11, 2011	\$ 19,352	March 31, 2011

In addition, on April 25, 2012, the Executive Committee, acting on behalf of the Board of Directors, declared a quarterly cash dividend of \$0.09 per share of outstanding common stock to stockholders of record as of the close of business on May 30, 2012. Future declarations of dividends are subject to final determination of our Board of Directors.

Share Repurchases

In 2010, the Executive Committee, acting on behalf of the Board of Directors, authorized a repurchase of up to 20 million outstanding shares of our common stock. During the three months ended March 31, 2012, we repurchased, through open market transactions, 5.8 million shares under this authorization for a total cost of \$192 million, excluding transaction costs, representing an average repurchase price of \$33.39 per share. Subsequent to the end of the first quarter of 2012, we repurchased the additional 3 million shares remaining under the 2010 authorization for a total cost of \$99 million, excluding transaction costs, representing an average repurchase price of \$32.95 per share.

On April 25, 2012, the Executive Committee, acting on behalf of the Board of Directors, authorized a repurchase of up to 20 million outstanding shares of our common stock. No shares have been repurchased under this authorization and the authorization has no fixed termination date for the repurchases.

Stock-based Awards

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

As of March 31, 2012, we had stock-based awards outstanding representing approximately 20 million shares of our common stock consisting of options to purchase approximately 18 million shares of our common stock with a weighted average exercise price of \$22.46 and weighted average remaining life of 5.3 years and approximately 2 million RSUs.

Annual employee stock-based award grants typically occur during the first quarter of each year. During the three months ended March 31, 2012, we granted approximately 5 million stock options.

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Notes to Consolidated Financial Statements - (Continued)

The fair value of the stock options granted during the three months ended March 31, 2012 was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

Risk-free interest rate	0.62%
Expected volatility	53.12%
Expected life (in years)	4
Dividend yield	1.06%
Weighted-average estimated fair value of options granted	\$12.94

As of March 31, 2012, there were 30 million privately held warrants outstanding, which if exercised in full, would entitle the holders to acquire 7.4 million common shares of Expedia, Inc. at a weighted average exercise price of \$24.16. All of these warrants expire in May 2012.

Note 7 – Earnings Per Share

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

	Three months ended March 31,	
	2012	2011
	In thousands, except per share data	
Income from continuing operations attributable to Expedia, Inc.	\$ 20,608	\$ 5,826
Earnings per share from continuing operations attributable to Expedia, Inc. available to common stockholders:		
Basic	\$ 0.15	\$ 0.04
Diluted	0.15	0.04
Weighted average number of shares outstanding:		
Basic	133,202	136,930
Dilutive effect of:		
Options to purchase common stock	3,443	1,635
Other dilutive securities	2,661	519
Diluted	<u>139,306</u>	<u>139,084</u>

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 8 – Income Taxes

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. Our effective tax rate was 19.5% and 32.8% for the three months ended March 31, 2012 and 2011. The decrease in the effective rate for the three months ended March 31, 2012 as compared to the same period in 2011 was primarily due to a release of accruals related to uncertain tax positions and to a lesser extent an increase in estimated earnings in jurisdictions outside of the United States.

Notes to Consolidated Financial Statements - (Continued)

Note 9 – 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. We do not believe that the aggregate amount of liability that could be reasonably possible with respect to these matters would have a material adverse effect on our financial results; however, litigation is inherently uncertain and the actual losses incurred in the event that our legal proceedings were to result in unfavorable outcomes could have a material adverse effect on our business and financial performance.

Litigation Relating to Hotel Occupancy Taxes. Seventy-nine lawsuits have been filed by cities, counties and states involving hotel occupancy taxes. Forty-nine lawsuits are currently active. These lawsuits are in various stages and we continue to defend against the claims made in them vigorously. With respect to the principal claims in these matters, we believe that the ordinances at issue do not apply to the services we provide, namely the facilitation of hotel reservations, and, therefore, that we do not owe the taxes that are claimed to be owed. We believe that the ordinances at issue generally impose occupancy and other taxes on entities that own, operate or control hotels (or similar businesses) or furnish or provide hotel rooms or similar accommodations. To date, twenty-eight of these lawsuits have been dismissed. Some of these dismissals have been without prejudice and, generally, allow the governmental entity or entities to seek administrative remedies prior to pursuing further litigation. Sixteen dismissals were based on a finding that we and the other defendants were not subject to the local hotel occupancy tax ordinance or that the local government lacked standing to pursue their claims. As a result of this litigation and other attempts by certain jurisdictions to levy such taxes, we have established a reserve for the potential settlement of issues related to hotel occupancy taxes, consistent with applicable accounting principles and in light of all current facts and circumstances, in the amount of \$31 million as of March 31, 2012 and \$32 million as of December 31, 2011. This reserve is based on our best estimate and the ultimate resolution of these contingencies may be greater or less than the liabilities recorded. In addition, as of March 31, 2012 and December 31, 2011, we had an accrual totaling \$1 million and \$10 million related to court decisions and final settlements. Changes to these settlement reserves are included within legal reserves, occupancy tax and other in the consolidated statements of operations.

In connection with various occupancy tax audits and assessments, certain jurisdictions may assert that taxpayers are required to pay any assessed taxes prior to being allowed to contest or litigate the applicability of the ordinances, which is referred to as “pay-to-play.” These jurisdictions may attempt to require that we pay any assessed taxes prior to being allowed to contest or litigate the applicability of the tax ordinance. Payment of these amounts is not an admission that we believe we are subject to such taxes and, even when such payments are made, we continue to defend our position vigorously. During 2010 and 2009, we expensed \$3 million and \$48 million related to monies paid in advance of litigation in occupancy tax proceedings in the cities of Santa Monica and San Francisco. In each case, we paid such amounts in order to be allowed to pursue litigation challenging whether we are required to pay hotel occupancy tax on the portion of the customer payment we retain as compensation and, if so, the actual amounts owed. We do not believe that the amounts we retain as compensation are subject to the cities’ hotel occupancy tax ordinances. If we prevail in the litigation (including any appeal), the cities will be required to repay these amounts, plus interest. In December 2011, the city of Santa Monica returned the \$3 million in exchange for a letter of credit.

On February 17, 2012, the online travel companies, including Expedia, brought suit against the city of Portland and Multnomah County for a declaration that occupancy taxes are not due on the amounts they charge for their online services. Subsequent to the filing of the suit, the city and county sought to assess the online travel companies (approximately \$21 million for the Expedia companies with no disclosed supporting basis) and to require the payment of tax, interest and penalties before a legal determination is made. On March 22, 2012, the online travel companies obtained a temporary restraining order preventing the city and county from pursuing any assessment until the court has ruled on whether the online travel companies’ lawsuit may proceed.

NOTE 10 – Related Party Transactions

Mr. Diller, our Chairman of the Board of Directors and Senior Executive, through shares he owns beneficially as well as those subject to an irrevocable proxy granted by Liberty Interactive Corporation, controlled approximately 63% of the combined voting power of the outstanding Expedia capital stock as of March 31, 2012. As such, Mr. Diller effectively controls the outcome of all matters submitted to a vote or for the consent of our stockholders (other than with respect to the election by the holders of common stock of 25% of the members of our Board of Directors and matters as to which Delaware law requires a separate class vote). Upon Mr. Diller’s permanent departure from Expedia, the irrevocable proxy would terminate and depending on the capitalization of Expedia at such time, Liberty could effectively control the voting power of our capital stock.

Notes to Consolidated Financial Statements - (Continued)

In addition to serving as our Chairman and Senior Executive, Mr. Diller also serves as Chairman of the Board of Directors and Senior Executive at both IAC and TripAdvisor. Certain of our other executives also maintain roles with both IAC and TripAdvisor. Our certificate of incorporation provides that no officer or director of Expedia who is also an officer or director of IAC or of TripAdvisor will be liable to Expedia or its stockholders for breach of any fiduciary duty by reason of the fact that any such individual directs a corporate opportunity to IAC or TripAdvisor instead of Expedia, or does not communicate information regarding a corporate opportunity to Expedia because the officer or director has directed the corporate opportunity to IAC or TripAdvisor, which could have the effect of increasing the risk of conflicts of interest between the companies.

TripAdvisor, Inc. In connection with the spin-off, we entered into various agreements with TripAdvisor, a related party due to common ownership, including, among others, a separation agreement, a tax sharing agreement, an employee matters agreement and a transition services agreement. In addition, we will continue to work with TripAdvisor pursuant to various commercial agreements between subsidiaries of Expedia, on the one hand, and subsidiaries of TripAdvisor, on the other hand. The various commercial agreements, including click-based advertising agreements, content sharing agreements and display-based and other advertising agreements, have terms of up to one year. We recognized approximately \$2 million of revenue and expensed approximately \$51 million related to these various agreements with TripAdvisor during the three months ended March 31, 2012. In addition, we reclassified sales and marketing expense related to amounts we paid to TripAdvisor prior to the spin-off, which were previously eliminated in consolidation, to third party expenses for the three months ended March 31, 2011. Amounts payable to TripAdvisor were \$24 million and \$14 million as of March 31, 2012 and December 31, 2011 and were included in accounts payable, other on the consolidated balance sheet.

Note 11 – Segment Information

We have two reportable segments: Leisure and Egencia. We determined our segments based on how our chief operating decision makers manage our business, make operating decisions and evaluate operating performance. Our primary operating metric is adjusted EBITDA. Adjusted EBITDA 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 global supply organizations as well as the realized foreign currency gains or losses related to the forward contracts hedging a component of our net merchant hotel revenue. We base the allocations primarily on transaction volumes and other usage metrics; this methodology is periodically evaluated and may change. We do not allocate certain shared expenses such as accounting, human resources, information technology and legal to our reportable segments. We include these expenses in Corporate.

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

Corporate 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, legal reserves, occupancy tax and other, and other items excluded from segment operating performance in Corporate. Such amounts are detailed in our segment reconciliation below.

Notes to Consolidated Financial Statements - (Continued)

The following tables present our segment information for the three months ended March 31, 2012 and 2011. As a significant portion of our property and equipment is not allocated to our operating segments and depreciation is not included in our segment measure, we do not report the assets by segment as it would not be meaningful. We do not regularly provide such information to our chief operating decision makers.

	Three months ended March 31, 2012			Total
	Leisure	Egencia	Corporate	
	(In thousands)			
Revenue	\$763,813	\$52,675	\$ —	\$816,488
Adjusted EBITDA	\$171,222	\$ 9,902	\$ (79,306)	\$101,818
Depreciation	(15,692)	(2,006)	(16,616)	(34,314)
Amortization of intangible assets	—	—	(3,422)	(3,422)
Stock-based compensation	—	—	(16,951)	(16,951)
Legal reserves, occupancy tax and other	—	—	276	276
Realized loss on revenue hedges	1,276	—	—	1,276
Operating income (loss)	<u>\$156,806</u>	<u>\$ 7,896</u>	<u>\$(116,019)</u>	48,683
Other expense, net				(21,856)
Income from continuing operations before income taxes				26,827
Provision for income taxes				(5,240)
Income from continuing operations				21,587
Discontinued operations, net of taxes				(23,889)
Net loss				(2,302)
Net income attributable to noncontrolling interests				(979)
Net loss attributable to Expedia, Inc.				<u>\$ (3,281)</u>

	Three months ended March 31, 2011			Total
	Leisure	Egencia	Corporate	
	(In thousands)			
Revenue	\$685,672	\$42,163	\$ —	\$727,835
Adjusted EBITDA	\$149,995	\$ 7,738	\$ (75,706)	\$ 82,027
Depreciation	(12,764)	(2,003)	(14,418)	(29,185)
Amortization of intangible assets	—	—	(5,834)	(5,834)
Stock-based compensation	—	—	(14,798)	(14,798)
Legal reserves, occupancy tax and other	—	—	(2,358)	(2,358)
Realized loss on revenue hedges	5,306	—	—	5,306
Operating income (loss)	<u>\$142,537</u>	<u>\$ 5,735</u>	<u>\$(113,114)</u>	35,158
Other expense, net				(26,369)
Income from continuing operations before income taxes				8,789
Provision for income taxes				(2,886)
Income from continuing operations				5,903
Discontinued operations, net of taxes				46,306
Net income				52,209
Net income attributable to noncontrolling interests				(170)
Net income attributable to Expedia, Inc.				<u>\$ 52,039</u>

Notes to Consolidated Financial Statements - (Continued)

During the first quarter of 2012, we changed our allocation methodology for information technology expenses, which resulted in an increase of expenses at Corporate and a corresponding decrease in expenses being allocated to our Leisure and Egencia segments. In addition, in conjunction with certain organizational changes, we reclassified expenses attributed to our supplier payment group previously captured within Leisure to Corporate. We revised prior year adjusted EBITDA by segment to conform to our current year presentation. There was no impact on consolidated adjusted EBITDA as a result of these changes.

NOTE 12 — 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 with the exception of certain customary automatic subsidiary release provisions. In this financial information, the Parent and Guarantor Subsidiaries account for investments in their wholly-owned subsidiaries using the equity method.

In connection with the spin-off, TripAdvisor Holdings, LLC and TripAdvisor LLC, both post-spin-off subsidiaries of TripAdvisor, were released from their guarantees of obligations under our existing debt facility and instruments. The discontinued operations of TripAdvisor and its subsidiaries have been presented within the following condensed consolidating financial statements within Guarantor Subsidiaries and Non-Guarantor Subsidiaries consistent with the classification in prior periods. In addition, in connection with the spin-off and the Notice of Redemption of the 8.5% Notes as described in Note 3 — Acquisitions and Dispositions, such 8.5% Notes and the related deposit for the redemption were included within total current liabilities and total current assets of the Parent as of December 31, 2011.

