Expedia, Inc.
Form 10-K
February 19, 2009

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

# Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended December 31, 2008**

**OR**

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the transition period from to**

**Commission file number: 000-51447**

**EXPEDIA, INC.**
*(Exact name of registrant as specified in its charter)*

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

**333 108th Avenue NE**
**Bellevue, WA 98004**
*(Address of principal executive office) (Zip Code)*

**Registrant s telephone number, including area code:**
**(425) 679-7200**

**Securities registered pursuant to Section 12(b) of the Act:**

| **Title of each class:** | **Name of each exchange on which registered:** |
|---|---|
| Common stock, $0.001 par value | The NASDAQ Global Select Market |
| Warrants to acquire one-half of one share of common stock | The NASDAQ Global Select Market |
| | The NASDAQ Global Select Market |

Warrants to acquire 0.969375 of one share of common stock

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

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

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

As of June 30, 2008, the aggregate market value of the registrant s common equity held by non-affiliates was approximately $3,818,153,000. For the purpose of the foregoing calculation only, all directors and executive officers of the registrant are assumed to be affiliates of the registrant.

| **Class** | **Outstanding Shares at February 13, 2009 were approximately,** |
|---|---|
| Common stock, $0.001 par value per share | 261,739,849 shares |
| Class B common stock, $0.001 par value per share | 25,599,998 shares |

**Documents Incorporated by Reference**

| **Document** | **Parts Into Which Incorporated** |
|---|---|
| Portions of the definitive Proxy Statement for the 2009 Annual Meeting of Stockholders (Proxy Statement) | Part III |

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**Form 10-K**
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**Part I.**
Item 1. ***Business***

**Forward-Looking Statements**

This Annual Report on Form 10-K 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 the section entitled 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 believ 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 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.

**Management Overview**

***General Description of our Business***

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

Our portfolio of brands, which is described below, includes: Expedia.com®, hotels.com®, Hotwire.com®, the TripAdvisor Media Network, our private label programs (Worldwide Travel Exchange and Interactive Affiliate Network), Classic Vacations®, Expedia Local Expert™, Egencia™ (formerly Expedia® Corporate Travel), eLong™, Inc. ( eLong ) and VenereNet 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 this Annual Report on Form 10-K.

***Summary of the Spin-Off from IAC/InterActiveCorp***

On December 21, 2004, IAC/InterActiveCorp ( IAC ) announced its plan to separate into two independent public companies. We refer to this transaction as the Spin-Off. A new company, Expedia, Inc., was incorporated under Delaware law in April 2005, to hold substantially all of IAC s travel and travel-related businesses. On August 9, 2005, the Spin-Off was completed and Expedia, Inc. shares began trading on The Nasdaq Global Select Market ( NASDAQ ) under the symbol EXPE.

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***Equity Ownership and Voting Control***

As of December 31, 2008, there were approximately 261,374,295 shares of Expedia common stock, 25,599,998 shares of Expedia Class B common stock and 751 shares of Expedia preferred stock outstanding. Also as of December 31, 2008, Liberty Media Corporation ( Liberty ), through a wholly-owned subsidiary, beneficially owned approximately 27% of Expedia s outstanding common stock and 100% of Expedia s outstanding Class B common stock. As of such date, Barry Diller, Chairman and Senior Executive of Expedia (through his own holdings and holdings of Liberty, over which Mr. Diller generally has voting control pursuant to an irrevocable proxy granted by Liberty under the Stockholders Agreement described below) controlled approximately 60% of the outstanding total voting power of Expedia.

Pursuant to the Stockholders Agreement, dated as of August 9, 2005, as amended, between Liberty and Mr. Diller, Mr. Diller is effectively able to control the outcome of nearly all matters submitted to a vote or for the consent of Expedia s stockholders (other than with respect to the election by the Expedia common stockholders of 25% of the members of Expedia s Board of Directors and certain matters as to which a separate class vote of the holders of Expedia common stock or Expedia preferred stock is required under Delaware law). In addition, pursuant to the Governance Agreement, dated as of August 9, 2005, among Expedia, Liberty and Mr. Diller, each of Mr. Diller and Liberty generally has the right to consent to certain significant corporate actions in the event that Expedia or any of its subsidiaries incurs any new obligations for borrowed money within the definition of total debt set forth in the Governance Agreement for as long as Expedia s ratio of total debt to EBITDA, as defined therein, equals or exceeds eight to one.

***Portfolio of Brands***

Expedia leverages its brand portfolio to target the broadest possible range of travelers, travel suppliers and advertisers. Our brands provide a wide selection of travel products and services, from simple, discounted travel to more complex, luxury travel. Our travel offerings primarily consist of airline flights, hotel stays, car rentals, destination services, cruises and package travel, which encompasses multiple travel products. We also offer travel and non-travel advertisers access to a potential source of incremental traffic and transactions through our various media and advertising offerings on both the TripAdvisor Media Network and on our transaction-based websites.

*Expedia.com.* Our Expedia-branded websites make a large variety of travel products and services available directly to travelers through our U.S.-based website, www.expedia.com, as well as through localized versions of the Expedia website in Australia, Austria, Belgium, Canada, Denmark, France, Germany, India, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Spain, Sweden and the United Kingdom. Expedia-branded websites target many different types of travelers, from families booking a summer vacation to individual travelers arranging a quick weekend getaway. Travelers can search for, compare information about (including pricing, availability and traveler reviews) and book travel products and services on Expedia-branded websites, including airline tickets, lodging, car rentals, cruises and many destination services such as airport transfers, local attractions and tours from a large number of suppliers, on both a stand-alone and package basis.

*Hotels.com.* Our hotels.com website provides a broad selection of hotel properties to travelers, who can plan, shop for and book lodging accommodations, from traditional hotels to vacation rentals. Hotels.com seeks to provide travelers with premium content and service through our U.S.-based website, www.hotels.com, as well as through localized versions in the Americas, Europe, Asia Pacific and South Africa. With hotels.com, we differentiate our offering by positioning the brand as the hotel expert, with premium content about lodging properties.

*Hotwire.com.* Our discount travel website, Hotwire.com, makes available airline tickets, hotel rooms, rental cars, cruises and vacation packages. Hotwire.com s approach matches flexible, price-sensitive travelers with suppliers who

have excess seats, rooms and cars they wish to fill without affecting the public s perception of their brands. Hotwire.com travelers may enjoy significant discounts by electing to book travel services opaquely, without knowing certain itinerary details such as brand, time of departure and exact hotel location, while suppliers create value from excess availability without diluting their core brand-loyal traveler base.

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Recent product innovation allows air travelers to discover available discounts by altering details of their air travel plans such as date of departure or destination airport. Hotwire.com works with many domestic and international airlines, including U.S. full-service major network airlines, top hotels in hundreds of cities and resort destinations in the United States, Europe, Canada, Mexico and the Caribbean and major car rental companies in the United States.

*Venere.* Our Venere branded websites make over 30,000 hotel properties available to European consumers, through the website www.venere.com, and provide hoteliers with geographically diverse sources of demand. Venere has direct agency-based relationships with hotels around the world. In addition, we have begun making Venere hotel supply available through certain of our hotels.com-branded websites and have plans to expand to other hotels.com sites, as well as our Expedia-branded sites.

*The TripAdvisor Media Network.* TripAdvisor, our comprehensive online travel search engine and directory, aggregates traveler opinions and unbiased articles about cities, hotels, restaurants and activities in a variety of destinations through www.tripadvisor.com and localized versions of the site in France, Germany, India, Ireland, Italy, Japan, Spain and the United Kingdom. In addition to travel-related information, TripAdvisor s destination-specific search results provide links to the websites of TripAdvisor s travel partners (travel providers and marketers) through which travelers can make related travel arrangements. TripAdvisor has also acquired and now operates a number of travel media content properties within the TripAdvisor Media Network, including airfarewatchdog.com™, bookingbuddy.com™, cruisecritic.com™, holidaywatchdog.com™, independenttraveler.com™, seatguru.com®, smartertravel.com™, travel-library.com™, travelpod.com™, flipkey.com™, onetime.com™ and virtualtourist.com™, expanding the Network s reach, product breadth and appeal to domestic and international advertisers.

*Worldwide Travel Exchange and Interactive Affiliate Network.* Our private label and co-brand programs make travel products and services available to travelers through third-party company-branded websites. The products and services made available through www.wwte.com and www.ian.com are substantially similar to those made available on Expedia-branded and hotels.com-branded websites, respectively. We generally compensate participants in the WWTE® and IAN™ private label programs on a revenue-share basis. We also leverage our WWTE and IAN platforms to make Expedia and hotels.com-branded sites available in various international points of sale.

*Classic Vacations.* Classic Vacations offers individually tailored vacations primarily through a national network of third-party retail travel agents. We deliver a full line of premium vacation packages air, hotels, car rentals, activities and private transportation to create customized luxury vacations in Hawaii, the Caribbean, Mexico, Costa Rica, Europe, Australia, New Zealand, Fiji and Tahiti. Travel agents and travelers can preview our product offering through our websites, www.classicforagents.com and www.classicvacations.com.

*Expedia Local Expert.* Our network of travel desks located at hotels and resorts in Hawaii, Las Vegas, Mexico, Orlando and San Francisco enables travelers to enjoy local tours, attractions and dining, as well as purchase airport transfers and other travel-related services. Our network expanded through our acquisition of Activity World and Activity Hut, destination service providers in Hawaii in 2004 and 2006, respectively, and our 2005 acquisition of Premier Getaways in Florida.