CONDENSED CONSOLIDATING STATEMENT OF OPERATION
Three months ended March 31, 2012

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries (In thousands)</u>	<u>Eliminations</u>	<u>Consolidated</u>
Revenue	\$ —	\$ 723,520	\$ 94,672	\$ (1,704)	\$ 816,488
Costs and expenses:					
Cost of revenue	—	169,097	30,678	323	200,098
Selling and marketing	—	281,048	98,141	(2,117)	377,072
Technology and content	—	82,733	26,197	(19)	108,911
General and administrative	—	51,725	26,744	109	78,578
Amortization of intangible assets	—	1,760	1,662	—	3,422
Legal reserves, occupancy tax and other	—	(276)	—	—	(276)
Intercompany (income) expense, net	—	142,747	(142,747)	—	—
Operating income (loss)	—	(5,314)	53,997	—	48,683
Other income (expense):					
Equity in pre-tax earnings of consolidated subsidiaries	32,344	34,162	—	(66,506)	—
Other, net	(20,806)	(137)	(913)	—	(21,856)
Total other income (expense), net	11,538	34,025	(913)	(66,506)	(21,856)
Income before income taxes	11,538	28,711	53,084	(66,506)	26,827
Provision for income taxes	9,070	4,319	(18,629)	—	(5,240)
Income from continuing operations	20,608	33,030	34,455	(66,506)	21,587
Discontinued operations, net of taxes	(23,889)	—	—	—	(23,889)
Net income (loss)	(3,281)	33,030	34,455	(66,506)	(2,302)
Net income attributable to noncontrolling interests	—	—	(979)	—	(979)
Net income (loss) attributable to Expedia, Inc.	\$ (3,281)	\$ 33,030	\$ 33,476	\$ (66,506)	\$ (3,281)
Comprehensive income (loss) attributable to Expedia, Inc.	\$ (3,281)	\$ 33,791	\$ 47,057	\$ (66,506)	\$ 11,061

Notes to Consolidated Financial Statements - (Continued)

CONDENSED CONSOLIDATING STATEMENT OF OPERATION
Three months ended March 31, 2011

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u> (In thousands)	<u>Eliminations</u>	<u>Consolidated</u>
Revenue	\$ —	\$ 641,458	\$ 89,852	\$ (3,475)	\$ 727,835
Costs and expenses:					
Cost of revenue	—	151,257	24,298	55	175,610
Selling and marketing	—	259,002	95,402	(3,496)	350,908
Technology and content	—	71,491	15,316	—	86,807
General and administrative	—	52,007	19,187	(34)	71,160
Amortization of intangible assets	—	1,274	4,560	—	5,834
Legal reserves, occupancy tax and other	—	2,358	—	—	2,358
Intercompany (income) expense, net	—	122,189	(122,189)	—	—
Operating income (loss)	—	(18,120)	53,278	—	35,158
Other income (expense):					
Equity in pre-tax earnings of consolidated subsidiaries	20,284	49,017	—	(69,301)	—
Other, net	(20,795)	(21,313)	15,739	—	(26,369)
Total other income (expense), net	(511)	27,704	15,739	(69,301)	(26,369)
Income before income taxes	(511)	9,584	69,017	(69,301)	8,789
Provision for income taxes	6,244	11,374	(20,504)	—	(2,886)
Income from continuing operations	5,733	20,958	48,513	(69,301)	5,903
Discontinued operations, net of taxes	46,306	49,431	26,638	(76,069)	46,306
Net income	52,039	70,389	75,151	(145,370)	52,209
Net income attributable to noncontrolling interests	—	—	(170)	—	(170)
Net income attributable to Expedia, Inc.	<u>\$ 52,039</u>	<u>\$ 70,389</u>	<u>\$ 74,981</u>	<u>\$ (145,370)</u>	<u>\$ 52,039</u>
Comprehensive income attributable to Expedia, Inc.	<u>\$ 52,039</u>	<u>\$ 70,438</u>	<u>\$ 99,373</u>	<u>\$ (145,370)</u>	<u>\$ 76,480</u>

CONDENSED CONSOLIDATING BALANCE SHEET
March 31, 2012

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u> (In thousands)	<u>Eliminations</u>	<u>Consolidated</u>
ASSETS					
Total current assets	\$ 117,811	\$2,472,721	\$ 743,725	\$ (749,615)	\$2,584,642
Investment in subsidiaries	3,947,822	1,107,135	—	(5,054,957)	—
Intangible assets, net	—	639,536	99,322	—	738,858
Goodwill	—	2,436,293	452,637	—	2,888,930
Other assets, net	5,601	459,004	141,148	—	605,753
TOTAL ASSETS	<u>\$4,071,234</u>	<u>\$7,114,689</u>	<u>\$ 1,436,832</u>	<u>\$(5,804,572)</u>	<u>\$6,818,183</u>
LIABILITIES AND STOCKHOLDERS' EQUITY					
Total current liabilities	\$ 658,528	\$2,783,581	\$ 309,695	\$ (749,615)	\$3,002,189
Long-term debt	1,249,296	—	—	—	1,249,296
Other liabilities	7,911	379,066	24,222	—	411,199
Stockholders' equity	2,155,499	3,952,042	1,102,915	(5,054,957)	2,155,499
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$4,071,234</u>	<u>\$7,114,689</u>	<u>\$ 1,436,832</u>	<u>\$(5,804,572)</u>	<u>\$6,818,183</u>

Notes to Consolidated Financial Statements - (Continued)

CONDENSED CONSOLIDATING BALANCE SHEET

December 31, 2011

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u> (In thousands)	<u>Eliminations</u>	<u>Consolidated</u>
ASSETS					
Total current assets	\$ 551,488	\$1,538,509	\$ 644,825	\$ (460,393)	\$2,274,429
Investment in subsidiaries	3,891,811	1,126,412	—	(5,018,223)	—
Intangible assets, net	—	634,581	109,317	—	743,898
Goodwill	—	2,415,482	461,819	—	2,877,301
Other assets, net	5,587	465,473	138,570	—	609,630
TOTAL ASSETS	<u>\$4,448,886</u>	<u>\$6,180,457</u>	<u>\$ 1,354,531</u>	<u>\$(5,478,616)</u>	<u>\$6,505,258</u>
LIABILITIES AND STOCKHOLDERS' EQUITY					
Total current liabilities	\$ 894,438	\$1,906,349	\$ 212,963	\$ (460,393)	\$2,553,357
Long-term debt	1,249,281	—	—	—	1,249,281
Other liabilities	—	378,729	18,724	—	397,453
Stockholders' equity	2,305,167	3,895,379	1,122,844	(5,018,223)	2,305,167
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$4,448,886</u>	<u>\$6,180,457</u>	<u>\$ 1,354,531</u>	<u>\$(5,478,616)</u>	<u>\$6,505,258</u>

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Three months ended March 31, 2012

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u> (In thousands)	<u>Consolidated</u>
Operating activities:				
Net cash provided by operating activities from continuing operations	\$ —	\$ 832,140	\$ 15,676	\$ 847,816
Investing activities:				
Capital expenditures, including internal-use software and website development	—	(41,917)	(8,897)	(50,814)
Purchases of investments	—	(226,114)	(67,076)	(293,190)
Sales and maturities of investments	—	196,501	44,140	240,641
Other, net	—	6,637	(1,031)	5,606
Net cash used in investing activities from continuing operations	—	(64,893)	(32,864)	(97,757)
Financing activities:				
Treasury stock activity	(198,164)	—	—	(198,164)
Payment of dividends to stockholders	(12,204)	—	—	(12,204)
Transfers (to) from related parties	171,176	(171,176)	—	—
Other, net	39,192	(4,190)	115	35,117
Net cash provided by (used in) financing activities from continuing operations	—	(175,366)	115	(175,251)
Net cash provided by (used in) continuing operations	<u>—</u>	<u>591,881</u>	<u>(17,073)</u>	<u>574,808</u>
Net cash used in discontinued operations	<u>—</u>	<u>(7,607)</u>	<u>—</u>	<u>(7,607)</u>
Effect of exchange rate changes on cash and cash equivalents	—	13,153	3,020	16,173
Net increase (decrease) in cash and cash equivalents	<u>—</u>	<u>597,427</u>	<u>(14,053)</u>	<u>583,374</u>
Cash and cash equivalents at beginning of period	—	357,252	331,882	689,134
Cash and cash equivalents at end of period	<u>\$ —</u>	<u>\$ 954,679</u>	<u>\$ 317,829</u>	<u>\$1,272,508</u>

Notes to Consolidated Financial Statements - (Continued)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Three months ended March 31, 2011

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Consolidated</u>
	(In thousands)			
Operating activities:				
Net cash provided by operating activities from continuing operations	\$ —	\$ 670,018	\$ 22,633	\$ 692,651
Investing activities:				
Capital expenditures, including internal-use software and website development	—	(41,576)	(4,510)	(46,086)
Purchases of investments	—	(663,953)	(12,615)	(676,568)
Sales and maturities of investments	—	289,689	7,606	297,295
Other, net	—	844	430	1,274
Net cash used in investing activities from continuing operations	—	(414,996)	(9,089)	(424,085)
Financing activities:				
Treasury stock activity	(47,928)	—	—	(47,928)
Payment of dividends to stockholders	(19,352)	—	—	(19,352)
Transfers (to) from related parties	62,927	(62,927)	—	—
Other, net	4,353	(5,593)	1,037	(203)
Net cash provided by (used in) financing activities from continuing operations	—	(68,520)	1,037	(67,483)
Net cash provided by continuing operations	<u>—</u>	<u>186,502</u>	<u>14,581</u>	<u>201,083</u>
Net cash provided by discontinued operations	<u>—</u>	<u>40,202</u>	<u>—</u>	<u>40,202</u>
Effect of exchange rate changes on cash and cash equivalents	—	3,308	5,461	8,769
Net increase in cash and cash equivalents	<u>—</u>	<u>230,012</u>	<u>20,042</u>	<u>250,054</u>
Cash and cash equivalents at beginning of period	—	361,516	259,683	621,199
Cash and cash equivalents at end of period	<u>\$ —</u>	<u>\$ 591,528</u>	<u>\$ 279,725</u>	<u>\$ 871,253</u>

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Part I. Item 2. Management's Discussion and Analysis of Financial

Condition and Results of Operations

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect the views of our management regarding current expectations and projections about future events and are based on currently available information. Actual results could differ materially from those contained in these forward-looking statements for a variety of reasons, including, but not limited to, those discussed in our Annual Report on Form 10-K for the year ended December 31, 2011, 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, 2011.

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 our transaction-based websites.

Our portfolio of brands includes Expedia.com[®], Hotels.com[®], Hotwire.com[™], Expedia Affiliate Network ("EAN"), Classic Vacations, Expedia Local Expert[™], Expedia[®] CruiseShipCenters[®], Egencia[™], eLong[™], and Venere Net SpA ("Venere"). In addition, many of these brands have related international points of sale. For additional information about our portfolio of brands, see "Portfolio of Brands" in Part I, Item 1, "Business," in our Annual Report on Form 10-K for the year ended December 31, 2011.

On December 20, 2011, following the close of trading on the Nasdaq Stock Market, we completed the spin-off of TripAdvisor, Inc. ("TripAdvisor"), which consisted of the domestic and international operations previously associated with our TripAdvisor Media Group, to Expedia stockholders. We refer to this transaction as the "spin-off." Immediately prior to the spin-off, Expedia effected a one-for-two reverse stock split.

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

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Trends

The travel industry, including offline agencies, online agencies and other suppliers of travel products and services, has historically been characterized by intense competition, as well as rapid and significant change. Generally, 2011 represented a year of gradual improvement for the travel industry. However, natural disasters, such as the earthquake and tsunami in Japan, political and social unrest in the Middle East and North Africa, the rising price of oil, and ongoing sovereign debt and economic issues in several European countries, all contribute to a somewhat uncertain forward environment for the travel industry.

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 2011, approximately 54% of U.S. leisure, unmanaged and corporate travel expenditures occurred online, compared with approximately 39% of European travel. Online penetration in the Asia Pacific region is estimated to be over 20%, lagging 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 outpaced online agency growth for several years. Competitive entrants such as “metasearch” companies have in some cases been able to introduce differentiated features and content compared with the legacy online travel agency companies. New models, such as daily deals and private sale sites have also begun proliferating. We have a number of “daily deals” offered on our retail websites as well as deal specific offerings such as Hotwire’s Travel-Ticker, and a partnership with Groupon called Groupon Getaways with Expedia. In addition, we have seen increased interest in the online travel industry from search engine companies as evidenced by recent innovations and proposed and actual acquisitions by companies such as Google and Microsoft.

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. Expedia has both a merchant and an agency hotel offer for our hotel supply partners and we expect our use of these models to continue to evolve.

Intense competition has also historically led to aggressive marketing spend by the travel suppliers and intermediaries, and a meaningful reduction in our overall marketing efficiencies and operating margins. We manage our selling and marketing spending on a brand basis at the local or regional level, making decisions in each market that we think are appropriate based on the relative growth opportunity, the expected returns and the competitive environment. In certain cases, we are pursuing and expect to continue to pursue long-term growth opportunities for which our marketing efficiency is lower than that for our consolidated business but for which we still believe the opportunity to be attractive. However, we believe that over the long-term we can manage our sales and marketing expense to be roughly in line with revenue growth.

Hotel

We generate the majority of our revenue through the marketing and distribution of hotel rooms (stand-alone and package bookings). Our relationships and negotiated economics with our hotel supply partners have remained broadly stable in the past few years. We have, however, implemented new customer loyalty programs and have eliminated or reduced some fees in that timeframe and, as such, the margin of revenue we earn per booking has declined. Over the course of the last two years, occupancies and average daily rates (“ADR”) in the lodging industry have generally improved in a gradually improving overall travel environment. From a supply perspective, there is very little new, net hotel supply being added in the U.S. lodging market with large chains focusing their development opportunities in international markets. This may help hoteliers with their objective of continuing to grow their ADRs and could lead to pressure in negotiations with hoteliers and may ultimately lead to pressure on terms for us and our OTA competitors. In international markets, hotel supply is being added at a much faster rate as hotel owners and operators try to take advantage of opportunities in faster growing regions such as China and India, among others. We have had success adding supply to our marketplace with over 150,000 hotels as of the end of the first quarter of 2012 representing growth of 11%. In addition, our room night growth has been healthy, with room nights growing 14% in 2010, 18% in 2011 and 24% for the first quarter of 2012. ADRs for rooms booked on Expedia sites grew 1% in 2010 and 5% in 2011, while they were flat year-over-year for the first quarter of 2012.

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Air

The airline sector in particular has historically experienced significant turmoil. In recent years, there has been increased air carrier consolidation, generally resulting in lower overall capacity and higher fares. In addition, air carriers have made significant efforts to keep seat capacity relatively low in order to ensure that demand for seats remains high and that flights are as full as possible. Reduced seating capacities are generally negative for Expedia as there is less air supply available on our websites, and in turn less opportunity to facilitate hotel rooms, car rental and other services on behalf of air travelers. Ticket prices on Expedia sites grew 11% in 2011 and 7% in the first quarter of 2012. We are encountering significant pressure on air remuneration as certain supply agreements renew, and as air carriers and global distribution system (“GDS”) intermediaries re-negotiate their long-term agreements.