*Egencia.* Our full-service travel management company offers travel products and services available to corporations and corporate travelers in Australia, Canada, China, Europe, India and the United States. Egencia provides, among other things, centralized booking tools for employees of our corporations, unique supply targeted at business travelers, and consolidated reporting for global, large and SME (Small & Medium size Enterprise) business segments. Egencia charges its corporate clients account management fees, as well as transactional fees for making or changing bookings. In addition, Egencia provides on-site agents to some corporate clients to more fully support the account. Egencia has also begun offering consulting and meeting management services.

*eLong*. Our majority-owned online travel service company, based in Beijing, China, specializes in travel products and services in China. eLong uses web-based distribution technologies and a 24-hour nationwide call

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center to provide consumers with consolidated travel information and the ability to make hotel reservations at more than 7,000 hotels in over 400 cities across China. eLong also offers air ticketing and other travel related services. Travelers can access eLong travel products and services through its websites, including www.elong.com and www.elong.net.

***Business Strategy***

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

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

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

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

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

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

*Technology and Continuous Innovation.* Expedia has an established tradition of technology innovation, from Expedia.com s inception as a division of Microsoft, to our introduction of more recent innovations such as Expedia.com s TravelAds™ sponsored search product for hotel advertisers, Hotwire s Air Price Protection, hotels.com s slider tools for improving search results, hotels.com s iPod and iPhone applications and the TripAdvisor Media Network s offering of travel applications for download on social media sites, including Facebook.com and MySpace.com.

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

*Global Reach.* Our Expedia, hotels.com and TripAdvisor Media Network brands operate both in North America and internationally. We also offer Chinese travelers an array of products and services through our majority ownership in eLong, and we offer hotels to European-based travelers through our wholly-owned subsidiary Venere, which we acquired in the third quarter of 2008. In 2008, our European segment accounted for approximately 21% of worldwide gross bookings and 23% of worldwide revenue.

We intend to continue investing in and growing our international points of sale. We anticipate launching points of sale in additional countries where we find large travel markets and rapid growth of online commerce.

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Future launches may occur under any of our brands, or through acquisition of third-party brands, as in the case of eLong and Venere.

Egencia, our corporate travel business, currently operates in Australia, Belgium, Canada, China, France, Germany, India, Ireland, Italy, the Netherlands, Spain, Switzerland, the United Kingdom and the United States. We believe the corporate travel sector represents a large opportunity for Expedia, and we believe we offer a compelling technology solution to businesses seeking to optimize travel costs and improve their employees travel experiences. We intend to continue investing in and expanding the geographic footprint and technology infrastructure of Egencia.

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

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

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

Over 60% of our revenue comes from transactions involving the booking of hotel reservations, with less than 15% of our worldwide revenue derived from the sale of airline tickets. We facilitate travel products and services either as stand-alone products or as part of package transactions. We have emphasized growing our merchant hotel and package businesses as these result in higher revenue per transaction; however, through Venere we are working to grow our agency hotel business, particularly in Europe. We also seek to continue diversifying our revenue mix beyond core air and hotel products to car rental, destination services, cruise and other product offerings. We have been working toward and will continue to work toward increasing the mix of advertising and media revenue from both the expansion of our TripAdvisor Media Network, as well as increased advertising revenue from our worldwide websites, such as Expedia.com and hotels.com, which have historically been focused on transaction revenue. In 2008, advertising and media revenue accounted for nearly 10% of worldwide revenue.

***Merchant and Agency Business Models***

We make travel products and services available both on a stand-alone and package basis, primarily through two business models: the merchant model and the agency model. Under the merchant model, we facilitate the booking of hotel rooms, airline seats, car rentals and destination services from our travel suppliers and for such bookings, we are the merchant of record. Under the agency model, we act as an agent in the transaction, passing reservations booked by our travelers to the relevant airline, hotel, car rental company or cruise line.

As merchant of record, we generally have certain latitude to establish prices charged to travelers (as compared to agency transactions). Also, we generally negotiate supply allocation and pricing with our suppliers, which enables us to achieve a higher level of net revenue per transaction as compared to that provided through the agency model.

Through our Expedia-branded websites, travelers can dynamically assemble multiple component travel packages in a single transaction at a lower price as compared to booking each component separately. Packages assembled by travelers through the packaging model on these websites include a merchant hotel component and an air or car component. Travelers select packages based on the total package price, without being

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provided component pricing. The use of the merchant travel components in packages enables us to make certain travel products available at prices lower than those charged on an individual component basis by travel suppliers without impacting their established pricing and position models. We are also expanding our use of third-party provided pre-assembled package offerings, particularly through our international points of sale, further broadening our scope of products and services to travelers.

Our agency business is comprised of the sale of airline tickets, hotel, cruise and car rental reservations. Airline ticket transactions currently make up the majority of this business. In the third quarter of 2008, we acquired Venere, an agency-based online hotel business in Europe. Although net revenue per transaction is lower compared to the merchant model, due to the high volume of airline tickets sold our agency gross bookings accounted for 57% of total gross bookings for the year ended December 31, 2008.

***Relationships with Travel Suppliers, Distribution and Fulfillment Partners***

*Overview.* We make travel products and services available from a variety of large and small commercial and charter airlines, lodging properties, car rental companies, cruise lines and destination service providers. We seek to build and maintain long-term, strategic relationships with travel suppliers and global distribution system ( GDS ) partners. An important component of the success of our business depends on our ability to maintain our existing, as well as build new, relationships with travel suppliers and GDS partners.

*Travel Suppliers.* We strive to deliver value to our travel suppliers through a wide range of innovative, targeted merchandising and promotional strategies designed to increase their revenue, while simultaneously reducing their marketing transaction and customer service costs. Our Partner Services Group consists mainly of strategic account managers and local market managers who work directly with travel suppliers to increase the marketing of their travel products and brands through our points of sale, including participation in our seasonal and event-driven promotions.

In addition, we have developed proprietary, supplier-oriented technology that streamlines the interaction between some of our websites and hotel central reservation systems, making it easier and more cost-effective for hotels to manage reservations made through our brands. Through this direct connect technology, hotels can upload information about available products and services and rates directly from their central reservation systems into our websites, as well as automatically confirm hotel reservations made by our travelers. In the absence of direct connect technology, both of these processes are generally completed manually via a proprietary extranet. Our travelers can now book reservations with over 50,000 merchant hotel properties worldwide, of which approximately 46% are now fully direct-connected.

*Distribution Partners.* GDSs, also referred to as computer reservation services, provide a centralized, comprehensive repository of travel suppliers content such as availability and pricing of seats on various airline point-to-point flights, or segments. The GDSs act as intermediaries between the travel suppliers and travel agencies, allowing agents to reserve and book flights, rooms or other travel products.

We use Sabre and Amadeus as our primary GDS segment providers. Prior to 2007, we primarily used Worldspan. We added the additional GDSs in order to ensure the widest possible supply of air content for our travelers.

*Fulfillment Partners.* We outsource a portion of our airline ticket fulfillment functions to third-party suppliers. Such functions include the issuance of airline tickets and related customer services.

***Marketing and Promotions***

Our marketing programs are intended to build and maintain the value of our various brands, drive traffic and conversion through our various brands and businesses, optimize ongoing traveler acquisition costs and strategically position our brands in relation to one another. Our long-term success and profitability depends on our continued ability to maintain and increase the overall number of traveler transactions in a cost-effective manner.

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Our marketing channels primarily include online advertising including search engine marketing and optimization, offline advertising, direct and/or personalized traveler communications on our websites as well as through direct e-mail communication with our travelers. Our marketing programs and initiatives include promotional offers such as coupons as well as seasonal or periodic special offers from our travel suppliers based on our supplier relationships. In addition, we offer several traveler loyalty programs to our worldwide travelers, including the ThankYou Rewards on Expedia.com, welcomerewards on hotels.com and Nectar in the United Kingdom.

We also make use of affiliate marketing. The Expedia.com and hotels.com-branded websites receive bookings from consumers who have clicked-through to the respective websites through links posted on affiliate partner websites. We have agreements with thousands of third-party affiliate partners, including a number of leading travel companies, pursuant to which we pay a commission for bookings originated from their websites. Affiliate partners can make travel products and services available through an Expedia-branded website, a co-branded website or their own private label website. We also provide our affiliates with technology and access to a wide range of products and services.

***Operations and Technology***

We provide 24-hour-a-day, seven-day-a-week traveler support by telephone or via e-mail. For purposes of operational flexibility, we provide this support infrastructure with a combination of outsourced and in-house call centers, which are located in various locations throughout the world, including extensive outsourced operations in the Philippines and El Salvador. We have made significant investments in our call center technologies in 2008 and have plans to continue these investments in 2009 and beyond.

Our systems infrastructure and web and database servers are housed in various locations, mainly in the United States, which have communication links as well as 24-hour monitoring and engineering support. The web hosting facilities have their own generators and multiple back-up systems. Significant amounts of our owned computer hardware for operating the websites are located at these facilities. For some critical systems, we have both production and disaster-recovery facilities.