In part as a result of sharply rising average ticket prices, our ticket volumes decreased by 8% in 2011 after having grown by 11% in 2010. Air ticket volumes grew 5% in the first quarter of 2012, largely due to air ticket sales of a major U.S. carrier, which were absent in the first quarter of 2011 due to a commercial disagreement.

From a product perspective, over 70% of our revenue comes from transactions involving the booking of hotel reservations, with just over 10% of our revenue derived from the sale of airline tickets. We believe that the hotel product is the most profitable of the products we distribute and represents our best overall growth opportunity.

Growth Strategy

Product Innovation. Each of our leading brands was a pioneer in online travel and has been responsible for driving key innovations in the space over the past two decades. They each operate a dedicated technology team, which drives innovations that make researching and shopping for travel increasingly easier and helps customers find and book the best possible travel options. In the past several years, we made key investments in technology, including significant development of our technological platforms that makes it possible for us to deliver innovations at a faster pace. For example, we launched our new Hotels.com global platform in the first quarter of 2010, enabling us to significantly increase the innovation cycle for that brand. Since then, we have been successful in improving conversion and driving much faster growth rates for the Hotels.com brand. We are in the midst of a similar transformation for our Expedia brand, having rolled out its new hotel platform in the second half of 2011, with expectations that the new air and package platforms will be launched in 2012.

Global Expansion. Our Expedia, Hotels.com, Egencia, EAN, and Hotwire brands operate both domestically and through international points of sale, including in Europe, Asia Pacific, Canada and Latin America. We own a majority share of eLong, which is the second largest online travel company in China. We also own Venere, a European brand, which focuses on marketing hotel rooms in Europe. Egencia, our corporate travel business, operates in 46 countries around the world and continues to expand aggressively. We also partner in a 50/50 joint venture with AirAsia – a low cost carrier serving the Asia - Pacific region – to jointly grow an online travel agency business. Although the results for the joint venture are not consolidated in our financial statements, we consider this business to be a key part of our Asia Pacific strategy. In 2011, approximately 39% of our worldwide gross bookings and 42% of worldwide revenue were international up from 22% for both worldwide gross bookings and revenue in 2005. In the first quarter of 2012, 39% of our gross bookings and 40% of our revenue were international. We have a stated goal of driving more than half of our gross bookings and revenue through international points of sale.

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 these investments 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. We believe that our size and scale affords the company the ability to negotiate competitive rates with our supply partners, provide breadth of choice and travel deals to our traveling customers through an increasingly larger supply portfolio

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and creates opportunities for new value added offers for our customers such as our loyalty programs. The size of Expedia's worldwide traveler base makes our sites an increasingly appealing channel for travel suppliers to reach customers. In addition, the sheer size of our user base and search query volume allows us to test new technology very quickly in order to determine which innovations are most likely to improve the travel research and booking process, and then roll those features out to our worldwide audience in order to drive improvements to conversion.

New Channel Penetration. Today, the vast majority of online travel bookings are generated through typical desktop and laptop computers. However, recent technological innovations and developments are creating new opportunities including travel bookings made through mobile devices. In the past few years, each of our brands made significant progress creating new mobile websites and mobile applications that are receiving strong reviews and solid download trends. We own a leading travel application company called Mobiata which is responsible for several top travel applications, such as FlightTrack, FlightTrack Pro and FlightBoard, and is now creating new mobile applications for our Expedia brand, most recently launching the mobile Expedia Hotels application for both the iPhone and the iPad. We believe mobile bookings present an opportunity for incremental growth as they are typically completed within one day of the travel or stay which is a much shorter booking window than we have historically experienced via more traditional online booking methods. We are also working with suppliers on specific mobile offerings which can represent a unique value proposition and offer customers room nights for as much as a 50% discount from retail rates.

Other recent developments in new channels include the proliferation of the 'daily deals' space for which we have multiple efforts. For example, our Expedia brand has an exclusive partnership with Groupon, Groupon Getaways with Expedia, where we work with suppliers to offer consumers deeply discounted travel opportunities on a limited basis. We believe this may also represent incremental travel bookings as it typically represents an impulse purchase compared to historical travel purchasing activity which tends to be a highly considered and deliberate transaction. Our Hotwire brand also operates the Travel-Ticker brand which sources and markets deep discount travel. Virtually all of our leisure brands have efforts related to the daily deals or deep discount space.

Many of our brands are also actively participating in Facebook, Twitter and other 'social' channels and we anticipate the importance of these channels to consumers and to our industry to increase over time. It is our intention to grow our 'social' efforts alongside this trend.

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 the 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. The seasonal revenue impact is exacerbated with respect to income by the more stable nature of our fixed costs. As a result, revenue and income are typically the lowest in the first quarter and highest in the third quarter. Additionally, prior to the spin-off, TripAdvisor typically comprised a larger relative portion of our revenue and income during the first quarter. Thus, following the spin-off the seasonal impact on our business will be more pronounced, particularly in the first quarter, as the bookings versus recognition of revenue time lag under the merchant hotel business represents a larger portion of our operating results without TripAdvisor. The continued growth of our international operations or a change in our product mix may influence the typical trend of the seasonality in the future.

Critical Accounting Policies and Estimates

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

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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, 2011.

New Accounting Pronouncements

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

Occupancy Taxes

We are currently involved in 49 lawsuits brought by or against states, cities and counties over issues involving the payment of hotel occupancy taxes. We continue to defend these lawsuits vigorously. With respect to the principal claims in these matters, we believe that the ordinances at issue do not apply to the services we provide, namely the facilitation of hotel reservations, and, therefore, that we do not owe the taxes that are claimed to be owed. We believe that the ordinances at issue generally impose occupancy and other taxes on entities that own, operate or control hotels (or similar businesses) or furnish or provide hotel rooms or similar accommodations.

Recent developments include:

- *Branson, Missouri Litigation.* On January 28, 2012, the court granted the defendant online travel companies' motion to dismiss holding that online travel companies are not subject to hotel occupancy tax. The city has appealed.
- *Cities of Goodlettsville and Brentwood, Tennessee Litigation.* On February 21, 2012, the court granted the online travel companies' motion for summary judgment and denied the cities' motion for summary judgment, and held that online travel companies are not liable for occupancy taxes.
- *City of Bowling Green, Kentucky Litigation.* On February 15, 2012, the Kentucky Supreme Court denied the city of Bowling Green's motion for discretionary review of the Court of Appeal's decision that online travel companies are not liable for hotel occupancy tax.
- *City of Birmingham, Alabama Litigation.* On April 13, 2012, the Alabama Supreme Court affirmed the lower court's grant of summary judgment in favor of the online travel companies and held that hotel occupancy taxes are not due from online travel companies.
- *Leon County, Florida et al. Litigation.* On April 19, 2012, the court granted the online travel companies' motion for summary judgment and denied the counties' motion for summary judgment.
- *City of Philadelphia Litigation.* On February 2, 2012, the Commonwealth Court of Pennsylvania affirmed the lower court decision and held that hotel occupancy taxes are not due from Expedia.
- *City of Portland Litigation.* On February 17, 2012, the online travel companies brought suit against the city of Portland and Multnomah County for a declaration that occupancy taxes are not due on the amounts they charge for their online services. Subsequent to the filing of the suit, the city and county sought to assess the online travel

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companies (approximately \$21 million for the Expedia companies with no disclosed supporting basis) and to require the payment of tax, interest and penalties before a legal determination is made. On March 22, 2012, the online travel companies obtained a temporary restraining order preventing the city and county from pursuing any assessment until the court has ruled on whether the online travel companies' lawsuit may proceed.

For additional information on these and other legal proceedings, see Part II, Item 1, Legal Proceedings.

We have established a reserve for the potential settlement of issues related to hotel occupancy tax litigation, consistent with applicable accounting principles and in light of all current facts and circumstances, in the amount of \$31 million as of March 31, 2012, which includes amounts expected to be paid in connection with the developments described above, and \$32 million as of December 31, 2011. In addition, as of March 31, 2012 and December 31, 2011, we have also accrued \$1 million and \$10 million related to court decisions and the potential and final settlement of issues related to hotel occupancy taxes.

Certain jurisdictions may require us to pay tax assessments, including occupancy tax assessments, prior to contesting any such assessments. This requirement is commonly referred to as "pay-to-play." Payment of these amounts is not an admission that the taxpayer believes it is subject to such taxes. During 2009, we expensed \$48 million related to monies paid in advance of litigation in occupancy tax proceedings in the city of San Francisco. During 2010, we expensed \$3 million related to monies paid in advance of litigation in occupancy tax proceedings in the city of Santa Monica; these funds were returned to us by the city in December 2011 in exchange for a letter of credit. We do not believe that the amounts we retain as compensation are subject to the cities' hotel occupancy tax ordinances. If we prevail in the litigation, for which a pay-to-play payment was made, the jurisdiction collecting the payment will be required to repay such amounts, plus interest. However, any significant pay-to-play payment or litigation loss could negatively impact our liquidity.

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

Segments

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

Our Leisure segment provides a full range of travel and advertising services to our worldwide customers through a variety of brands including: Expedia.com and Hotels.com in the United States and localized Expedia and Hotels.com websites throughout the world, EAN, Hotwire.com, Venere, eLong and Classic Vacations. Our Egencia segment provides managed travel services to corporate customers in North America, Europe, and the Asia Pacific region.

Operating Metrics

Our operating results are affected by certain metrics, such as gross bookings and revenue margin, which we believe are necessary for understanding and evaluating us. 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, our organic market share gains and our business acquisitions. Revenue margin is defined as revenue as a percentage of gross bookings.

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Gross Bookings and Revenue Margin

	Three months ended March 31,		% Change
	2012	2011	
	(\$ in millions)		
Gross Bookings			
Leisure	\$ 7,666	\$ 6,653	15%
Egencia	755	642	18%
Total gross bookings	<u>\$ 8,421</u>	<u>\$ 7,295</u>	15%
Revenue Margin			
Leisure	10.0%	10.3%	
Egencia	7.0%	6.6%	
Total revenue margin	9.7%	10.0%	

The increase in worldwide gross bookings for the three months ended March 31, 2012, as compared to the same period in 2011, was primarily due to a 24% increase in hotel room nights through accelerated growth in all Leisure brands except Expedia.

The decrease in revenue margin for the three months ended March 31, 2012, as compared to the same period in 2011, was primarily due to lower net air supplier economics, rising average air ticket prices as our remuneration generally does not vary with the price of the ticket and changes in our hotel product mix, partially offset by growth in our higher margin hotel business.

Results of Operations

Revenue

	Three months ended March 31,		% Change
	2012	2011	
	(\$ in millions)		
Revenue by Segment			
Leisure	\$ 763	\$ 686	11%
Egencia	53	42	25%
Total revenue	<u>\$ 816</u>	<u>\$ 728</u>	12%

Revenue increased for the three months ended March 31, 2012, compared to the same period in 2011, primarily due to an increase in worldwide hotel revenue within our Leisure segment.

Worldwide hotel revenue increased 18% for the three months ended March 31, 2012, compared to the same period in 2011. The increase was primarily due to a 24% increase in room nights stayed, partially offset by a 6% decrease in revenue per room night. Revenue per room night decreased primarily due to changes in our hotel product mix, discounting at the Hotwire brand, accruals for loyalty programs at Expedia and Hotels.com and impacts of foreign currency.

Worldwide air revenue decreased 17% for the three months ended March 31, 2012, compared to the same period in 2011, due to a 20% decrease in revenue per air ticket, partially offset by a 5% increase in air tickets sold. Revenue per air ticket declined due to lower net supplier economics, partially offset by certain regional and interline consumer booking fees. The increase in air ticket sold was due to availability of American Airlines tickets for the duration of the first quarter of 2012 that were not available to leisure consumers for the duration of the first quarter of 2011, partially offset by a 7% increase in average air ticket prices.

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The remaining worldwide revenue, other than hotel and air discussed above, increased by 15% for the three months ended March 31, 2012, compared to the same period in 2011, primarily due to an increase in car revenue, advertising and media revenue and fees related to our corporate travel business.

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

	Three months ended March 31,		% Change
	2012	2011	
	(\$ in millions)		
<i>Revenue by Business Model</i>			
Merchant	\$ 603	\$ 520	16%
Agency	182	181	1%
Advertising and media	31	27	14%
Total revenue	<u>\$ 816</u>	<u>\$ 728</u>	12%

Merchant revenue increased for the three months ended March 31, 2012, compared to the same period in 2011, due to the increase in merchant hotel revenue primarily driven by an increase in room nights stayed.

Agency revenue remained relatively flat for the three months ended March 31, 2012, compared to the same period in 2011, as the growth in our agency hotel business and corporate travel business was mostly offset by a decline in agency air revenue.

Cost of Revenue

	Three months ended March 31,		% Change
	2012	2011	
	(\$ in millions)		
Customer operations	\$ 97	\$ 83	17%
Credit card processing	62	54	14%
Data center and other	41	39	7%
Total cost of revenue	<u>\$ 200</u>	<u>\$ 176</u>	14%
% of revenue	24.5%	24.1%	

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

During the three months ended March 31, 2012, the primary drivers of the increase in cost of revenue expense were higher credit card processing costs related to our merchant bookings growth as well as higher personnel expenses driven by additional headcount to support our global customer operations, partially offset by lower debit card fees and an increase in credit card rebates.

Selling and Marketing

	Three months ended March 31,		% Change
	2012	2011	
	(\$ in millions)		
Direct costs	\$ 282	\$ 269	5%
Indirect costs	95	82	16%
Total selling and marketing	<u>\$ 377</u>	<u>\$ 351</u>	7%
% of revenue	46.2%	48.2%	

Selling and marketing expense primarily relates to direct costs, including traffic generation costs from search engines and internet portals, television, radio and print spending, private label and affiliate program commissions, public relations and other costs. The remainder of the expense relates to indirect costs, including personnel and related overhead in our global supply organization, Egencia and various Leisure brands and stock-based compensation costs.

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Selling and marketing expenses increased \$26 million during the three months ended March 31, 2012, compared to the same period in 2011, driven by increases in affiliate marketing expenses at EAN, offline marketing expenses at Hotwire and Hotels.com as well as higher personnel expenses driven by additional headcount across several brands and our supply organization, partially offset by lower online marketing expenses at our Expedia brand.

Technology and Content

	Three months ended March 31,		% Change
	2012	2011	
	(\$ in millions)		
Personnel and overhead	\$ 61	\$ 46	32%
Depreciation and amortization of technology assets	23	19	20%
Other	25	22	16%
Total technology and content	<u>\$ 109</u>	<u>\$ 87</u>	25%
% of revenue	13.3%	11.9%	

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

The increase of \$22 million in technology and content expense during the three months ended March 31, 2012, compared to the same period in 2011, was primarily due to increased personnel costs for increased headcount to support our Expedia brand, supply organization and corporate technology function as well as increased depreciation and amortization of technology assets.

General and Administrative

	Three months ended March 31,		% Change
	2012	2011	
	(\$ in millions)		
Personnel and overhead	\$ 50	\$ 42	18%
Professional fees and other	29	29	(1%)
Total general and administrative	<u>\$ 79</u>	<u>\$ 71</u>	10%
% of revenue	9.6%	9.8%	

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

The \$8 million increase in general and administrative expense during the three months ended March 31, 2012, compared to the same period in 2011, was due primarily to higher personnel expenses resulting from an increase in headcount.

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Amortization of Intangible Assets

	Three months ended March 31,		<u>% Change</u>
	<u>2012</u>	<u>2011</u>	
	(\$ in millions)		
Amortization of intangible assets	\$ 3	\$ 6	(41%)
% of revenue	0.4%	0.8%	

Amortization for the three months ended March 31, 2012 included an approximate \$2 million reduction related to a change in the estimated value of contingent purchase consideration for one of our prior acquisitions.

Legal Reserves, Occupancy Tax and Other

Legal reserves, occupancy tax and other consists of changes in our reserves for court decisions and the potential and final settlement of issues related to hotel occupancy taxes, expenses recognized related to monies paid in advance of occupancy tax proceedings (“pay-to-play”) as well as certain other legal reserves. Legal reserves, occupancy tax and other was a gain of less than \$1 million for the three months ended March 31, 2012 compared to expense of approximately \$2 million for the three months ended March 31, 2011.

Operating Income

	Three months ended March 31,		<u>% Change</u>
	<u>2012</u>	<u>2011</u>	
	(\$ in millions)		
Operating income	\$ 49	\$ 35	38%
% of revenue	6.0%	4.8%	

Operating income increased for the three months ended March 31, 2012, compared to the same period in 2011, primarily due to a growth in revenue in excess of operating expenses.

Interest Income and Expense

	Three months ended March 31,		<u>% Change</u>
	<u>2012</u>	<u>2011</u>	
	(\$ in millions)		
Interest income	\$ 6	\$ 3	72%
Interest expense	(21)	(23)	(5%)

Interest income increased for the three months ended March 31, 2012, compared to the same period in 2011, primarily due to a higher rate of return on cash, cash equivalent and investment balances as well as higher average balances.

Other, Net

Other, net changed from a loss of \$7 million for the three months ended March 31, 2011 to a loss of \$6 million for the three months ended March 31, 2012 primarily due to lower net foreign exchange rate losses, partially offset by an increase in equity method operating losses.

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Provision for Income Taxes

	Three months ended March 31,		% Change
	2012	2011	
Provision for income taxes	\$ 5	\$ 3	82%
Effective tax rate	19.5%	32.8%	

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

The decrease in the effective rate for the three months ended March 31, 2012 as compared to the same period in 2011 was primarily due to a release of accruals related to uncertain tax positions as well as an increase in estimated earnings in jurisdictions outside of the United States.

Our effective tax rate was 19.5% for the three months ended March 31, 2012, which was lower than the 35% federal statutory rate primarily due to estimated earnings in jurisdictions outside the United States and accruals related to uncertain tax positions, partially offset by state income taxes. Our effective tax rate was 32.8% for the three months ended March 31, 2011, which was lower than the 35% federal statutory rate primarily due to estimated earnings in jurisdictions outside the United States, partially offset by state income taxes and accruals related to uncertain tax positions.

Discontinued Operations, Net of Taxes

During the three months ended March 31, 2012, we incurred a loss from early extinguishment of our 8.5% senior notes due 2016 (the "8.5% Notes") resulting directly from the spin-off of TripAdvisor. The pre-tax loss was approximately \$38 million (or \$24 million net of tax), which included an early redemption premium of \$33 million and the write-off of \$5 million of unamortized debt issuance and discount costs. This loss was recorded within discontinued operations in the first quarter of 2012, as that was the period in which the 8.5% Notes were legally extinguished. For additional information, see Note 3 — Acquisitions and Dispositions in the notes to the consolidated financial statements. Discontinued operations also includes the results of operations of TripAdvisor for the three months ended March 31, 2011, the reclassification of expense related to the obligation to fund a charitable foundation that was assumed by TripAdvisor in conjunction with the spin-off as well as interest expense and amortization of debt issuance costs and discount related to 8.5% Notes which were redeemed in connection with the spin-off.

Financial Position, Liquidity and Capital Resources

Our principal sources of liquidity are cash flows generated from operations; our cash and cash equivalents and short-term investment balances, which were \$2.0 billion and \$1.3 billion at March 31, 2012 and December 31, 2011, including \$304 million and \$302 million of cash and short-term investment balances of majority-owned subsidiaries as well as \$152 million and \$131 million held in foreign subsidiaries related to earnings indefinitely invested outside the United States; and our \$750 million revolving credit facility. As of March 31, 2012, \$728 million was available under the facility representing the total \$750 million facility less \$22 million of outstanding stand-by letters of credit. The revolving credit facility bears interest based on the Company's credit ratings, with drawn amounts bearing interest at LIBOR plus 150 basis points, and the commitment fee on undrawn amounts at 22.5 basis points as of March 31, 2012.

The indenture governing our \$400 million aggregate principal amount of 8.5% Notes contained certain covenants that could have restricted implementation of the spin-off. On December 20, 2011, prior to consummation of the spin-off, we gave "Notice of Redemption" to the bondholders, the effect of which was the bonds became due and payable on the redemption date at the redemption price. The redemption date is defined as 30 days after the Notice of Redemption is given. In order to complete the Notice of Redemption, we were required to irrevocably deposit, with the Trustee, funds sufficient to pay the redemption price plus accrued interest on the 8.5% Notes (approximately \$451 million). The 8.5% Notes were fully redeemed on January 19, 2012 for approximately \$450 million. In connection with the redemption, we incurred a pre-tax loss from early extinguishment of debt of approximately \$38 million (or \$24 million net of tax). This loss was recorded within discontinued operations in the first quarter of 2012, as that was the period in which the bonds were legally extinguished. The debt extinguishment was completed, in part, using the approximately \$400 million of cash distributed to us from TripAdvisor in connection with the spin-off.

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Our credit ratings are periodically reviewed by rating agencies. In April 2011, in response to our announcement of the TripAdvisor spin-off, Moody's affirmed its Ba1 rating and changed its outlook to from "positive" to "stable," while S&P and Fitch placed the Company's ratings on Credit Watch with negative implications and Rating Watch Negative, respectively. In October 2011, Fitch affirmed its rating at BBB- and removed the rating from Rating Watch Negative, with an outlook of "stable." In December 2011, S&P affirmed the Company's BBB- rating and removed the ratings from Credit Watch, with an outlook of "stable". Changes in our operating results, cash flows, or financial position could impact the ratings assigned by the various rating agencies. Should our credit ratings be adjusted downward, we may incur higher costs to borrow, which could have a material impact on our financial condition and results of operations.

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

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

As of March 31, 2012, we had a deficit in our working capital of \$418 million, compared to a deficit of \$279 million as of December 31, 2011. The change in deficit was primarily due to stock repurchases during the first quarter of 2012.

We continue to invest in the development and expansion of our operations. Ongoing investments include but are not limited to improvements to infrastructure, which include our servers, networking equipment and software, release improvements to our software code, platform migrations and consolidation and search engine marketing and optimization efforts. Our future capital requirements may include capital needs for acquisitions, share repurchases, dividend payments or expenditures in support of our business strategy; thus reducing our cash balance and/or increasing our debt. Our capital expenditures for full year 2012 are expected to be slightly above 2011 spending levels.

Our cash flows are as follows:

	Three months ended March 31,		\$ Change
	2012	2011 (In millions)	
Cash provided by (used in) continuing operations:			
Operating activities	\$ 848	\$ 693	\$ 155
Investing activities	(98)	(424)	326
Financing activities	(175)	(67)	(108)
Net cash provided by (used in) discontinued operations	(8)	40	(48)
Effect of foreign exchange rate changes on cash and cash equivalents	16	9	7

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For the three months ended March 31, 2012, net cash provided by operating activities increased by \$155 million primarily due to increased benefits from working capital changes as well as an increase in operating income.

For the three months ended March 31, 2012, approximately \$326 million less cash was used in investing activities primarily due to decreased net purchases of investments of \$327 million.

We expect to close an acquisition in the second quarter of 2012 for a purchase price not expected to exceed \$215 million.

Cash used in financing activities for the three months ended March 31, 2012 primarily included cash paid to acquire shares of \$198 million, including the repurchased shares under the 2010 authorization discussed below, as well as a \$12 million cash dividend payment, partially offset by \$32 million of proceeds from the exercise of equity awards. Cash used in financing activities for the three months ended March 31, 2011 primarily included cash paid to acquire shares of \$48 million, including the repurchased shares under the 2010 authorization discussed below, as well as a \$19 million cash dividend payment.

In 2010, the Executive Committee, acting on behalf of the Board of Directors, authorized a repurchase of up to 20 million outstanding shares of our common stock. During the three months ended March 31, 2012 and 2011, we repurchased, through open market transactions, 5.8 million and 2.0 million shares (1.0 million on a reverse split adjusted basis) under these authorizations for a total cost of \$192 million and \$41 million, excluding transaction costs. As of April 26, 2012, subsequent to the end of the first quarter of 2012, we repurchased the additional 3 million shares remaining under the 2010 authorization for a total cost of \$99 million, excluding transaction costs.

On April 25, 2012, the Executive Committee, acting on behalf of the Board of Directors, authorized a repurchase of up to 20 million outstanding shares of our common stock. No shares have been repurchased under this authorization as of April 26, 2012 and the authorization has no fixed termination date for the repurchases.

In the first quarter of 2012 and 2011, the Executive Committee, acting on behalf of the Board of Directors, declared and we paid a quarterly cash dividend of \$0.09 and \$0.14 per share of outstanding common stock. In addition, on April 25, 2012, the Executive Committee, acting on behalf of the Board of Directors, declared a quarterly cash dividend of \$0.09 per share of outstanding common stock to stockholders of record as of the close of business on May 30, 2012. Future declarations of dividends are subject to final determination of our Board of Directors.

As of March 31, 2012, there were 30 million privately held warrants outstanding, which if exercised in full, would entitle the holders to acquire 7.4 million common shares of Expedia, Inc. at a weighted average exercise price of \$24.16. All of these warrants expire in May 2012. The holders of the stock warrants may choose at their option, without payment of cash, to reduce the number of shares otherwise obtainable upon exercise for payment (i.e. "cashless exercise") in lieu of a cash payment.

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

Contractual Obligations, Commercial Commitments and Off-balance Sheet Arrangements

There have been no material changes outside the normal course of business to our contractual obligations and commercial commitments since December 31, 2011. Other than our contractual obligations and commercial commitments, we did not have any off-balance sheet arrangements as of March 31, 2012 or December 31, 2011.

Certain Relationships and Related Party Transactions

For a discussion of certain relationships and related party transactions, including TripAdvisor, see Note 10 — Related Party Transactions in the notes to the consolidated financial statements.

Table of Contents**Part I. Item 3. Quantitative and Qualitative Disclosures About Market Risk****Market Risk Management**

There has been no material changes in our market risk during the three months ended March 31, 2012. 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, 2011.

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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 March 31, 2012 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, 2011. The following are developments regarding such legal proceedings:

Litigation Relating to Hotel Occupancy Taxes

Actions Filed by Individual States, Cities and Counties

Nassau County, New York Litigation. Defendant online travel companies have filed a motion to dismiss.

Branson, Missouri Litigation. On January 28, 2012, the court granted defendants’ motion to dismiss holding that online travel companies are not subject to hotel occupancy tax. The city has appealed.

City of Houston, Texas Litigation. The city has sought review by the Texas Supreme Court of the decision by the Texas Court of Appeals holding that online travel companies are not subject to hotel occupancy tax.

Cities of Goodlettsville and Brentwood, Tennessee Litigation. On February 21, 2012, the court granted the online travel companies’ motion for summary judgment and denied the cities’ motion for summary judgment, and held that online travel companies are not liable for occupancy taxes.

City of San Francisco, California Litigation. The parties have filed cross-motions for summary judgment.

City of Bowling Green, Kentucky Litigation. On February 15, 2012, the Kentucky Supreme Court denied the city of Bowling Green’s motion for discretionary review of the Court of Appeal’s decision that online travel companies are not liable for hotel occupancy tax.

Village of Rosemont, Illinois Litigation. The parties have filed cross-motions for summary judgment on damages.

Lawrence County, Pennsylvania Litigation. The case has been stayed pending a decision in the city of Philadelphia litigation.

Pine Bluff, Arkansas Litigation. On March 30, 2012, the court lifted the stay and the case will proceed.

Leon County, Florida et. al. Litigation. On February 3, 2012, plaintiffs filed a motion for summary judgment. On February 8, 2012, the online travel companies filed a motion for summary judgment. On April 19, 2012, the court granted the online travel companies’ motion for summary judgment and denied the plaintiffs’ motion for summary judgment.

Leon County v. Expedia, Inc., Florida Department of Revenue Litigation, et al Litigation. The online travel companies moved to dismiss on grounds similar to those brought by the Florida Department of Revenue in its motion to dismiss brought on December 21, 2011.

City of Birmingham, Alabama Litigation. On April 13, 2012, the Alabama Supreme Court affirmed the lower court’s grant of summary judgment in favor of the online travel companies and held that hotel occupancy taxes are not due from online travel companies.