We have developed innovative technology to power our global travel marketplace. For example, our Best Fare Search technology essentially deconstructs segment feeds in the United States from GDS partners for air flight searches and recommends the best way to re-assemble multi-leg itineraries so that they are less expensive and more flexible for the traveler. We are looking to expand this technology internationally. We are also investing in improving our fare discovery technologies and user interfaces to provide more comprehensive and easier discovery of competitive rates for our travelers.

We continue to invest in our operations and technology infrastructure, and we anticipate additional traveler-facing benefits in 2009.

***Competition***

Our brands compete in rapidly evolving and intensely competitive markets. We believe the relatively low percentage of total travel sales transacted online, particularly in international markets, indicates that these markets represent especially large opportunities for Expedia and those of its competitors that wish to expand their brands and businesses abroad.

Our competition, which is strong and increasing, includes online and offline travel companies that target leisure and corporate travelers including travel agencies, tour operators, travel supplier direct websites and their call centers, consolidators and wholesalers of travel products and services and other companies offering travel search engines including meta-search engines. We face these competitors in local, regional, national and/or international markets. In

some cases competitors are offering favorable terms and improved interfaces to suppliers and travelers which make competition increasingly difficult.

We believe that maintaining and enhancing our brands is a critical component of our effort to compete. We differentiate our brands from our competitors primarily based on quality and breadth of travel products, channel features and usability, price or promotional offers, traveler service and quality of travel planning

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content and advice. The emphasis on one or more of these factors varies, depending on the brand or business and the related target demographic.

Our brands face increasing competition from travel supplier direct websites. In some cases, supplier direct channels offer advantages to travelers, such as long standing loyalty programs, lower or no transaction fees and better pricing. Our websites feature travel products and services from numerous travel suppliers (as opposed to a single supplier), and allow travelers to combine products and services from multiple providers in one transaction. We face competition from airlines, hotels, rental car companies, cruise operators and other travel service providers, whether working individually or collectively, some of which are suppliers to our websites. Our business is generally sensitive to changes in the competitive landscape, including the emergence of new competitors or business models, and supplier consolidation.

**Intellectual Property Rights**

We regard our intellectual property rights, including our patents, service marks, trademarks, domain names, copyrights, trade secrets and other intellectual property, as critical to our success. For example, we rely heavily upon the software code, informational databases and other components that make up our travel planning service.

We rely on a combination of laws, business practices and contractual obligations with employees, suppliers, affiliates and others to establish and protect our trade secrets. Despite these precautions, it may be possible for a third-party to copy or otherwise obtain and use our trade secrets or our intellectual property without authorization which, if discovered, might require the uncertainty of legal action to correct. In addition, there can be no assurance that others will not independently and lawfully develop substantially similar properties.

We maintain our trademark portfolio by filing trademark applications with the appropriate international trademark offices, maintaining our current registrations, securing contractual trademark rights when appropriate, and relying on common law trademark rights when appropriate. We also register domain names as we deem appropriate. We protect our trademarks and domain names with an enforcement program and use of trademark licenses. While we seek to protect our trademarks and domain names, effective trademark and domain name protection may not be available or may not be sought by us for every trademark and domain name used in every country, and contractual disputes may affect the use of trademarks and domain names governed by private contract. In addition, our infringement monitoring resources may not locate every trademark or domain name infringement that exists. Similarly, not every variation of a domain name may be available, or may be registered by us, even if available. The failure to protect our intellectual property in a meaningful manner, or challenges to our intellectual property rights, could materially adversely affect our business, result in erosion of our brand names and/or limit our ability to control marketing on or through the internet using our various domain names.

We have considered, and will continue to consider, the appropriateness of filing for patents to protect future inventions, as circumstances may warrant. However, many patents protect only specific inventions and there can be no assurance that others may not create new products or methods that achieve similar results without infringing upon patents owned by us.

From time to time, we may be subject to legal proceedings and claims in the ordinary course of our business, including claims of alleged infringement by us of the trademarks, copyrights, patents and other intellectual property rights of third-parties. In addition, litigation may be necessary in the future to enforce our intellectual property rights, protect our trade secrets or to determine the validity and scope of proprietary rights claimed by others. Any such litigation, regardless of outcome or merit, could result in substantial costs and diversion of management and technical resources, any of which could materially harm our business.

**Regulation**

We must comply with laws and regulations relating to the travel industry and the provision of travel services, including registration in various states as sellers of travel and compliance with certain disclosure

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requirements and participation in state restitution funds. In addition, our businesses are subject to regulation by the U.S. Department of Transportation and must comply with various rules and regulations governing the provision of air transportation, including those relating to advertising and accessibility.

As we continue to expand the reach of our brands into the European, Asia-Pacific and other international markets, we are increasingly subject to laws and regulations applicable to travel agents in those markets, including, in some countries, laws regulating the provision of travel packages and industry specific value-added tax regimes. For example, the European Economic Community Council Directive on Package Travel Package Holidays and Package Tours imposes various obligations upon marketers of travel packages, such as disclosure obligations to consumers and liability to consumers for improper performance of the package, including supplier failure.

**Financial Information about Segments and Geographic Areas**

We generate our revenue through a diverse customer base, and there is no reliance on a single customer or small group of customers; no customer represented 10% or more of our total revenue in the periods presented in this Annual Report on Form 10-K.

We have two reportable segments: North America and Europe. The segment and geographic information required herein is contained in Note 16 Segment Information, in the notes to our consolidated financial statements

We are in the process of reorganizing our business around our global brands. Our chief operating decision makers are assessing our new structure to determine how we will manage our business and report our financial results. Beginning in the first quarter of 2009, we expect our reportable segments to change as we will no longer manage the business on a geographical basis.

**Additional Information**

*Company Website and Public Filings.* We maintain a corporate website at www.expediainc.com. Except as explicitly noted, the information on our website, as well as the websites of our various brands and businesses, is not incorporated by reference in this Annual Report on Form 10-K, or in any other filings with, or in any information furnished or submitted to, the SEC.

We make available, free of charge through our website, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to those reports, filed or furnished pursuant to Sections 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after they have been electronically filed with, or furnished to, the SEC.

*Code of Ethics.* We post our code of business conduct and ethics, which applies to all employees, including all executive officers, senior financial officers and directors, on our corporate website at www.expediainc.com. Our code of business conduct and ethics complies with Item 406 of SEC Regulation S-K and the rules of NASDAQ. We intend to disclose any changes to the code that affect the provisions required by Item 406 of Regulation S-K, and any waivers of the code of ethics for our executive officers, senior financial officers or directors, on our corporate website.

**Employees**

As of December 31, 2008, we employed approximately 8,050 full-time and part-time employees, including approximately 1,920 employees of eLong. We believe we have good relationships with our employees, including relationships with employees represented by works councils or other similar organizations.

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## Part I. Item 1A. *Risk Factors*

You should carefully consider each of the following risks and uncertainties associated with our company and the ownership of our securities. Additional risks not presently known to us or that we currently deem immaterial may also impair our business operations.

**Global economic conditions may continue to have an adverse effect on our business and financial performance.**

Travel expenditures are sensitive to personal and business discretionary spending levels and tend to decline or grow more slowly during economic downturns, including downturns in any of our major markets. In the second half of 2008, there was a rapid softening of domestic and global economic conditions, and the outlook for 2009 is uncertain. This slowing of the domestic and global economies has increased unemployment and reduced the financial capacity of both corporate and leisure travelers, thereby slowing spending on the services we provide. The continuation, or worsening, of domestic and global economic conditions could continue to adversely affect our businesses and financial performance.

**Declines or disruptions in the travel industry could adversely affect our business or financial performance.**

Our business and financial performance are affected by the health of the worldwide travel industry, including by decreases in hotel occupancy rates, hotel average daily rates, decreases in airline capacity or rising airline ticket prices, all of which we have recently experienced. Events or weakness specific to the air travel industry that could negatively affect our business also include continued fare increases, travel-related strikes or labor unrest, bankruptcies or liquidations and fuel price volatility. Additionally, our business is sensitive to safety concerns, and thus our business has in the past and may in the future decline after incidents of actual or threatened terrorism, during periods of political instability or geopolitical conflict in which travelers become concerned about safety issues, as a result of natural disasters such as hurricanes or earthquakes or when travel might involve health-related risks, such as avian flu. Such concerns could result in a protracted decrease in demand for our travel services. This decrease in demand, depending on its scope and duration, together with any future issues affecting travel safety, could significantly and adversely affect our business and financial performance over the short and long-term. In addition, the disruption of the existing travel plans of a significant number of travelers upon the occurrence of certain events, such as actual or threatened terrorist activity or war, could result in the incurrence of significant additional costs and constrained liquidity if we provide relief to affected travelers by not charging cancellation fees and/or by refunding the price of airline tickets, hotel reservations and other travel products and services.

**We operate in an increasingly competitive global environment.**

The market for the services we offer is increasingly and intensely competitive. We compete with both established and emerging online and traditional sellers of travel services, including online travel agencies, travel suppliers, large online portal and search companies, traditional travel agencies, meta search companies and operators of travel industry reservation databases. Some of our competitors, particularly travel suppliers such as airlines and hotels, may offer products and services on more favorable terms, including lower prices, no fees or unique access to proprietary loyalty programs, such as points and miles. Many of these competitors, such as airlines, hotel and rental car companies, have been steadily focusing on increasing online demand on their own websites in lieu of third-party distributors such as the various Expedia sites. For instance, some low cost airlines, which are having increasing success in the marketplace, distribute their online supply exclusively through their own websites. Suppliers who sell on their own websites typically do not charge a processing fee, and, in some instances, offer advantages such as increased or exclusive product availability and their own bonus miles or loyalty points, which could make their offerings more attractive to consumers than offerings like ours. In addition, we face increasing competition from other travel agencies, which in some cases may have favorable offerings for both travelers and suppliers, including pricing,

connectivity and supply breadth. We also compete with other travel agencies for both travelers and the acquisition and retention of supply. Increasing competition from current and emerging competitors, the introduction of new technologies and the expansion of existing technologies, such as metasearch and other search engine technologies, may force us to

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make changes to our business models, including changing our approaches to service fees. Increased competition has resulted in and may continue to result in reduced margins, as well as loss of travelers, transactions and brand recognition. We cannot assure you that we will be able to compete successfully against current, emerging and future competitors or provide differentiated products and services to our traveler base.

**Our business depends on our relationships with travel suppliers.**

An important component of our business success depends on our ability to maintain and expand relationships with travel suppliers and GDS partners. A substantial portion of our revenue is derived from compensation negotiated with travel suppliers and GDS partners for bookings made through our websites. Over the last several years, air and hotel travel suppliers have generally reduced or in some cases eliminated payments to travel agents and other travel intermediaries. In addition, as our hotel remuneration varies with the room rates paid by travelers (Average Daily Rates, or ADRs ), meaning that our revenue for each room will generally be proportionately higher or lower depending on the level of the ADR. The recent significant decline in ADRs has accordingly negatively impacted our hotel booking revenue. To the extent ADRs decline even further, as we think is likely in 2009, our hotel booking revenue will be further negatively impacted. During the recent decline, we have experienced a drop in ADRs generally faster than the overall industry due to a number of factors including the increased use of our distribution channels for promotional activities by hotels. We expect this trend to continue until the hotel industry begins to rebound. Also, each year we typically negotiate or renegotiate numerous long-term airline and hotel contracts. No assurances can be given that GDS partners or travel suppliers will not further reduce or eliminate compensation, attempt to charge travel agencies for content or further reduce their ADRs, any of which could reduce our revenue and margins thereby adversely affecting our business and financial performance. Adverse changes in existing relationships, increasing industry consolidation or our inability to enter into new arrangements with these parties on favorable terms, if at all, could reduce the amount, quality and breadth of attractively priced travel products and services that we are able to offer, which could adversely affect our business and financial performance.

**We rely on the value of our brands, and the costs of maintaining and enhancing our brand awareness are increasing.**

We believe continued investment in our brands, including Expedia.com, hotels.com, Hotwire.com, Classic Vacations, Egencia, eLong, Venere, the TripAdvisor Media Network and Expedia Local Expert, is critical to retain and expand our traveler, supplier and advertiser bases. We have and expect to continue having to spend more to maintain our brands value due to a variety of factors. These include increased spending from our competitors, the increasing costs of supporting multiple brands, expansion into geographies and products where our brands are less well known, inflation in media pricing including search engine keywords and the continued emergence and relative traffic share growth of search engines and meta search engines as destination sites for travelers. We have spent considerable money and resources to date on the establishment and maintenance of our brands, and we will continue to spend money on, and devote resources to, advertising and marketing, as well as other brand building efforts to preserve and enhance consumer awareness of our brands. We may not be able to successfully maintain or enhance consumer awareness of our brands, and, even if we are successful in our branding efforts, such efforts may not be cost-effective, or as cost-effective as they have been historically. If we are unable to maintain or enhance consumer awareness of our brands and generate demand in a cost-effective manner, it would have a material adverse effect on our business, financial condition and results of operations.

**Our business could be negatively affected by changes in search engine algorithms and dynamics.**

We increasingly utilize internet search engines such as Google, principally through the purchase of travel-related keywords, to generate traffic to our websites. Search engines, including Google, frequently update and change the logic that determines the placement and display of results of a user s search, such that the purchased or algorithmic

placement of links to our websites can be negatively affected. In addition, a significant amount of our business is directed to our own websites through our participation in pay-per-click and display advertising campaigns on internet media properties and search engines whose pricing and operating dynamics can experience rapid change, both technically and competitively. If a major search engine such as Google, which we utilize for a significant amount of our search engine traffic, changes its algorithms

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in a manner that negatively affects the search engine ranking, paid or unpaid, of our websites or that of our third-party distribution partners, or if competitive dynamics further impact market pricing in a negative manner, our business and financial performance would be adversely affected.

**We rely on information technology to operate our businesses and maintain our competitiveness, and any failure to adapt to technological developments or industry trends could harm our business.**

We depend on the use of sophisticated information technologies and systems, including technology and systems used for reservations, communications, procurement and administration. As our operations grow in both size and scope, we must continuously improve and upgrade our systems and infrastructure to offer an increasing number of travelers enhanced products, services, features and functionality, while maintaining the reliability and integrity of our systems and infrastructure. Our future success also depends on our ability to adapt our services and infrastructure to meet rapidly evolving consumer trends and demands while continuing to improve the performance, features and reliability of our service in response to competitive service and product offerings.

In addition, we may not be able to maintain our existing systems or replace or introduce new technologies and systems as quickly as we would like or in a cost-effective manner. We are currently in the process of migrating portions of our site functionality to new technology platforms to enable us to introduce innovation more rapidly, achieve better search engine optimization and improve our site merchandising capability, among other anticipated benefits. We have experienced some delays with this migration. Delays or difficulties in implementing new or enhanced systems may keep us from achieving the desired results in a timely manner, to the extent anticipated, or at all. Also, we may be unable to devote financial resources to new technologies and systems in the future. If any of these events occur, our business could suffer.

**We rely on third-parties for many systems and services.**

We rely on third-party service providers for certain customer care, fulfillment, processing, development, technology and other services. If these third-parties experience difficulty meeting our requirements or standards, it could damage our reputation or make it difficult for us to operate some aspects of our business. In addition, if such third-party service providers were to cease operations, temporarily or permanently, face financial distress or other business disruption, we could suffer increased costs and delays in our ability to provide similar services until an equivalent service provider could be found or we could develop replacement technology or operations. In addition, we rely increasingly on outsourced providers of traveler care and information technology services. If we are unsuccessful in choosing high quality partners or we ineffectively manage these partnerships it could have an adverse impact on our operations and financial results.

**We rely on the performance of highly skilled personnel and, if we are unable to retain or motivate key personnel or hire, retain and motivate qualified personnel, our business would be harmed.**

Our performance is largely dependent on the talents and efforts of highly skilled individuals. Our future success depends on our continuing ability to identify, hire, develop, motivate and retain highly skilled personnel for all areas of our organization. In particular, the contributions of Barry Diller, our Chairman and Senior Executive, and Dara Khosrowshahi, our Chief Executive Officer, are critical to the overall management of the company. Our future success will depend on the performance of our senior management and key employees. Expedia cannot ensure that it will be able to retain the services of Mr. Diller, Mr. Khosrowshahi or any other member of our senior management or key employees, the loss of whom could seriously harm our business. Competition for well-qualified employees in certain aspects of our business, including software engineers and other technology professionals, also remains intense.

Our continued ability to compete effectively depends on our ability to attract new employees and to retain and motivate our existing employees. If we do not succeed in attracting well-qualified employees or retaining or motivating existing employees, our business would be adversely affected. We do not maintain any key person life insurance policies.

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We are in the process of restructuring our global workforce to simplify and streamline our organization, improve our cost structure and strengthen our overall businesses. These changes could affect employee morale and productivity and be disruptive to our business.

**Our stock price is highly volatile.**

The market price of our common stock is highly volatile and could continue to be subject to wide fluctuations in response to factors such as the following, some of which are beyond our control:

- Quarterly variations in our operating results;
- Operating results that vary from the expectations of securities analysts and investors;
- Changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;
- Rating agency credit rating actions;
- Reaction to our earnings releases and conference calls, or presentations by executives at investor and industry conferences;
- Changes in our capital structure;
- Changes in market valuations of other internet or online service companies;
- Announcements of technological innovations or new services by us or our competitors;
- Announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- Loss of a major supplier participant, such as an airline or hotel chain;
- Changes in the status of our intellectual property rights;
- Lack of success in the expansion of our business model geographically;
- Announcements by third parties of significant claims or proceedings against us or adverse developments in pending proceedings;
- Additions or departures of key personnel;
- Rumors or public speculation about any of the above factors; and
- Market and volume fluctuations in the stock markets in general.

Volatility in our stock price could also make us less attractive to certain investors, and/or invite speculative trading in our common stock or debt instruments.

**Our international operations involve additional risks and our exposure to these risks will increase as we expand our international operations.**

We operate in a number of jurisdictions outside of the United States and intend to continue to expand our international presence. To achieve widespread acceptance in the countries and markets we enter, we must continue to tailor our services and business model to the unique circumstances of such countries and markets, including supplier relationships and traveler preferences. Learning the customs and cultures of various countries, particularly with respect to travel patterns and practices, can be difficult, costly and divert management and personnel resources. Our failure to adapt our practices and models effectively to the traveler and supplier preferences of each country into which we expand could slow our international growth.