City of Philadelphia Litigation. On February 2, 2012, the Commonwealth Court of Pennsylvania affirmed the lower court decision and held that hotel occupancy taxes are not due from Expedia. On February 24, 2012, the city filed a petition for review to the Pennsylvania Supreme Court.

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Part II. Item 1. Legal Proceedings

City of Rome, Georgia Litigation. The parties have reached a settlement on the issue of payment of future excise taxes under the prior decision by the Georgia Supreme Court.

McAllister Arkansas Citizen-Taxpayer Litigation. On February 2, 2012, the court denied the online travel companies' motion to dismiss.

Notices of Audit or Tax Assessments

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

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

Actions Filed by Expedia

New York City Litigation. The City of New York has filed a motion for reargument or leave to appeal.

Expedia Insurance Litigation. Expedia has filed a motion for summary judgment.

Hawaii Tax Court Litigation. Trial is set for the week of October 15, 2012.

City of Portland Litigation. On February 17, 2012, the online travel companies brought suit seeking a declaration that they do not have tax obligations to the city of Portland or Multnomah County. *Expedia, Inc. v. City of Portland*, Case No. 1202-02223 (In the Circuit Court of the State of Oregon for the County of Multnomah). Subsequent to the filing of the suit, the city and county sought to assess and require the online travel companies to pay taxes, interest and penalties. The city/counties' assessments against the Expedia companies total approximately \$21 million, but did not include any supporting detail. On March 22, 2012, the online travel companies successfully brought a motion for a temporary restraining order barring the city and county from proceeding with the tax assessment process and requiring the online travel companies to pay the tax amounts claimed. On March 30, 2012, the city and county filed a motion to dismiss on the basis that the online travel companies should be required to exhaust their administrative remedies including the payment of any taxes allegedly owed before proceeding in a lawsuit.

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Part II. Item 1A. Risk Factors

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

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Part II. Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Share Repurchases

In 2010, the Executive Committee, acting on behalf of the Board of Directors, authorized a repurchase of up to 20 million outstanding shares of our common stock.

A summary of the repurchase activity for the first quarter of 2012 is as follows:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares that May Yet Be Purchased Under Plans or Programs</u>
January 1-31, 2012	—	\$ —	—	8,755
February 1-29, 2012	743	33.10	743	8,012
March 1-31, 2012	<u>5,016</u>	<u>33.44</u>	<u>5,016</u>	<u>2,996</u>
Total	<u>5,759</u>	<u>\$33.39</u>	<u>5,759</u>	

Subsequent to the end of the first quarter of 2012, we repurchased the additional 3 million shares remaining under the 2010 authorization for a total cost of \$99 million, excluding transaction costs, representing an average repurchase price of \$32.95 per share.

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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 SEC File No.	Reference Exhibit	Filing Date
10.1	Amended and Restated Employment Agreement between Dhiren R. Fonseca and Expedia, Inc., effective March 30, 2012	X				
10.2	Executive Separation and Release of Claims Agreement between Gary M. Fritz and Expedia, Inc., dated as of March 13, 2012	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				
101*	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, formatted in XBRL: (i) Consolidated Statements of Operations, (ii) Consolidated Statements of Comprehensive Income (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements.					

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Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

April 26, 2012

Expedia, Inc.

By: /s/ MARK D. OKERSTROM

Mark D. Okerstrom
Chief Financial Officer

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT (“Agreement”) is entered into by and between Dhiren R. Fonseca (“Employee”) and Expedia, Inc., a Washington corporation (the “Company”), and is effective as of March 30, 2012 (the “Effective Date”).

WHEREAS, the Company and Employee previously entered into an Employment Agreement, along with Standard Terms and Conditions attached thereto, effective June 11, 2011 (the “Prior Agreement”) that sets forth the terms and conditions of Employee’s employment as Co-President, Partner Services Group with the Company;

WHEREAS, pursuant to Section 7 of the Standard Terms and Conditions of the Prior Agreement, the Prior Agreement may be modified by a written agreement executed by each of Employee and the Company;

WHEREAS, the Company and the Employee desire to establish their agreement with respect to Employee’s services, in the modified capacity described below, on the modified terms and conditions hereinafter set forth, and Employee is willing to accept such employment on such modified terms and conditions; and

WHEREAS, Employee acknowledges and agrees that the negotiation of this Agreement does not constitute grounds for “Good Reason” under the Prior Agreement and Employee also acknowledges and agrees that neither the execution of this Agreement, nor any change to his duties or other contractual terms by entering into this Agreement, shall constitute grounds for “Good Reason” under the Prior Agreement, or give rise to any benefits payable thereon.

NOW, THEREFORE, in consideration of the mutual agreements hereinafter set forth, Employee and the Company have agreed and do hereby agree as follows:

1A. EMPLOYMENT. The Company agrees to employ the Employee as Chief Commercial Officer. Employee shall also remain as an officer of the Company’s parent corporation, Expedia, Inc. (Delaware). During Employee’s employment with the Company, Employee shall do and perform all services required by the Company, including, but not limited to, the transition of strategic accounts and assistance with the contemplated restructuring of the Partner Services Group (“PSG”). During Employee’s employment with the Company, Employee shall report directly to Dara Khosrowshahi, the Chief Executive Officer of the Company (“Reporting Officer”). Employee shall have such powers and duties with respect to the Company as may reasonably be assigned to Employee by the Reporting Officer, to the extent consistent with Employee’s position and status. Employee agrees to perform the duties of Employee’s position in accordance with the Company’s policies as in effect from time to time. Employee’s principal place of employment shall be the Company’s offices located in Bellevue, Washington.

2A. TERM OF AGREEMENT. The term of this Agreement shall commence on the Effective Date and shall continue for a period of one year. The period beginning on the date hereof and ending on the one-year anniversary hereof shall be referred to hereinafter as the "Term."

Notwithstanding anything to the contrary in this Section 2A, Employee's employment hereunder may be terminated in accordance with the provisions of Section 1 of the Standard Terms and Conditions attached hereto.

3A. COMPENSATION.

(a) BASE SALARY. During the Term, the Company shall pay Employee an annual base salary of \$425,000 (the "Base Salary"), payable in equal biweekly installments or in accordance with the Company's payroll practice as in effect from time to time. For all purposes under this Agreement, the term "Base Salary" shall refer to Base Salary as in effect from time to time.

(b) DISCRETIONARY BONUS. During the Term, Employee shall be eligible to receive discretionary annual bonuses. For purposes of the foregoing, Employee's annual target bonus shall be 75% of Employee's Base Salary earned for that year (the "Target Bonus Percentage"). Any such bonus shall be paid at the same time that bonuses generally are paid by the Company, currently scheduled to be no later than March 15 for the preceding calendar year (unless Employee has elected to defer receipt of such bonus pursuant to an arrangement that meets the requirements of Section 409A of the Internal Revenue Code of 1986, as amended).

(c) BENEFITS. From the Effective Date through the date of termination of Employee's employment with the Company for any reason, Employee shall be entitled to participate in any welfare, health and life insurance and pension benefit and incentive programs as may be adopted from time to time by the Company on the same basis as that provided to similarly situated employees of the Company. Without limiting the generality of the foregoing, Employee shall be entitled to the following benefits:

(i) Reimbursement for Business Expenses. During the Term, the Company shall reimburse Employee for all reasonable and necessary expenses incurred by Employee in performing Employee's duties for the Company, on the same basis as similarly situated employees and in accordance with the Company's policies as in effect from time to time, but in no event shall reimbursement occur after the end of the subsequent calendar year.

(ii) Vacation. During the Term, Employee shall be entitled to paid vacation, in accordance with the plans, policies, programs and practices of the Company applicable to similarly situated employees of the Company generally.

(d) SPECIAL PERFORMANCE-BASED BONUS. The Employee shall remain eligible to participate in a special performance-based bonus compensation program, which will (a) provide for a bonus that is incremental to Employee's other compensation and (b) be payable (less any prior partial payments under the program), within 30 days following completion of the milestone set forth in the PSG Leadership Special Bonus Program.

4A. NOTICES. All notices and other communications under this Agreement shall be in writing and shall be given by first-class mail, certified or registered with return receipt requested or hand delivery acknowledged in writing by the recipient personally, and shall be deemed to have been duly given three days after mailing or immediately upon duly acknowledged hand delivery to the respective persons named below:

If to the Company: 333 108th Avenue NE
Bellevue, WA 98004
Attention: General Counsel

If to Employee: At the most recent address on record for Employee at the Company

Either party may change such party's address for notices by notice duly given pursuant hereto.

5A. GOVERNING LAW; JURISDICTION. This Agreement and the legal relations thus created between the parties hereto shall be governed by and construed under and in accordance with the internal laws of the State of Washington without reference to the principles of conflicts of laws. Any and all disputes between the parties which may arise pursuant to this Agreement will be heard and determined before an appropriate federal court in Washington, or, if not maintainable therein, then in an appropriate Washington state court. The parties acknowledge that such courts have jurisdiction to interpret and enforce the provisions of this Agreement, and the parties consent to, and waive any and all objections that they may have as to, personal jurisdiction and/or venue in such courts.

6A. COUNTERPARTS. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument. Employee expressly understands and acknowledges that the Standard Terms and Conditions attached hereto are incorporated herein by reference, deemed a part of this Agreement and are binding and enforceable provisions of this Agreement. References to "this Agreement" or the use of the term "hereof" shall refer to this Agreement and the Standard Terms and Conditions attached hereto, taken as a whole.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed and delivered by its duly authorized officer and Employee has executed and delivered this Agreement as of the Effective Date.

EXPEDIA, INC.

/s/ Bob Dzielak

By: Bob Dzielak

Title: SVP/Legal

Dated: March 30, 2012

/s/ Dhiren R. Fonseca

Dhiren R. Fonseca

Dated: March 30, 2012

STANDARD TERMS AND CONDITIONS

1. TERMINATION OF EMPLOYEE'S EMPLOYMENT.

(a) DEATH. In the event Employee's employment hereunder is terminated by reason of Employee's death, the Company shall pay Employee's designated beneficiary or beneficiaries, within 30 days of Employee's death in a lump sum in cash, (i) Employee's Base Salary through the end of the month in which death occurs and (ii) any Accrued Obligations (as defined in Section 1(i) below).

(b) DISABILITY. If, as a result of Employee's incapacity due to physical or mental illness ("Disability"), Employee shall have been absent from the full-time performance of Employee's duties with the Company for a period of four consecutive months and, within 30 days after written notice is provided to Employee by the Company (in accordance with Section 4A of the attached Employment Agreement), Employee shall not have returned to the full-time performance of Employee's duties, Employee's employment under this Agreement may be terminated by the Company for Disability. During any period prior to such termination during which Employee is absent from the full-time performance of Employee's duties with the Company due to Disability, the Company shall continue to pay Employee's Base Salary at the rate in effect at the commencement of such period of Disability, offset by any amounts payable to Employee under any disability insurance plan or policy provided by the Company. Upon termination of Employee's employment due to Disability, the Company shall pay Employee within 30 days of such termination (i) Employee's Base Salary through the end of the month in which termination occurs in equal biweekly installments, offset by any amounts payable to Employee under any disability insurance plan or policy provided by the Company; and (ii) any Accrued Obligations (as defined in Section 1(i) below).

(c) TERMINATION FOR CAUSE. The Company may terminate Employee's employment under this Agreement with or without Cause at any time prior to the expiration of the Term. As used herein, "Cause" shall mean: (i) the plea of guilty or nolo contendere to, or conviction for, the commission of a felony offense by Employee; provided, however, that after indictment, the Company may suspend Employee from the rendition of services, but without limiting or modifying in any other way the Company's obligations under this Agreement; (ii) a material breach by Employee of a fiduciary duty owed to the Company; (iii) a material breach by Employee of any of the covenants made by Employee in Section 2 hereof; (iv) the willful or gross neglect by Employee of the material duties required by this Agreement; or (v) a material violation by Employee of any Company policy pertaining to ethics, legal compliance, wrongdoing or conflicts of interest that, in the case of the conduct described in clauses (iv) or (v) above, if curable, is not cured by Employee within 30 days after Employee is provided with written notice thereof. Upon (A) the termination of Employee's employment by the Company for Cause or (B) Employee's resignation prior to the expiration of the Term, the Company shall have no further obligation hereunder, except for the payment of any Accrued Obligations (as defined in Section 1(i) below).

(d) RESIGNATION BY EMPLOYEE FOR GOOD REASON. Upon Employee's resignation for Good Reason at any time prior to the expiration of the Term, then (i) the Company shall pay Employee his Base Salary, less applicable tax withholdings, payable in equal biweekly

installments for a period of 18-months following the date of Employee's termination (such period, the "Salary Continuation Period" and such payments, the "Cash Severance Payments"); (ii) the Company shall pay Employee within 30 days of the date of such termination in a lump sum in cash any Accrued Obligations (as defined in Section 1(i) below); (iii) the Company shall pay in cash to Employee (within 10 business days of each applicable monthly period) for each month between the date of termination and the end of the Salary Continuation Period an amount equal to the premiums charged by the Company to maintain COBRA benefits continuation coverage for Employee and Employee's eligible dependents to the extent such coverage is then in place; (iv) any compensation awards of Employee based on, or in the form of, Company equity (e.g. restricted stock, restricted stock units, stock options or similar instruments) ("Equity Awards") that are outstanding and unvested at the time of such termination but which would, but for a termination of employment, have vested during the twelve months following such termination without regard to a lapse of the Term of the Agreement (such period, the "Equity Acceleration Period") shall vest as of the date of such termination of employment; provided that any outstanding award with a vesting schedule that would, but for a termination of employment, have resulted in a smaller percentage (or none) of the award being vested through the end of such Equity Acceleration Period than if it vested annually pro rata over its vesting period shall, for purposes of this provision, be treated as though it vested annually pro rata over its vesting period (e.g., if 100 restricted stock units ("RSUs") were granted 2.7 years prior to the date of the termination and vested pro rata on each of the first five anniversaries of the grant date and 100 RSUs were granted 1.7 years prior to the date of termination and vested on the fifth anniversary of the grant date, then on the date of termination 20 RSUs from the first award and 40 RSUs from the second award would vest); provided further that any amount that would vest under this provision but for the fact that outstanding performance conditions have not been satisfied shall vest only if, and at such point as, such performance conditions are satisfied; and provided further that if any Equity Awards made subsequent to the Effective Date of this Agreement specifies a more favorable post-termination vesting schedule for such equity, the terms of the award agreement for such Equity Award shall govern; (v) any then vested options of Employee (including options vesting as a result of (iv) above) to purchase Company equity, shall remain exercisable through the date that is 18 months following the date of such termination or, if earlier, through the scheduled expiration date of such options, and this right to exercise options shall survive Employee's death, if his death should occur during these same timeframes; and (vi) the Company will consider in good faith the payment of a discretionary bonus on a pro rata basis for the year in which the termination of employment occurs, any such payment to be paid (if at all) based on actual performance during the year in which termination has occurred and based on the number of days of employment during such year relative to 365 days (payable in a lump sum at the time such annual bonus would otherwise have been paid).

"Good Reason" shall mean the occurrence of any of the following without Employee's prior consent: (A) the Company's material breach of any material provision of this Agreement, (B) the material reduction in Employee's duties, including any change in the reporting structure of the Employee, (C) the material reduction in Employee's Base Salary, or (D) the relocation of Employee's principal place of employment more than 50 miles outside the Seattle metropolitan area, unless, in each case, Employee has approved of such relocations; provided that in no event shall Employee's resignation be for "Good Reason" unless (x) an event or circumstance set forth in clauses (A) through (D) shall have occurred and Employee provides the Company with written notice thereof within 30 days, after the Employee has knowledge of the occurrence or existence of

such event or circumstance, which notice specifically identifies the event or circumstance that Employee believes constitutes Good Reason, (y) the Company fails to correct the circumstance or event so identified within 30 days after receipt of such notice, and (z) the Employee resigns within 90 days after the expiration of the period referred to in clause (y) above.

The payment to Employee of the severance pay or benefits described in Section 1(d) (other than any Accrued Obligations) is contingent upon Employee signing and not revoking a separation and release of the Company and its affiliates in a form substantially similar to that attached as Exhibit A (the "Release"), subject to modifications by the Company to comply with applicable law, the mitigation and offset provisions in Section 1(g), and Employee's compliance with the restrictive covenants set forth in Section 2. The Release must become effective no later than sixty (60) days following Employee's employment termination date or such earlier date required by the Release (such deadline, the "Release Deadline"). If the Release does not become effective by the Release Deadline, Employee will forfeit any rights to severance. In no event will severance payments or benefits (other than any Accrued Obligations) be paid or provided until the Release becomes effective and irrevocable. Upon the Release becoming effective and irrevocable, any payments delayed from the date Employee terminates employment through the effective date of the Release will be payable in a lump sum without interest as soon as administratively practicable after the Release Deadline and all other amounts will be payable in accordance with the payment schedule applicable to each payment or benefit. In the event the termination occurs at a time during the calendar year where the Release could become effective in the calendar year following the calendar year in which Employee's termination occurs, then any severance payments or benefits that would be considered Deferred Payments (as defined below) will be paid on the first payroll date to occur during the calendar year following the calendar year in which such termination occurs, or, if later, (i) the Release Deadline, (ii) such time as required by the payment schedule provided above that is applicable to each payment or benefit, or (iii) the Delayed Initial Payment Date (as defined below). Employee acknowledges and agrees that the Company's payment of severance pay and benefits (except Accrued Obligations) constitutes good and valuable consideration for such Release.

(e) TERMINATION BY THE COMPANY OTHER THAN FOR DEATH, DISABILITY OR CAUSE. If Employee's employment is terminated by the Company for any reason other than Employee's death or Disability, for Cause, or expiration of the Term, then (i) the Company shall pay Employee his Base Salary, less applicable tax withholdings, payable in equal biweekly installments for a period of 18-months following the date of Employee's termination (such period, the "Salary Continuation Period" and such payments, the "Cash Severance Payments"); (ii) the Company shall pay Employee within 30 days of the date of such termination in a lump sum in cash any Accrued Obligations (as defined in Section 1(i) below); (iii) the Company shall pay in cash to Employee (within 10 business days of each applicable monthly period) for each month between the date of termination and the end of the Salary Continuation Period an amount equal to the premiums charged by the Company to maintain COBRA benefits continuation coverage for Employee and Employee's eligible dependents to the extent such coverage is then in place; (iv) any compensation awards of Employee based on, or in the form of, Company equity (e.g. restricted stock, restricted stock units, stock options or similar instruments) ("Equity Awards") that are outstanding and unvested at the time of such termination but which would, but for a termination of employment, have vested during the twelve months following such termination without regard to a lapse of the Term of the Agreement (such period, the "Equity Acceleration

Period”) shall vest as of the date of such termination of employment; provided that any outstanding award with a vesting schedule that would, but for a termination of employment, have resulted in a smaller percentage (or none) of the award being vested through the end of such Equity Acceleration Period than if it vested annually pro rata over its vesting period shall, for purposes of this provision, be treated as though it vested annually pro rata over its vesting period (e.g., if 100 RSUs were granted 2.7 years prior to the date of the termination and vested pro rata on each of the first five anniversaries of the grant date and 100 RSUs were granted 1.7 years prior to the date of termination and vested on the fifth anniversary of the grant date, then on the date of termination 20 RSUs from the first award and 40 RSUs from the second award would vest); provided further that any amount that would vest under this provision but for the fact that outstanding performance conditions have not been satisfied shall vest only if, and at such point as, such performance conditions are satisfied; and provided further that if any Equity Award made subsequent to the Effective Date of this Agreement specifies a more favorable post-termination vesting schedule, the terms of the award agreement for such Equity Award shall govern; (v) any then vested options of Employee (including options vesting as a result of (iv) above) to purchase Company equity, shall remain exercisable through the date that is 18 months following the date of such termination or, if earlier, through the scheduled expiration date of such options, and this right to exercise options shall survive Employee’s death, if his death should occur during these same timeframes; and (vi) the Company will consider in good faith the payment of a discretionary bonus on a pro rata basis for the year in which the termination of employment occurs, any such payment to be paid (if at all) based on actual performance during the year in which termination has occurred and based on the number of days of employment during such year relative to 365 days (payable in a lump sum at the time such annual bonus would otherwise have been paid).

(f) **TERMINATION DUE TO EXPIRATION OF THE TERM.** Upon termination of Employee’s employment due to the expiration of the Term (which, for the avoidance of doubt, is not a termination other than for Cause for purposes of this Agreement), then (i) the Company shall pay Employee his Base Salary, less applicable tax withholdings, payable in equal biweekly installments for a period of 18-months following the date of Employee’s termination (such period, the “Salary Continuation Period” and such payments, the “Cash Severance Payments”); (ii) the Company shall pay Employee within 30 days of the date of such termination in a lump sum in cash any Accrued Obligations (as defined in Section 1(i) below); (iii) the Company shall pay in cash to Employee (within 10 business days of each applicable monthly period) for each month between the date of termination and the end of the Salary Continuation Period an amount equal to the premiums charged by the Company to maintain COBRA benefits continuation coverage for Employee and Employee’s eligible dependents to the extent such coverage is then in place; (iv) any compensation awards of Employee based on, or in the form of, Company equity that were granted prior to February 15, 2012 (e.g. restricted stock, restricted stock units, stock options or similar instruments granted prior to February 15, 2012) (“Equity Awards”) and that are outstanding and unvested at the time of such termination but which would, but for a termination of employment, have vested during the twelve months following such termination (such period, the “Equity Acceleration Period”) shall vest as of the date of such termination of employment; provided that any outstanding award with a vesting schedule that would, but for a termination of employment, have resulted in a smaller percentage (or none) of the award being vested through the end of such Equity Acceleration Period than if it vested annually pro rata over its vesting period shall, for purposes of this provision, be treated as though it vested annually pro rata over its vesting period (e.g., if 100 RSUs were granted 2.7 years prior to the date of the termination and

vested pro rata on each of the first five anniversaries of the grant date and 100 RSUs were granted 1.7 years prior to the date of termination and vested on the fifth anniversary of the grant date, then on the date of termination 20 RSUs from the first award and 40 RSUs from the second award would vest); provided further that any amount that would vest under this provision but for the fact that outstanding performance conditions have not been satisfied shall vest only if, and at such point as, such performance conditions are satisfied; and provided further that if any Equity Award made subsequent to the Effective Date of this Agreement specifies a more favorable post-termination vesting schedule, the terms of the award agreement for such Equity Award shall govern; (v) any then vested options of Employee (including options vesting as a result of (iv) above) to purchase Company equity, shall remain exercisable through the date that is 18 months following the date of such termination or, if earlier, through the scheduled expiration date of such options, and this right to exercise options shall survive Employee's death, if his death should occur during these same timeframes; and (vi) the Company will consider in good faith the payment of a discretionary bonus on a pro rata basis for the year in which the termination of employment occurs, any such payment to be paid (if at all) based on actual performance during the year in which termination has occurred and based on the number of days of employment during such year relative to 365 days (payable in a lump sum at the time such annual bonus would otherwise have been paid).

Notwithstanding the preceding provisions of Section 1(d), Section 1(e) or this Section 1(f), in the event that Employee is a "specified employee" (within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended, including any regulations and guidance issued thereunder ("Section 409A")) on the date of termination of Employee's employment with the Company and the cash severance payments and benefits to be paid within the first six months following such date (the "Initial Payment Period") (such sum, the "409A Payments") exceed the amount referenced in Treas. Regs. Section 1.409A-1(b)(9)(iii)(A) (the "Limit"), then (1) any portion of the 409A Payments that is a "short-term deferral" within the meaning of Treas. Regs. Section 1.409A-1(b)(4)(i) shall be paid at the times set forth in Section 1(d), (2) any portion of the 409A Payments (in addition to the amounts contemplated by the immediately preceding clause (1)) that is payable during the Initial Payment Period that does not exceed the Limit shall be paid at the times set forth in Sections 1(d), (e) or (f), as applicable, (3) any portion of the 409A Payments that exceeds the Limit and is not a "short-term deferral" (and would have been payable during the Initial Payment Period but for the Limit) (the "Deferred Payments") shall be paid, with Interest, on the first business day of the first calendar month that begins after the six-month anniversary of Employee's "separation from service" (within the meaning of Section 409A of the Code) (the "Delayed Initial Payment Date"), and (4) any portion of the 409A Payments that is payable after the Initial Payment Period shall be paid at the times set for the in Section 1(d), (e) or (f), as applicable. For purposes of this Agreement, "Interest" shall mean interest at the applicable federal rate provided for in Section 7872(f)(2)(A) of the Code, from the date on which payments would otherwise have been made but for any required delay through the date of payment.

(g) The payment to Employee of the severance pay or benefits described in Section 1(e) and (f) (other than any Accrued Obligations) is contingent upon Employee signing and not revoking a Release, subject to modifications by the Company to comply with applicable law, the mitigation and offset provisions in Section 1(h) and Employee's compliance with the restrictive covenants set forth in Section 2. The Release must become effective by the Release Deadline. If the Release does not become effective by the Release Deadline, Employee will forfeit any rights to

severance. In no event will severance payments or benefits (other than any Accrued Obligations) be paid or provided until the Release becomes effective and irrevocable. Upon the Release becoming effective and irrevocable, any payments delayed from the date Employee terminates employment through the effective date of the Release will be payable in a lump sum without interest as soon as administratively practicable after the Release Deadline and all other amounts will be payable in accordance with the payment schedule applicable to each payment or benefit. In the event the termination occurs at a time during the calendar year where the Release could become effective in the calendar year following the calendar year in which Employee's termination occurs, then any severance payments or benefits that would be considered Deferred Payments will be paid on the first payroll date to occur during the calendar year following the calendar year in which such termination occurs, or, if later, (i) the Release Deadline, (ii) such time as required by the payment schedule provided above that is applicable to each payment or benefit, or (iii) the Delayed Initial Payment Date. Employee acknowledges and agrees that the Company's payment of severance pay and benefits (except Accrued Obligations) constitutes good and valuable consideration for such Release.

(h) **MITIGATION; OFFSET**. In the event of termination of Employee's employment prior to the end of the Term, Employee shall use Reasonable Efforts to seek other executive-level employment in order to mitigate the Cash Severance Payments payable under paragraph 1(d), (e) or 1(f) (except Accrued Obligations). "Reasonable Efforts" shall mean the efforts that would reasonably be expected to be taken by a reasonable person seeking executive-level employment. If Employee obtains other employment during the Severance Period, the amount of any Cash Severance Payments provided to Employee under paragraph 1(d), (e) or (f) hereof (except Accrued Obligations) which has been paid to Employee shall be refunded to the Company by Employee in an amount equal to any compensation earned by Employee as a result of employment with another employer during the Severance Period. For clarity, no amounts greater than the Cash Severance Payments provided to Employee under Section 1(d), (e) or (f) hereof need be refunded. In addition, all future Cash Severance Payments payable by the Company under paragraph 1(d), (e) or (f) to Employee during the Severance Period shall be offset by the amount earned by Employee from another employer. For purposes of this paragraph 1(h), Employee shall have an obligation to inform the Company regarding Employee's employment status and corresponding compensation following termination and during the period encompassing the Term (including, without limitation, the Severance Period).

(i) **ACCRUED OBLIGATIONS**. As used in this Agreement, "Accrued Obligations" shall mean the sum of (i) any portion of Employee's accrued but unpaid Base Salary through the date of death or termination of employment for any reason, as the case may be; and (ii) any compensation previously earned by Employee (together with any interest or earnings thereon) that has not yet been paid and that is not otherwise paid at a later date pursuant to any deferred compensation arrangement of the Company to which Employee is a party, if any (provided, that any election made by Employee pursuant to any deferred compensation arrangement that is subject to Section 409A of the Code regarding the schedule for payment of such deferred compensation shall prevail over this Section 1(i) to the extent inconsistent herewith).

(j) **SECTION 409A**. This Agreement is intended to comply with Section 409A of the Internal Revenue Code of 1986, as amended, including any regulations and guidance issued thereunder ("Section 409A"), to the extent Section 409A is applicable to this Agreement.

Notwithstanding any other provision of this Agreement to the contrary, this Agreement shall be interpreted, operated and administered by the Company in a manner consistent with such intention and to avoid the pre-distribution inclusion in income of amounts deferred under this Agreement and the imposition of any additional tax or interest with respect thereto. Without limiting the generality of the foregoing, to the extent required in order to comply with Section 409A, amounts that would otherwise be payable under this Agreement during the six-month period immediately following the date of termination of the Employee's employment shall instead be paid on the first business day after the date that is six months following the Employee's "separation from service" within the meaning of Section 409A. Each payment and benefit payable under this Agreement is intended to constitute a separate payment for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations.