We expect to continue to face additional risks in international operations. These risks include political instability; threatened or actual acts of terrorism; changes in regulatory requirements; our ability to comply with additional U.S. laws applicable to U.S. companies operating internationally as well as local laws and regulations; diminished ability to legally enforce our contractual rights; increased risk and limits on our ability to enforce intellectual property rights; possible preferences by local populations for local providers; restrictions

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on the withdrawal of non-U.S. investment and earnings; currency exchange restrictions; slower adoption of the internet as an advertising, broadcast and commerce medium in those markets as compared to the United States and difficulties in managing staffing and operations due to distance, time zones, language and cultural differences.

**Changing laws, rules and regulations and legal uncertainties may adversely affect our business or financial performance.**

Our business and financial performance could be adversely affected by unfavorable changes in or interpretations of existing, or the promulgation of new laws, rules and regulations applicable to us and our businesses, including those relating to the internet and online commerce, consumer protection and privacy. Such unfavorable changes could decrease demand for products and services, increase costs and/or subject us to additional liabilities. For example, there is, and will likely continue to be, an increasing number of laws and regulations pertaining to the internet and online commerce, which may relate to liability for information retrieved from or transmitted over the internet, user privacy, taxation and the quality of products and services. Furthermore, the growth and development of online commerce may prompt calls for more stringent consumer protection laws that may impose additional burdens on online businesses generally.

**Adverse application of tax laws, rules or regulations could have an adverse effect on our businesses and financial performance.**

The application of various domestic and international sales, use, occupancy, value-added and other tax laws, rules and regulations to our historical and new products and services is subject to interpretation by the applicable taxing authorities. Many of the fundamental statutes and regulations that impose these taxes were established before the growth of the internet and e-commerce. If the tax laws, rules and regulations were amended, if new adverse laws, rules or regulations were adopted, or if current laws are interpreted adversely to our interests, particularly with respect to occupancy or value-added taxes, the results could increase our tax payments (prospectively or retrospectively) and/or subject us to penalties and decrease the demand for our products and services if we pass on such costs to the consumer. As a result these changes could have an adverse affect on our businesses or financial performance. In addition, we may be required in certain jurisdictions to pay tax assessments, which may be substantial, prior to contesting the validity of such assessments. This requirement is commonly referred to as pay to play. Payment of these amounts is not an admission that the tax payer believes it is subject to such taxes. We continue to work with relevant tax authorities and legislators to clarify our obligations under existing, new and emerging laws and regulations. There have been, and will continue to be, substantial ongoing costs, which may include pay to play payments, associated with complying with, and defending our position in, the various indirect tax requirements in the numerous markets in which we conduct or will conduct business.

**Provisions in certain credit card processing agreements could adversely affect our liquidity and financial condition.**

We have agreements with companies that process customer credit card transactions for the facilitation of customer bookings of travel services from our travel suppliers. These agreements allow these processing companies, under certain conditions, to hold an amount of our cash (referred to as a holdback ) or require us to post a letter of credit equal to a portion of bookings that have been processed by that company. These processing companies may be entitled to a holdback upon the occurrence of specified events, including material adverse changes in our financial condition, or for certain companies, at their discretion. An imposition of a holdback by one or more of our processing companies could materially reduce our liquidity.

In addition, we may be held liable for accepting fraudulent credit cards on our websites for transactions where we are merchant of record as well as other payment disputes with our customers. Additionally, we are held liable for

accepting fraudulent credit cards in certain retail transactions when we do not act as merchant of record. Accordingly, we calculate and record an allowance for the resulting credit card charge backs. If we are unable to combat the use of fraudulent credit cards on our websites, our results of operations and financial condition could be materially adversely affected.

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**System interruption and the lack of redundancy in our information systems may harm our businesses.**

We rely on computer systems to facilitate and process transactions. We have experienced and may in the future experience system interruptions that make some or all of these systems unavailable or prevent us from efficiently fulfilling orders or providing services to third-parties. Any interruptions, outages or delays in our systems, or deterioration in their performance, could impair our ability to process transactions and decrease our quality of service that we can offer to our travelers. If we were to experience frequent or persistent system failures, our reputation and brands could be harmed.

In addition, we do not have backup systems or contingency plans for certain critical aspects of our operations or business processes, many other systems are not fully redundant and our disaster recovery or business continuity planning may not be sufficient. Fire, flood, power loss, telecommunications failure, break-ins, earthquakes, acts of war or terrorism, acts of God, computer viruses, physical break-ins, electronic intrusion attempts from both external and internal sources and similar events or disruptions may damage or impact or interrupt computer or communications systems or business processes at any time. Although we have put measures in place to protect certain portions of our facilities and assets, any of these events could cause system interruption, delays and loss of critical data, and could prevent us from providing services to our travelers and/or third parties for a significant period of time. Remediation may be costly and we may not have adequate insurance to cover such costs. Moreover, the costs of enhancing infrastructure to attain improved stability and redundancy may be time consuming and expensive and may require resources and expertise that are difficult to obtain.

**Intense competition for advertising revenue may adversely affect our ability to achieve or maintain market share and operate profitably.**

Expedia, Inc. websites, including in particular the TripAdvisor Media Network, compete for advertising dollars with large internet portal sites, such as American Online, MSN and Yahoo!, that offer listing or other advertising opportunities for travel-related companies. These companies have significantly greater financial, technical, marketing and other resources and large client bases. We also compete with search engines like Google and Yahoo! Search that offer pay-per-click advertising services. In addition, we compete with newspapers, magazines and other traditional media companies that provide offline and online advertising opportunities. We expect to face additional competition as other established and emerging companies, including print media companies, enter the online advertising market. Competition could results in reduced margins on our advertising services, loss of market share or less use of our sites by travel companies and travelers. If we are not able to compete effectively with current or future competitors as a result of these and other factors, our business could be materially adversely affected. In addition, the TripAdvisor Media Network is increasingly reliant on natural and paid search traffic from major search engines, whose per unit costs have been increasing.

**Mr. Diller currently controls Expedia. If Mr. Diller ceases to control the company, Liberty Media Corporation may effectively control the company.**

Subject to the terms of a Stockholders Agreement between Mr. Diller and Liberty Media Corporation, Mr. Diller holds an irrevocable proxy to vote shares of Expedia stock held by Liberty. Accordingly, 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 the 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. Mr. Diller, through shares he owns beneficially as well as those subject to the irrevocable proxy, controlled approximately 60% of the combined voting power of the outstanding Expedia capital stock as of December 31, 2008.

In addition, under a Governance Agreement among Mr. Diller, Liberty Media Corporation and Expedia, Inc., as amended, each of Mr. Diller and Liberty generally has the right to consent to limited matters in the event that we incur debt such that our ratio of total debt to EBITDA, as defined in the Governance Agreement,

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equals or exceeds 8:1 over a continuous 12-month period. We cannot assure you that Mr. Diller and Liberty will consent to any such matter at a time when we are highly leveraged, in which case we would not be able to engage in such transactions or take such actions.

As a result of Mr. Diller s ownership interests and voting power, and Liberty s ownership interests and voting power upon Mr. Diller s permanent departure from us, Mr. Diller is currently, and in the future Liberty may be, in a position to control or influence significant corporate actions, including, corporate transactions such as mergers, business combinations or dispositions of assets and determinations with respect to our significant business direction and policies. This concentrated control could discourage others from initiating any potential merger, takeover or other change of control transaction that may otherwise be beneficial to us.

**Actual or potential conflicts of interest may develop between Expedia management and directors, on the one hand, and the management and directors of IAC, on the other.**

Mr. Diller serves as our Chairman of the Board of Directors and Senior Executive, while retaining his role as Chairman and Chief Executive Officer of IAC, and Mr. Kaufman serves as Vice Chairman of both Expedia and IAC. The fact that Messrs. Diller and Kaufman hold positions with both companies and own both IAC and Expedia stock could create, or appear to create, potential conflicts of interest for each of Messrs. Diller and Kaufman when facing decisions that may affect both IAC and Expedia. Both Messrs. Diller and Kaufman may also face conflicts of interest with regard to the allocation of their time between IAC and Expedia.

Our certificate of incorporation provides that no officer or director of Expedia who is also an officer or director of IAC 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 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. This corporate opportunity provision may have the effect of exacerbating the risk of conflicts of interest between IAC and Expedia because the provision effectively shields an overlapping director/executive officer from liability for breach of fiduciary duty in the event that such director or officer chooses to direct a corporate opportunity to IAC instead of Expedia.

**We may be unable to access capital when necessary or desirable.**

The availability of funds depends in significant measure on capital markets and liquidity factors over which we exert no control. Particularly in light of existing uncertainty in the capital and credit markets, we can provide no assurance that sufficient financing will be available on desirable or even any terms to fund investments, acquisitions, stock repurchases or extraordinary actions or that our counterparties in any such financings would honor their contractual commitments. In addition, any downgrade of our debt ratings by Standard & Poor s, Moody s Investor Service or similar ratings agencies, increases in general interest rate levels or the recent general weakening in the credit markets could increase our cost of capital. Recently credit spreads for below investment grade issuers such as Expedia have increased significantly compared with historical levels, impacting returns for bondholders and increasing the cost of potential incremental debt issuance.

In addition, we have experienced, and may experience declines in seasonal liquidity and capital provided by our merchant hotel business, which has historically provided a meaningful portion of our operating cash flow. The extent of such impact is dependent on several factors, including the rate of growth of our merchant hotel business, payment terms with suppliers and relative growth of businesses which consume rather than generate working capital, such as our agency hotel, advertising and managed corporate travel businesses.