2. CONFIDENTIAL INFORMATION; DUTY OF LOYALTY; NON-SOLICITATION; AND PROPRIETARY RIGHTS .

(a) CONFIDENTIALITY. Employee acknowledges that while employed by the Company Employee will occupy a position of trust and confidence. The Company has provided and shall continue to provide Employee with Confidential Information. Employee shall hold in a fiduciary capacity for benefit of the Company and its subsidiaries and affiliates, and shall not, except as may be required to perform Employee's duties hereunder or as required by applicable law, without limitation in time, communicate, divulge, disseminate, disclose to others or otherwise use, whether directly or indirectly, any Confidential Information. "Confidential Information" shall mean information about the Company or any of its subsidiaries or affiliates, and their respective businesses, employees, consultants, contractors, suppliers, clients and customers that is not disclosed by the Company or any of its subsidiaries or affiliates for financial reporting purposes and that was learned by Employee in the course of employment by the Company or any of its subsidiaries or affiliates, including (without limitation) any proprietary knowledge, trade secrets, data, formulae, processes, methods, research, secret data, costs, names of users or purchasers of their respective products or services, business methods, operating procedures or programs or methods of promotion and sale, information relating to accounting or tax strategies and data, information and client and customer lists and all papers, resumes, and records (including computer records) of the documents containing such Confidential Information. For purposes of this Section 2(a), information shall not cease to be Confidential Information merely because it is embraced by general disclosures for financial reporting purposes or because individual features or combinations thereof are publicly available. Notwithstanding the foregoing provisions, if Employee is required to disclose any such confidential or proprietary information pursuant to applicable law or a subpoena or court order, Employee shall promptly notify the Company in writing of any such requirement so that the Company may seek an appropriate protective order or other appropriate remedy or waive compliance with the provisions hereof. Employee shall reasonably cooperate with the Company to obtain such a protective order or other remedy. If such order or other remedy is not obtained prior to the time Employee is required to make the disclosure, or the Company waives compliance with the provisions hereof, Employee shall disclose only that portion of the confidential or proprietary information which he is advised by counsel that he is legally required to so disclose. Employee acknowledges that such Confidential Information is specialized, unique in nature and of great value to the Company and its subsidiaries or affiliates, and that such information gives the Company and its subsidiaries or affiliates a competitive advantage.

Employee agrees to deliver or return to the Company, at the Company's request at any time or upon termination or expiration of Employee's employment, all documents, computer tapes and disks, plans, initiatives, strategies, records, lists, data, drawings, prints, notes and written information (and all copies thereof) created by or on behalf of the Company or its subsidiaries or affiliates or prepared by Employee in the course of Employee's employment by the Company and its subsidiaries or affiliates. As used in this Agreement, "subsidiaries" and "affiliates" shall mean any company controlled by, controlling or under common control with the Company.

(b) DUTY OF LOYALTY. In consideration of the Company's promise to disclose, and disclosure of, its Confidential Information and other good and valuable consideration provided hereunder, the receipt and sufficiency of which are hereby acknowledged by Employee, Employee hereby agrees and covenants that: Until the longer of (i) the last day of the Term and (ii) a period which includes the last day of the month of the 18 month period following the Employee's date of termination of employment for any reason, including the expiration of the Term (the "Restricted Period"), Employee shall not, directly or indirectly, engage in, assist or become associated with a Competitive Activity. For purposes of this Section 2(b): (i) a "Competitive Activity" means, at the time of Employee's termination, any business or other endeavor in any jurisdiction of a kind being conducted by the Company or any of its subsidiaries or affiliates (or demonstrably anticipated by the Company or its subsidiaries or affiliates), including, without limitation, those that are engaged in the provision of any lodging or travel related services (including, without limitation, corporate travel services), in any jurisdiction as of the Effective Date or at any time thereafter (such affiliates including, without limitation, Hotels.com, Hotwire, Inc.); and (ii) Employee shall be considered to have become "associated with a Competitive Activity" if Employee becomes directly or indirectly involved as an owner, principal, employee, officer, director, independent contractor, representative, stockholder, financial backer, agent, partner, advisor, lender, or in any other individual or representative capacity with any individual, partnership, corporation or other organization that is engaged in a Competitive Activity. Notwithstanding the foregoing, (i) Employee may make and retain investments during the Restricted Period, for investment purposes only, in less than five percent (5%) of the outstanding capital stock of any publicly-traded corporation engaged in a Competitive Activity if stock of such corporation is either listed on a national stock exchange or on the NASDAQ National Market System if Employee is not otherwise affiliated with such corporation, (ii) Employee may serve as an employee or partner (or otherwise hold an ownership interest) in an investment firm that has an ownership interest in a partnership, corporation or other organization that is engaged in a Competitive Activity provided such ownership interest does not constitute greater than 20% of such investment firm's total assets under management and Employee is not directly involved with the provision of direction or management of such entity; and (iii) Employee may serve as an employee of or partner (or otherwise hold an ownership interest) in a consultancy or investment bank engaged in providing advisory services to entities engaged in Competitive Activities provided that Employee is not directly involved in the provision of the advisory services to such entities.

(c) NON-SOLICITATION OF EMPLOYEES. Employee recognizes that he or she will possess Confidential Information about other employees, officers, directors, agents, consultants and independent contractors of the Company and its subsidiaries or affiliates relating to their education, experience, skills, abilities, compensation and benefits, and inter-personal relationships with suppliers to and customers of the Company and its subsidiaries or affiliates. Employee

recognizes that the information he or she will possess about these employees, officers, directors, agents, consultants and independent contractors is not generally known, is of substantial value to the Company and its subsidiaries or affiliates in developing their respective businesses and in securing and retaining customers, and will be acquired by Employee because of Employee's business position with the Company. Employee agrees (i) that, during the Restricted Period, Employee will not, directly or indirectly, hire or solicit or recruit the employment or services of (i.e., whether as an employee, officer, director, agent, consultant or independent contractor), or encourage to change such person's relationship with the Company or any of its subsidiaries or affiliates, any employee, officer, director, agent, consultant or independent contractor of the Company or any of its subsidiaries or affiliates provided, however, that a general solicitation of the public for employment shall not constitute a solicitation hereunder so long as such general solicitation is not designed to target, or does not have the effect of targeting, any employee, officer, director, agent, consultant or independent contractor of the Company or any of its subsidiaries or affiliates and (ii) that Employee will not convey any Confidential Information or trade secrets about any employees, officers, directors, agents, consultants and independent contractors of the Company or any of its subsidiaries or affiliates to any other person except within the scope of Employee's duties hereunder.

(d) **NON-SOLICITATION OF CUSTOMERS, SUPPLIERS, PARTNERS** . During the Restricted Period, Employee shall not, without the prior written consent of the Company, directly or indirectly, solicit, attempt to do business with, or do business with any customers of, suppliers (including providers of travel inventory) to, business partners of or business affiliates of the Company or any of its subsidiaries or affiliates (collectively, "Trade Relationships") on behalf of any entity engaged in a Competitive Activity, or encourage (regardless of who initiates the contact) any Trade Relationship to use the services of any competitor of the Company or its subsidiaries or affiliates, or encourage any Trade Relationship to change its relationship with the Company or its subsidiaries or affiliates.

(e) **PROPRIETARY RIGHTS; ASSIGNMENT** . All Employee Developments shall be made for hire by the Employee for the Company or any of its subsidiaries or affiliates. "Employee Developments" means any, discovery, invention, design, method, technique, improvement, enhancement, development, computer program, machine, algorithm or other work or authorship that (i) relates to the business or operations of the Company or any of its subsidiaries or affiliates, or (ii) results from or is suggested by any undertaking assigned to the Employee or work performed by the Employee for or on behalf of the Company or any of its subsidiaries or affiliates, whether created alone or with others, during or after working hours. All Confidential Information and all Employee Developments shall remain the sole property of the Company or any of its subsidiaries or affiliates. The Employee shall acquire no proprietary interest in any Confidential Information or Employee Developments developed or acquired during the Term. To the extent the Employee may, by operation of law or otherwise, acquire any right, title or interest in or to any Confidential Information or Employee Development, the Employee hereby assigns to the Company all such proprietary rights. The Employee shall, both during and after the Term, upon the Company's request, promptly execute and deliver to the Company all such assignments, certificates and instruments, and shall promptly perform such other acts, as the Company may from time to time in its discretion deem necessary or desirable to evidence, establish, maintain, perfect, enforce or defend the Company's rights in Confidential Information and Employee Developments.

(f) COMPLIANCE WITH POLICIES AND PROCEDURES. During the Term, Employee shall adhere to the policies and standards of professionalism set forth in the Company's Policies and Procedures as they may exist from time to time.

(g) REMEDIES FOR BREACH. Employee expressly agrees and understands that Employee will notify the Company in writing of any alleged breach of this Agreement by the Company, and the Company will have 30 days from receipt of Employee's notice to cure any such breach.

Employee expressly agrees and understands that the remedy at law for any breach by Employee of this Section 2 will be inadequate and that damages flowing from such breach are not usually susceptible to being measured in monetary terms. Accordingly, it is acknowledged that upon Employee's violation of any provision of this Section 2 the Company shall be entitled to obtain from any court of competent jurisdiction immediate injunctive relief and obtain a temporary order restraining any threatened or further breach as well as an equitable accounting of all profits or benefits arising out of such violation. Nothing in this Section 2 shall be deemed to limit the Company's remedies at law or in equity for any breach by Employee of any of the provisions of this Section 2, which may be pursued by or available to the Company.

(h) SURVIVAL OF PROVISIONS. The obligations contained in this Section 2 shall, to the extent provided in this Section 2, survive the termination or expiration of the Term and/or Employee's employment with the Company and, as applicable, shall be fully enforceable thereafter in accordance with the terms of this Agreement. If it is determined by a court of competent jurisdiction in any state that any restriction in this Section 2 is excessive in duration or scope or is unreasonable or unenforceable under the laws of that state, it is the intention of the parties that such restriction may be modified or amended by the court to render it enforceable to the maximum extent permitted by the law of that state.

3. TERMINATION OF PRIOR AGREEMENTS. This Agreement constitutes the entire agreement between the parties and terminates and supersedes any and all prior agreements and understandings (whether written or oral) between the parties with respect to the subject matter of this Agreement. Employee acknowledges and agrees that neither the Company nor anyone acting on its behalf has made, and is not making, and in executing this Agreement, the Employee has not relied upon, any representations, promises or inducements except to the extent the same is expressly set forth in this Agreement. All Stock Option Agreements and Restricted Stock Unit Agreements between Employee and the Company survive and are hereby incorporated by reference into this Agreement.

4. ASSIGNMENT; SUCCESSORS. This Agreement is personal in its nature and none of the parties hereto shall, without the consent of the others, assign or transfer this Agreement or any rights or obligations hereunder, provided that, in the event of a transfer of Employee to any entity affiliated with the Company and/or the merger, consolidation, transfer, or sale of all or substantially all of the assets of the Company with or to any other individual or entity, this Agreement shall, subject to the provisions hereof, be binding upon and inure to the benefit of such successor and such successor shall discharge and perform all the promises, covenants, duties, and obligations of the Company hereunder, and all references herein to the "Company" shall refer to such successor.

5. WITHHOLDING. The Company shall make such deductions and withhold such amounts from each payment and benefit made or provided to Employee hereunder, as may be required from time to time by applicable law, governmental regulation or order.

6. HEADING REFERENCES. Section headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose. References to “this Agreement” or the use of the term “hereof” shall refer to these Standard Terms and Conditions and the Employment Agreement attached hereto, taken as a whole.

7. WAIVER; MODIFICATION. Failure to insist upon strict compliance with any of the terms, covenants, or conditions hereof shall not be deemed a waiver of such term, covenant, or condition, nor shall any waiver or relinquishment of, or failure to insist upon strict compliance with, any right or power hereunder at any one or more times be deemed a waiver or relinquishment of such right or power at any other time or times. This Agreement shall not be modified in any respect, or extended beyond expiration of the Term (regardless of continued employment), except by a writing executed by each party hereto. Notwithstanding anything to the contrary herein, neither the assignment of Employee to a different Reporting Officer due to a reorganization or an internal restructuring of the Company or its affiliated companies nor a change in the title of the Reporting Officer shall constitute a modification or a breach of this Agreement.

8. SEVERABILITY. In the event that a court of competent jurisdiction determines that any portion of this Agreement is in violation of any law or public policy, only the portions of this Agreement that violate such law or public policy shall be stricken. All portions of this Agreement that do not violate any statute or public policy shall continue in full force and effect. Further, any court order striking any portion of this Agreement shall modify the stricken terms as narrowly as possible to give as much effect as possible to the intentions of the parties under this Agreement.

9. INDEMNIFICATION. The Company shall indemnify and hold Employee harmless for acts and omissions in Employee’s capacity as an officer, director or employee of the Company to the maximum extent permitted under applicable law, as set forth in the Certificate of Incorporation and Bylaws of Expedia, Inc. (Delaware).

10. ACKNOWLEDGEMENT. Employee acknowledges and agrees that neither the execution of this Agreement, nor the reduction of his duties (including any change in the reporting structure of Employee) or any reduction of his Base Salary constitute a breach of the Prior Agreement or give Employee the right to resign from his employment for “Good Reason” (as defined in the Prior Agreement) and receive any benefits payable thereon.

ACKNOWLEDGED AND AGREED AS OF THE EFFECTIVE DATE:

EXPEDIA, INC.

/s/ Bob Dzielak

By: Bob Dzielak

Title: SVP/Legal

Dated: March 30, 2012

/s/ Dhiren R. Fonseca

Dhiren R. Fonseca

Dated: March 30, 2012

EXECUTIVE SEPARATION AND RELEASE OF CLAIMS AGREEMENT

This Executive Separation and Release of Claims Agreement (“Agreement”) is between Gary M. Fritz (“Executive”) and Expedia, Inc., a Washington corporation (the “Company”). Executive and the Company are sometimes referred to collectively as the “Parties.”

WHEREAS, Executive’s employment with the Company will end on March 12th, 2011 (the “Termination Date”) and Executive will experience a “separation from service” as defined under Section 409A of the Internal Revenue Code of 1986, as amended (“Section 409A”) on the Termination Date;

WHEREAS, Executive is a party to an Employment Agreement between himself and the Company dated June 11, 2011 (the “Employment Agreement”); the Employment Agreement incorporates Standard Terms and Conditions (the “Standard Terms and Conditions”); and

WHEREAS, the parties to this Agreement wish to set forth clearly the terms and conditions of Executive’s departure from the Company pursuant to Section 1(d) and 1(e) of the Standard Terms and Conditions, including the release of claims set forth in this Agreement, and to provide certain additional terms;

NOW, THEREFORE, in consideration of the mutual agreements hereinafter set forth, the Parties have agreed and do hereby agree as follows:

1. **Termination.** Effective as of the Termination Date, Executive’s employment as Co-President, Partner Services Group of the Company is terminated without cause, and Executive will no longer serve in any positions he occupied as an officer or director of the Company or any subsidiary or affiliate of the Company.
2. **Accrued Obligations .** In the next payroll cycle following the Termination Date, the Company shall pay to Executive the “Accrued Obligations” as defined in Section 1(h) of the Standard Terms and Conditions. For greater clarity, it is understood that Accrued Obligations does not include any deferred compensation that is subject to Section 409A, and compensation that is subject to Section 409A, if any, will be paid in accordance with the terms of the applicable plan, agreement or policy.
3. **Consideration.** Contingent upon Executive’s execution and non-revocation of this Agreement by the 28th day following the Termination Date, and subject to the mitigation and offset provisions in Section 1(g) of the Standard Terms and Conditions and Executive’s compliance with Section 2 of the Standard Terms and Conditions, the Company shall make the following separation payments to Executive:

(i) The severance payments set forth in Section 1(e) of the Standard Terms and Conditions;

(ii) A discretionary bonus payment in 2012 pursuant to Section 3A(b) of the Employment Agreement in an amount no less than the Executive’s target bonus level

funded according to the higher of the following: (A) corporate function funding levels or (B) PSG divisional funding levels; for purposes of clarity, the amount described in (A) shall be computed as \$425,000 X 75% X the annual bonus funding percentage for Expedia, Inc. corporate functions for 2011 performance and (B) shall be computed as \$425,000 X 75% X the annual bonus funding percentage for the PSG Division for 2011 performance.

(iii) A minimum payment of \$125,000, less applicable taxes and withholding, payable within 30 days following the Revocation Period, which shall represent a good faith pro rata payment under the PSG Leadership Special Bonus Program.

(iv) Executive will receive the full benefit of the equity acceleration provisions of Sections *1(d) and 1(e)* of the June 11, 2011 Employment Agreement *and Standard Terms and Conditions* as well as the Equity Acceleration provisions set forth in the Option Agreement between Executive and the Company dated March 2, 2009.

4. Deductions. The Company shall have the right to deduct from any payments to which Executive may be entitled under this Agreement any applicable taxes that the Company is required by law to withhold. The Company shall also have the right to deduct any personal account balances (including but not limited to travel advances) or other outstanding amounts due by Executive to the Company; provided, however, that the amount deducted for such balances or amounts from any such payment shall not exceed the amount of such payment, less any applicable tax withholdings.

5. Termination of Benefits. Except as specifically set forth in this Agreement, Executive shall cease to be eligible for coverage and benefits under the Company's employee benefit plans, programs and policies as of the Termination Date, or by the terms of such plans, programs and policies.

6. Section 409A . This Agreement (and the payments hereunder) are intended to qualify for the short-term deferral exception to Section 409A described in Treasury Regulation Section 1.409A-1(b)(4) to the maximum extent possible, and to the extent they do not so qualify, they are intended to qualify for the involuntary separation pay plan exception to Section 409A described in Treasury Regulation Section 1.409A-1(b)(9) (iii) to the maximum extent possible. To the extent Section 409A is applicable to this Agreement, this Agreement is intended to be exempt from, but to the extent necessary, comply with, Section 409A. Notwithstanding any other provision of this Agreement to the contrary, this Agreement shall be interpreted, operated and administered by the Company in a manner consistent with such intentions and to avoid the pre-distribution inclusion in income of amounts deferred under this Agreement and the imposition of any additional tax or interest with respect thereto.

7. Complete Release.

(a) In return for the consideration given to Executive by the Company as described in this Agreement, Executive hereby voluntarily releases all rights and claims he has or claims to have, against the Company, known and unknown, on his own behalf

and on behalf of Executive's marital community, heirs, executors, administrators, trustees, legal representatives and assigns (collectively, the "Releasers") under applicable local, state, federal and foreign law. This release specifically includes, but is not limited to, all rights and claims in connection with Executive's employment, application for employment, or termination of employment by the Company and any acts or omissions by the Company with respect to that employment, application or termination of employment, including but not limited to, breach of the Employment Agreement or Standard Terms and Conditions, breach of any stock option agreement, claims for wages, benefits, any form of equity compensation, defamation, libel and slander claims, discrimination of any kind, retaliation of any kind, constructive discharge, violation of public policy, negligence, intentional or negligent infliction of emotional distress, any claims under the Civil Rights Acts of 1964 and 1991, the Washington State Law Against Discrimination, the Employment Retirement Income Security Act ("ERISA"), any claims under the federal Age Discrimination in Employment Act ("ADEA"), the Americans With Disabilities Act ("ADA"). In addition, Executive waives any right or claim for reinstatement, and any other possible claims, whether arising under statute, contract, or common law, and attorneys' fees or costs with respect to or derivative of such employment with the Company or the termination thereof or otherwise. This release covers all of Executive's rights against the Company as well as its affiliates, including without limitation, Expedia, Inc. (Delaware), and its and their respective divisions, branches, predecessors, successors, assigns, directors, officers, employees, agents, partners, members, stockholders, representatives and attorneys, in their representative capacities (collectively, the "Releasees").

(b) A special federal law applies to the release of a claim for age discrimination. By signing this Agreement, Executive acknowledges and agrees that in the event that he is over the age of 40 on the Termination Date, the following requirements have been met:

- (i) The Agreement is written in language which is readily understandable.
- (ii) Executive understands that he is relinquishing any claim for age discrimination which he might assert as of the effective date of the Agreement.
- (iii) Executive is informed that he should consult an attorney regarding the Agreement if that is his wish, and has been given an ample opportunity to do so.
- (iv) This Agreement will not be effective until seven days after Executive signs it ("Revocation Period"); Executive may revoke it at any time during the Revocation Period.
- (v) The Company has afforded Executive at least twenty-one (21) days to consider this Agreement before he signs and returns it to assure he has ample time to consider it. Such 21-day consideration period shall commence upon the day following the Termination Date.

(c) Notwithstanding anything to the contrary set forth in this Section, Executive does not release, waive or discharge the Company from (i) any claims to seek to enforce this Agreement or the provisions of the June 11th, 2011 *Employment Agreement and Standard Terms and Conditions* that confer rights and benefits upon the Executive upon his termination for without cause, (ii) any vested benefit to which the Executive is entitled under any tax qualified pension plan of the Company or its affiliates, COBRA continuation coverage benefits or any other similar benefits required to be provided by statute or by the terms of the Company's employee benefit plans, programs or policies or (iii) any claims for indemnification or contribution with respect to any liability incurred by Executive as an officer of the Company. All Stock Option Agreements and Restricted Stock Unit Agreements between Employee and the Company survive and are hereby incorporated by reference into this Agreement.

(d) Executive hereby represents that he has not filed or commenced any proceeding against the Releasees, and hereby covenants and agrees not to file or commence any proceeding against the Releasees with respect to his employment with the Company or the termination thereof, or otherwise, arising on or prior to the date of execution of this Agreement. Executive also agrees that if he breaches these representations or covenants, then he authorizes the Releasees to, and each shall have the right to, cause any such proceeding to be dismissed on the grounds that Executive has completely released and waived such proceeding. If any governmental agency or other third party independently initiates an adverse proceeding against the Company, nothing in this Agreement prevents Executive from testifying truthfully upon receipt of a subpoena as a fact witness in such proceedings, but by this Agreement, Executive waives and agrees to relinquish any damages or other individual relief that may be awarded to Executive as a result of any such proceedings.

8. Confidential Information; Duty of Loyalty; Non-Competition; Non-Solicitation; and Proprietary Rights. Executive hereby acknowledges the continuing nature of his obligations set forth in Section 2 of the Standard Terms and Conditions and he hereby reaffirms those obligations, and agrees that the consideration provided by the Company under the terms of this Agreement is additional consideration for those obligations.

9. Non-disparagement. In accordance with normal ethical and professional standards, prior to and for two years following the Termination Date, Executive agrees to refrain from taking actions or making statements, written or oral, which are intended to denigrate, disparage or defame the goodwill or reputation of the Company and its affiliates, divisions, branches, predecessors, successors, assigns, trustees, officers, security holders, partners, agents, senior employees and directors in their capacities as such or which are intended to, or may be reasonably expected to, adversely affect the morale of the employees of any of the Company or its affiliates. Executive further agrees not to make any negative statements to third parties relating to his employment or any aspect of the business, officers or employees of the Company and its affiliates and not to make any statements to third parties about the circumstances of the termination of his employment, except as may be required by a court or governmental body. Executive may however discuss the circumstances of the termination of his employment with the Company with his attorneys, tax advisors, and immediate family.

10. **Company Property.** On or before the Termination Date, Executive agrees to return to the Company any and all records, files, notes, memoranda, reports, work product and similar items, and any manuals, drawings, sketches, plans, tape recordings, computer programs, disks, hard drives, cassettes and other physical representations of any information, relating to the Company, or any of its affiliates, whether or not constituting confidential information, and he will return to the Company any other property, including but not limited to a laptop computer, belonging to the Company, no later than the Termination Date.

11. **Reasonable Cooperation.** Executive agrees to make himself reasonably available to the Company to respond to requests by the Company for documents and information concerning matters involving facts or events relating to the Company or any affiliate or subsidiary thereof (including, without limitation, predecessors thereof) that may be within his knowledge, and further agrees to provide truthful information to the Company, an affiliate or subsidiary thereof or any of their representatives, in each case, as reasonably requested with respect to pending and future litigation, arbitrations, dispute resolutions, investigations or requests for information. Executive also agrees to make himself reasonably available to assist the Company and its affiliates in connection with any administrative, civil or criminal matter or proceeding brought by or brought against any of them, in which and to the extent the Company, an affiliate of subsidiary thereof or any of their representatives reasonably deem his cooperation necessary. Executive shall be reimbursed for his reasonable out-of-pocket expenses incurred as a result of such cooperation.

12. **Taxation .** Executive specifically acknowledges and agrees that the Company has made no representations to Executive regarding the tax consequences of any amounts received by Executive or for Executive's benefit pursuant to this Agreement.

13. **Choice of Law, Jurisdiction and Venue.** This Agreement and all matters or issues related hereto shall be governed by the laws of the State of Washington applicable to contracts entered into and performed therein. Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under such law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

14. **Miscellaneous.**

(a) This Agreement is personal in its nature and the parties shall not, without the prior written consent of the other, assign or transfer this Agreement or any rights or obligations hereunder; provided, however, the provisions hereof shall inure to the benefit of, and be binding upon, each successor of the Company or any of its affiliates, whether by merger, consolidation or transfer of all or substantially all of its assets.

(b) This Agreement, and the applicable terms in the Employment Agreement and Standard Terms and Conditions attached as Exhibit A, contain the entire understanding of the parties hereto relating to the subject matter herein contained and supersede all prior agreements or understandings between the parties hereto with respect thereto except as specifically provided herein. This Agreement can be changed only by a writing signed by all parties hereto and this Agreement shall control over any contrary term of the Employment Agreement and Standard Terms and Conditions. No waiver shall be effective against any party unless in writing and signed by the party against whom such waiver shall be enforced.

(c) All notices and other communications hereunder shall be deemed to be sufficient if in writing and delivered in person or by a nationally recognized courier service, addressed, if to Executive, to the Executive's most recent home address on file with the Company, and if to the Company, to:

Expedia, Inc.
333 108th Avenue NE
Bellevue, Washington 98004
Attention: General Counsel

(d) In case any provision or provisions contained in this Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect by any court or administrative body with competent jurisdiction, such invalidity, illegality or unenforceability shall not affect the remaining provisions hereof, which shall remain in full force and effect. Any provision(s) so determined to be invalid, illegal or unenforceable shall be reformed so that they are valid, legal and enforceable to the fullest extent permitted by law or, if such reformation is impossible, then this Agreement shall be construed as if such invalid, illegal or unenforceable provision(s) had never been contained herein; provided that, upon a finding by a court of competent jurisdiction that this Agreement is illegal and/or unenforceable, Executive shall be required to repay to the Company the payments set forth herein.

(e) This Agreement may be executed via facsimile or pdf, and in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument, binding on the parties.

EXPEDIA, INC.

EXECUTIVE

By: /s/ Bob Dzielak

/s/ Gary Fritz

Name: Bob Dzielak

Title: SVP/Legal

Date: March 13, 2012

Date: March 13, 2012

Certification

I, Barry Diller, Chairman and Senior Executive of Expedia, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Expedia, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 26, 2012

/s/ BARRY DILLER

Barry Diller

Chairman and Senior Executive

Certification

I, Dara Khosrowshahi, Chief Executive Officer of Expedia, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Expedia, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 26, 2012

/s/ DARA KHOSROWSHAHI

Dara Khosrowshahi
Chief Executive Officer

Certification

I, Mark D. Okerstrom, Chief Financial Officer of Expedia, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Expedia, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 26, 2012

/s/ MARK D. OKERSTROM

Mark D. Okerstrom
Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Barry Diller, Chairman and Senior Executive of Expedia, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to my knowledge:

- 1) the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2012 (the "Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 26, 2012

/s/ BARRY DILLER

Barry Diller

Chairman and Senior Executive

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Dara Khosrowshahi, Chief Executive Officer of Expedia, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to my knowledge:

- 1) the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2012 (the "Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 26, 2012

/s/ DARA KHOSROWSHAHI

Dara Khosrowshahi
Chief Executive Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Mark D Okerstrom, Chief Financial Officer of Expedia, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to my knowledge:

- 1) the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2012 (the "Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 26, 2012

/s/ MARK D. OKERSTROM

Mark D. Okerstrom
Chief Financial Officer