Our revolving credit facility expires in August 2010, and any borrowings thereunder will be classified as current during the third quarter of 2009. Given the current uncertainty in the credit markets, there is no guarantee we will be able to renew our credit facility, or renew it at current commitment levels or otherwise on terms acceptable to us. In addition, a recent amendment to the facility has increased the cost of borrowing under the facility.

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**We have significant long-term indebtedness, which could adversely affect our business and financial condition.**

As of December 31, 2008, the face value of our long-term indebtedness totaled $1.54 billion. Risks relating to our long-term indebtedness include:

- Increasing our vulnerability to general adverse economic and industry conditions;
- Requiring us to dedicate a portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of cash flow to fund working capital, capital expenditures, acquisitions and investments and other general corporate purposes;
- Making it difficult for us to optimally capitalize and manage the cash flow for our businesses;
- Limiting our flexibility in planning for, or reacting to, changes in our businesses and the markets in which we operate;
- Placing us at a competitive disadvantage compared to our competitors that have less debt; and
- Limiting our ability to borrow additional funds or to borrow funds at rates or on other terms we find acceptable.

In addition, it is possible that we may need to incur additional indebtedness in the future in the ordinary course of business. The terms of our credit facility and the indentures governing our outstanding senior notes allow us to incur additional debt subject to certain limitations. If new debt is added to current debt levels, the risks described above could intensify.

**The agreements governing our indebtedness contain various covenants that limit our discretion in the operation of our business and also require us to meet financial maintenance tests and other covenants. The failure to comply with such tests and covenants could have a material adverse effect on us.**

The agreements governing our indebtedness contain various covenants, including those that restrict our ability to, among other things:

- Borrow money, and guarantee or provide other support for indebtedness of third parties including guarantees;
- Pay dividends on, redeem or repurchase our capital stock;
- Make investments in entities that we do not control, including joint ventures;
- Enter into certain asset sale transactions;
- Enter into secured financing arrangements;
- Enter into sale and leaseback transactions; and
- Enter into unrelated businesses.

These covenants may limit our ability to effectively operate our businesses.

In addition, our credit facility requires that we meet certain financial tests, including an interest coverage test and a leverage ratio test. We recently entered into an amendment to our credit facility that tightened a number of the restrictions listed above.

Any failure to comply with the restrictions of our credit facility or any agreement governing our other indebtedness may result in an event of default under those agreements. Such default may allow the creditors to accelerate the related debt, which acceleration may trigger cross-acceleration or cross-default provisions in other debt. In addition, lenders may be able to terminate any commitments they had made to supply us with further funds (including periodic rollovers of existing borrowings).

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**We have foreign exchange risk.**

We conduct a significant and growing portion of our business outside the United States. As a result, we face exposure to movements in currency exchange rates, particularly those related to the British pound sterling, the euro, Canadian dollar, Australian dollar and Chinese renminbi.

These exposures include but are not limited to re-measurement gains and losses from changes in the value of foreign denominated assets and liabilities; translation gains and losses on foreign subsidiary financial results that are translated into U.S. dollars upon consolidation; fluctuations in merchant hotel revenue due to relative currency movements from the time of booking to the time of stay; planning risk related to changes in exchange rates between the time we prepare our annual and quarterly forecasts and when actual results occur; and the impact of relative exchange rate movements on cross-border travel, principally Europe to the United States and the United States to Europe travel.

Depending on the size of the exposures and the relative movements of exchange rates, if we choose not to hedge or fail to hedge effectively our exposure, we could experience a material adverse effect on our financial statements and financial condition. In addition, given the recent severe volatility in exchange rates these exposures have increased, and the impact on our results of operations has become more pronounced. In addition, the current environment, and the increasingly global nature of our business has made hedging these exposures both more complex and costly. We have increased and plan to continue increasing the scope and complexity of our foreign exchange risk management, including the use of forward contracts to hedge a portion of our exposures. We make a number of estimates in conducting hedging activities including in some cases the level of future bookings, cancellations, refunds and payments in foreign currencies. In the event those estimates differ significantly from actual results, we could experience greater volatility as a result of our hedging activities.

**We are exposed to various counterparty risks.**

We are exposed to the risk of failure to perform by various financial counterparties, including for our insurance coverages, investments, bank deposits, letters of credit and foreign exchange risk management. As it relates to foreign exchange, we employ forward contracts to hedge a portion of our exposure to foreign currency exchange rate fluctuations. As of December 31, 2008, we were party to forward contracts with a notional value of $165 million and the fair value of which was a $1 million liability. The counterparties to these contracts were Goldman Sachs, Banc of America, HSBC and Fifth Third Bank. Upon the maturity of these or subsequent contracts, the counterparties are potentially obligated to pay us net settlement values. If any of these counterparties were to liquidate, declare bankruptcy or otherwise cease operations, it may not be able to satisfy its obligations under these forward contracts. In addition, due to the weakening economy we also face increased credit risk and payment delays from our non-financial contract counterparties.

**Our investment in eLong creates risks and uncertainties relating to the laws in China.**

The success of our investment in eLong, Inc., a company organized under Cayman Islands law, whose principal business is the operation of an internet-based travel business in China, is subject to risks and uncertainties regarding the interpretation of China s laws and regulations. Significant uncertainties exist in the interpretation and enforcement of Chinese laws and regulations, and such uncertainties could limit the available legal protections relating to our investment in eLong. Moreover, we cannot predict the effect of future developments in China s legal system, particularly with respect to the travel industry, the internet, foreign investment or licensing, including the introduction of new laws, changes to existing laws or the interpretation or enforcement of current or future laws and regulations. In addition, the laws and regulations of China restrict certain direct foreign investment in the air-ticketing, travel agency and internet content provision businesses. Although we have established effective control through a series of

agreements between eLong, Inc. and its affiliated Chinese entities, future developments in the interpretation or enforcement of Chinese laws and regulations or a dispute relating to the agreements could restrict our ability to operate or restructure these entities or to engage in desirable strategic transactions. Finally, China does not have treaties with the United States or most other western countries providing for the reciprocal recognition and enforcement of

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judgment of courts. As a result, court judgments obtained in jurisdictions with which China does not have treaties on reciprocal recognition of judgment may be difficult or impossible to enforce in China.

**Our processing, storage, use and disclosure of personal data could give rise to liabilities as a result of governmental regulation, conflicting legal requirements, differing views of personal privacy rights, or data security breaches.**

In the processing of our traveler transactions, we receive and store a large volume of personally identifiable information. This information is increasingly subject to legislation and regulations in numerous jurisdictions around the world. This government action is typically intended to protect the privacy and security of personal information that is collected, processed and transmitted in or from the governing jurisdiction. We could be adversely affected if legislation or regulations are expanded to require changes in our business practices or if governing jurisdictions interpret or implement their legislation or regulations in ways that negatively affect our business, financial condition and results of operations. As privacy and data protection have become more sensitive issues, we may also become exposed to potential liabilities as a result of differing views on the privacy of travel and/or online data.

We cannot guarantee that our security measures will prevent data breaches. In addition, certain of our acquired companies may not have the same standards related to data collection, storage and transfer that Expedia has historically maintained. Failure to improve their standard or a substantial data breach in any of our businesses could significantly harm our business, damage our reputation, expose us to a risk of loss or litigation and possible liability and/or cause customers and potential customers to lose confidence in our security, which would have a negative effect on the value of our brands.

These and other privacy and security developments that are difficult to anticipate could adversely affect our business, financial condition and results of operations.

**Acquisitions could result in operating and financial difficulties.**

Our future growth may depend, in part, on acquisitions. To the extent that we grow through acquisitions, we will face the operational and financial risks that commonly accompany that strategy. We would also face operational risks, such as failing to assimilate the operations and personnel of the acquired businesses, disrupting their ongoing businesses, increased complexity of our business, impairing management resources and their relationships with employees and travelers as a result of changes in their ownership and management. Further, the evaluation and negotiation of potential acquisitions, as well as the integration of an acquired business, may divert management time and other resources. Some acquisitions may not be successful and their performance may result in the impairment of their carrying value.

Certain financial and operational risks related to acquisitions that may have a material impact on our business are:

- Use of cash resources and incurrence of debt and contingent liabilities in funding acquisitions;
- Amortization expenses related to acquired intangible assets and other adverse accounting consequences;
- Costs incurred in identifying and performing due diligence on potential acquisition targets that may or may not be successful;
- Difficulties and expenses in assimilating the operations, products, technology, privacy protection systems, information systems or personnel of the acquired company;

Impairment of relationships with employees, suppliers and affiliates of our business and the acquired business;

The assumption of known and unknown debt and liabilities of the acquired company;

Failure to generate adequate returns on our acquisitions and investments;

Entrance into markets in which we have no direct prior experience; and

Impairment of goodwill or other intangible assets arising from our acquisitions.

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**We cannot be sure that our intellectual property is protected from copying or use by others, including potential competitors.**

Our websites rely on content and technology intellectual property, much of which we regard as proprietary. We protect our proprietary technology by relying on trademarks, copyrights, trade secret laws and confidentiality agreements. In connection with our license agreements with third-parties, we seek to control access to and distribution of our technology, documentation and other proprietary information. Even with all of these precautions, it is possible for someone else to copy or otherwise obtain and use our proprietary technology or content without our authorization or to develop similar technology independently. Effective trademark, copyright and trade secret protection may not be available in every country in which our services are made available through the internet, and policing unauthorized use of our proprietary information is difficult and expensive. We cannot be sure that the steps we have taken will prevent misappropriation of our proprietary information. This misappropriation could have a material adverse effect on our business. In the future, we may need to go to court to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. This litigation might result in substantial costs and diversion of resources and management attention.

We currently license from third-parties some of the technologies incorporated into our websites. As we continue to introduce new services that incorporate new technologies, we may be required to license additional technology. We cannot be sure that such technology licenses will be available on commercially reasonable terms, if at all.

**Part I. Item 1B.** ***Unresolved Staff Comments***

None.

**Part I. Item 2.** ***Properties***

We lease approximately 1.3 million square feet of office space worldwide, pursuant to leases with expiration dates through October 2018.

We lease approximately 348,000 square feet for our headquarters in Bellevue, Washington, pursuant to a lease with an expiration date of October 2018. We also lease approximately 570,000 square feet of office space for our domestic operations in various cities and locations in Arizona, California, Florida, Hawaii, Idaho, Illinois, Massachusetts, Michigan, Missouri, Nevada, New Jersey, New York, Texas, Washington and Washington DC, pursuant to leases with expiration dates through January 2015.

We also lease approximately 395,000 square feet of office space for our international operations in various cities and locations, including Australia, Belgium, Canada, China, France, Germany, India, Italy, Japan, Mexico, the Netherlands, Spain and the United Kingdom, pursuant to leases with expiration dates through February 2018.

**Part I. Item 3.** ***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. The amounts that may be recovered in such matters may be subject to insurance coverage.

Rules of the SEC require the description of material pending legal proceedings, other than ordinary, routine litigation incident to the registrant s business, and advise that proceedings ordinarily need not be described if they primarily involve damages claims for amounts (exclusive of interest and costs) not individually exceeding 10% of the current

assets of the registrant and its subsidiaries on a consolidated basis. In the judgment of management, none of the pending litigation matters that the Company and its subsidiaries are defending, including those described below, involves or is likely to involve amounts of that magnitude. The litigation matters described below involve issues or claims that may be of particular interest to our stockholders, regardless of whether any of these matters may be material to our financial position or results of operations based upon the standard set forth in the SEC s rules.

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**Securities Class Action Litigation against IAC**

Beginning on September 20, 2004, twelve purported shareholder class actions were commenced in the United States District Court for the Southern District of New York against IAC and certain of its officers and directors, alleging violations of the federal securities laws. These cases arose out of IAC s August 4, 2004 announcement of its earnings for the second quarter of 2004 and generally alleged that the value of IAC s stock was artificially inflated by pre-announcement statements about its financial results and forecasts that were false and misleading due to the defendants alleged failure to disclose various problems faced by IAC s travel businesses. On December 20, 2004, the district court consolidated the twelve lawsuits, appointed co-lead plaintiffs, and designated co-lead plaintiffs counsel. See *In re IAC/InterActiveCorp Securities Litigation,* No. 04-CV-7447 (S.D.N.Y.). Expedia is not a party to this litigation, however, under the terms of its Separation Agreement with IAC, Expedia has generally agreed to bear a portion of the costs and liabilities, if any, associated with any securities law litigation relating to conduct prior to the Spin-Off of the businesses or entities that comprise Expedia following the Spin-Off.

On October 18, 2004, a related shareholder derivative action, *Stuart Garber, Derivatively on Behalf of IAC/InterActiveCorp v. Barry Diller et al.*, No. 04-603416, was commenced in the Supreme Court of the State of New York (New York County) against certain of IAC s officers and directors. On November 15, 2004, another related shareholder derivative action, *Lisa Butler, Derivatively on Behalf of IAC/InterActiveCorp v. Barry Diller et al.*, No. 04-CV-9067, was filed in the United States District Court for the Southern District of New York against certain of IAC s current and former directors. On January 24, 2005, the federal district court consolidated the *Butler* case with the securities class action for pre-trial purposes only. On April 11, 2005, the district court issued a similar consolidation order in respect of the *Garber* case.

On July 5, 2005, the plaintiffs in the related shareholder suits filed a consolidated shareholder derivative complaint against IAC (as a nominal defendant) and sixteen current or former officers or directors of IAC or its former travel business. The complaint, which is based upon factual allegations similar to those in the securities class action, purports to assert claims for breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, unjust enrichment, violation of Section 14(a) of the Exchange Act, and contribution and indemnification. The complaint sought an order voiding the election of IAC s then Board of Directors, as well as damages in an unspecified amount, various forms of equitable relief, restitution, and disgorgement of remuneration received by the individual defendants from IAC.

On September 15, 2005, IAC and the other defendants filed motions to dismiss both the securities class action and the shareholder derivative suits. On November 30, 2005, the plaintiffs filed their opposition to the motions. On January 6, 2006, the defendants filed reply papers in further support of the motions. The court issued an opinion and order (i) granting the defendants motion to dismiss the complaint in the securities class action, with leave to replead, and (ii) granting the defendants motion to dismiss the complaint in the shareholder derivative suits, with prejudice.

On April 23, 2007, the plaintiffs in the shareholder derivative suits filed a notice of appeal to the United States Court of Appeals for the Second Circuit from the District Court s order of dismissal. On June 14, 2007, on consent of the parties, the appeal was withdrawn from active consideration by the Court of Appeals, subject to reinstatement by no later than March 31, 2008.

On May 15, 2007, the plaintiffs in the securities class action filed a second amended complaint. The new pleading continues to allege that the defendants failed to disclose material information concerning problems at the Company s then-travel businesses and to assert the same legal claims as its predecessor. On August 15, 2007, the defendants filed a motion to dismiss the second amended complaint. On October 19, 2007, the plaintiffs opposed the motion. On November 9, 2007, the defendants filed their reply brief in support of the motion. A hearing on the motion has not been scheduled.

Expedia believes that the claims in the class action and derivative suits lack merit and will continue to vigorously defend against them.

*Hotels.com.* On June 20, 2003, a purported class action was filed in Texas state court against certain hotels.com-affiliated entities ( hotels.com ). *See Nora J. Olvera, Individually and on Behalf of All Others*

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*Similarly Situated v. Hotels.com, Inc.*, No. DC-03-259 (District Court, 229th Judicial District, Duval County). The complaint and subsequent amended complaints filed August 12, 2003 and May 6, 2004, allege that hotels.com collects excess hotel occupancy taxes from consumers (i.e., allegedly charges consumers more for occupancy taxes than it pays to the hotels for the hotels use in satisfying their obligations to the taxing authorities). The complaint sought certification of a nationwide class of all persons who have purchased hotel accommodations from hotels.com since June 20, 1999, as well as restitution of, disgorgement of, and the imposition of a constructive trust upon all excess occupancy taxes allegedly collected by hotels.com. On September 25, 2003, the plaintiff filed a demand for arbitration containing substantially the same factual allegations as the *Olvera* lawsuit. On September 2, 2004, the arbitrator issued a final award granting hotels.com s motion to dismiss the arbitration claim.

On May 6, 2003, a purported class action was filed in Texas state court against hotels.com, L.P. ( hotels.com ), *Mary Canales, Individually and on Behalf of All Others Similarly Situated v. Hotels.com, L.P.*, No. DC-03-162 (District Court, 229th Judicial District, Duval County). The complaint, as amended, alleges that hotels.com charges customers taxes that exceed the amount required by or paid to the applicable taxing authorities and that hotels.com charges customers fees that do not correspond to any specific services provided. The complaint seeks restitution of, disgorgement of, and the imposition of a constructive trust upon all excess occupancy taxes allegedly collected by hotels.com. On April 29, 2005, the court issued an order granting the plaintiff s motion for class certification. On February 1, 2006, the court of appeals reversed the holding certifying the class and remanded the case to the trial court. On April 20, 2006, Canales filed a fourth amended petition and a new motion for class certification. Certification briefing has been deferred indefinitely. On November 18, 2008, the parties submitted a joint status report to the court asking that the next status conference be set in approximately six months.

*Expedia® Washington.* On February 18, 2005, three actions filed against Expedia, Inc., a Washington corporation and wholly-owned subsidiary of the registrant ( Expedia Washington ) *C. Michael Nielsen et al. v. Expedia, Inc. et al.*, No. 05-2-02060-1 (Superior Court, King County), *Bruce Deaton et al., v. Expedia, Inc. et al.,* No. 05-2-02062-8 (Superior Court, King County), each of which was filed January 10, 2005 and *Jose Alba, on Behalf of Himself and All Others Similarly Situated v. IAC/InterActiveCorp et al.,* No. 05-2-04533-7 (Superior Court, King County) filed February 3, 2005 were consolidated under the caption *In re Expedia Hotel Taxes and Fees Litigation,* No. 05-2-02060-1, pending in King County Superior Court. The consolidated complaint alleges that Expedia Washington is improperly charging and/or failing to pay hotel occupancy taxes and engaging in other deceptive practices in charging customers for taxes and fees. The complaint seeks certification of a nationwide class of all persons who were assessed a charge for taxes/fees when booking rooms through Expedia Washington. The complaint alleges violation of the Washington Consumer Protection Act and common-law conversion and seeks imposition of a constructive trust on monies received from the plaintiff class, as well as damages in an unspecified amount, disgorgement, restitution, interest and penalties. Six of the seven originally named plaintiffs have withdrawn from the suit. On March 27, 2006, a new named plaintiff was permitted to intervene. During a March 2, 2007 hearing, the court indicated that the plaintiff should amend its complaint and that the parties should provide further briefing on class certification issues. Hearings on plaintiff s motion for class certification took place on September 28, 2007 and April 4, 2008. On May 7, 2008, the court entered an order granting plaintiff s motion to certify the class. On June 17, 2008, Expedia Washington filed, with the court of appeals, a motion for discretionary review of the order certifying the class and a motion to stay further proceedings. On August 14, 2008, the Court of Appeals denied Expedia Washington s motion for discretionary review of the trial court s order granting the plaintiff s motion to certify the class. On October 17, 2008, the Court of Appeals denied Expedia Washington s motion to modify the denial of its motion for discretionary review. Trial is scheduled for July 27, 2009.

*Hotwire.* On April 19, 2005, three actions filed against Hotwire, Inc. ( Hotwire ) were consolidated and now are pending under the caption *Bruce Deaton v. Hotwire, Inc. et al.*, Case No. CGC-05-437631, in the Superior Court of the State of California, County of San Francisco. The consolidated complaint, which was amended on February 17, 2006, alleges that Hotwire is improperly charging and/or failing to pay hotel occupancy taxes and engaging in other

deceptive practices in charging customers for taxes and fees. The complaint seeks certification of a nationwide class of all persons who were assessed a charge for taxes/fees

when booking rooms through Hotwire. The amended complaint alleges violation of Section 17200 of the California Business and Professions Code, violation of the California Consumer Legal Remedies Act, and breach of contract, and seeks imposition of a constructive trust on monies received from the plaintiff class, as well as damages in an unspecified amount, disgorgement, restitution, interest and penalties. The court held a hearing on January 16, 2007, on plaintiffs motion for class certification. On March 15, 2007, the court certified a class of all residents of the United States to whom Hotwire charged taxes/fees for the facilitation of reservations for stand-alone hotel rooms on its website. The court has not yet required that Hotwire provide notice to the potential class members. The trial on plaintiff s Section 17200 claim that was set for the week of January 12, 2009, has been postponed and a new trial date has not been set.

*Consumer Case against Various Internet Travel Companies.* On February 17, 2005, a putative class action was filed in California state court against a number of internet travel companies, including Expedia Washington, hotels.com, Priceline.com and Orbitz. *See Ronald Bush et al. v. CheapTickets, Inc. et al.*, No. BC329021 (Superior Court, Los Angeles County). The complaint alleges that the defendants are improperly charging and/or failing to pay hotel occupancy taxes and engaging in other deceptive practices in charging customers for taxes and fees. The complaint seeks certification of a statewide class of all California residents who were assessed a charge for taxes/fees when booking rooms through the defendants and alleges violation of Section 17200 of the California Business and Professions Code and common-law conversion. The complaint seeks the imposition of a constructive trust on monies received from the plaintiff class, as well as damages in an unspecified amount, disgorgement, restitution and injunctive relief. On July 1, 2005, plaintiffs filed an amended complaint, adding claims pursuant to California s Consumer Legal Remedies Act, Civil Code Section 1750 *et seq*., and claims for breach of contract and the implied duty of good faith and fair dealing. On December 2, 2005, the court ordered limited discovery and ordered that motions challenging the amended complaint would be coordinated with any similar motions filed in the *City of Los Angeles* action. On August 6, 2008, the plaintiffs dismissed their lawsuit with respect to Expedia and hotels.com.

*Consumer Case against Expedia, hotels.com and Hotwire.* On December 8, 2008, a putative class action was filed in federal court in New York state against Expedia, hotels.com and Hotwire. Similar lawsuits were filed at or about the same time against Priceline and Travelocity. *See Matthew R. Chiste, et al. v. Hotels.com, L.P., et al*., No. 08 CV 10676 (United States District Court for the Southern District of New York). The complaint alleges that the defendants are improperly charging and/or failing to pay hotel occupancy taxes and engaging in other deceptive practices in charging customers for taxes and fees. The complaint seeks certification of a nationwide class of all persons who booked a hotel room in New York City through the defendants. The complaint asserts claims for deceptive business practices, conversion, breach of fiduciary duty and breach of contract and seeks a declaratory judgment, injunctive relief and damages in an unspecified amount, but exceeding $5,000,000. The deadline for the defendants to respond to the lawsuit is March 6, 2009.

**Litigation Relating to Hotel Occupancy Taxes**

*City of Los Angeles Litigation.* On December 30, 2004, the city of Los Angeles filed a purported class action in California state court against a number of internet travel companies, including hotels.com, Expedia Washington and Hotwire. *City of Los Angeles, California, on Behalf of Itself and All Others Similarly Situated v. Hotels.com, L.P. et al.*, No. BC326693 (Superior Court, Los Angeles County). The complaint alleges that the defendants are improperly charging and/or failing to pay hotel occupancy taxes. The complaint seeks certification of a statewide class of all California cities and counties that have enacted uniform transient occupancy-tax ordinances effective on or after December 30, 1990. The complaint alleges violation of those ordinances, violation of Section 17200 of the California Business and Professions Code, and common-law conversion. The complaint also seeks a declaratory judgment that the defendants are subject to hotel occupancy taxes on the hotel rate charged to consumers and imposition of a constructive trust on all monies owed by the defendants to the government, as well as disgorgement, restitution, interest and penalties. On September 26, 2005, the court sustained a demurrer on the basis of misjoinder and granted

plaintiff leave to amend its complaint. On February 8, 2006, the city of Los Angeles filed a second amended complaint. On July 12, 2006, the lawsuit filed by the city of San Diego was coordinated with this lawsuit. On January 17, 2007, the defendants filed additional demurrers and a motion to strike class allegations. On March 2, 2007, the plaintiffs filed a third amended complaint and on

March 7, 2007, the court denied defendants demurrers on misjoinder. On April 11, 2007, the defendants filed additional demurrers. On June 11, 2007, a hearing took place on defendant s demurrers and motion to strike class allegations and on July 26, 2007, the court signed an order staying the lawsuit until the cities have exhausted their administrative remedies. A status conference report is due on May 15, 2009.

*City of Fairview Heights, Illinois Litigation.* On October 5, 2005, the city of Fairview Heights, Illinois filed a purported statewide class action in state court against a number of internet travel companies, including hotels.com, Hotwire and Expedia Washington. *City of Fairview Heights, individually and on behalf of all others similarly situated v. Orbitz, Inc., et al*., No. 05L0576 (Circuit Court for the Twentieth Judicial Circuit, St. Clair County). The complaint alleges that the defendants have failed to pay to the city hotel occupancy taxes as required by municipal ordinance. The complaint purports to assert claims for violation of that ordinance, violation of the consumer protection act, conversion and unjust enrichment. The complaint seeks damages and other relief in an unspecified amount. On November 28, 2005, defendants removed this action to the United States District Court for the Southern District of Illinois. On January 17, 2006, the defendants moved to dismiss the complaint. On July 12, 2006, the court granted in part and denied in part defendants motion to dismiss. On August 1, 2007, plaintiff filed a motion for class certification. On March 31, 2008, the court denied plaintiff s motion for class certification. Expedia, hotels.com and Hotwire have settled the lawsuit and the lawsuit will be dismissed as to those defendants.

*City of Findlay, Ohio Litigation.* On October 25, 2005, the city of Findlay, Ohio filed a purported state wide class action in state court against a number of internet travel companies, including hotels.com, Hotwire and Expedia Washington. *City of Findlay v. Hotels.com, L.P., et al*., No. 2005-CV-673 (Court of Common Pleas of Hancock County, Ohio). The complaint alleges that the defendants have failed to pay to the city hotel occupancy taxes as required by municipal ordinance. The complaint purports to assert claims for violation of that ordinance, violation of the consumer protection act, conversion imposition of a constructive trust and declaratory relief. The complaint seeks damages and other relief in an unspecified amount. On November 22, 2005, defendants removed the case to the United States District Court for the Northern District of Ohio. On January 30, 2006, the defendants moved to dismiss the case. On July 26, 2006, the court granted in part and denied in part defendants motion to dismiss. Discovery is ongoing. The court has consolidated this lawsuit with the lawsuit filed by the cities of Columbus and Dayton, Ohio.

*City of Chicago Litigation.* On November 1, 2005, the city of Chicago, Illinois filed an action in state court against a number of internet travel companies, including hotels.com, Hotwire and Expedia Washington. *City of Chicago, Illinois v. Hotels.com, L.P., et al*., No. 2005 L051003 (Circuit Court of Cook County). The complaint alleges that the defendants have failed to pay to the city the hotel accommodations taxes as required by municipal ordinance. The complaint purports to assert claims for violation of that ordinance, conversion, imposition of a constructive trust and demand for a legal accounting. The complaint seeks damages, restitution, disgorgement, fines, penalties and other relief in an unspecified amount. On January 31, 2006, the defendants moved to dismiss the complaint. A hearing on defendants motion to dismiss was held on January 16, 2007. On September 27, 2007, the court denied the defendants motion to dismiss.

*City of Rome, Georgia Litigation.* On November 18, 2005, the city of Rome, Georgia, Hart County, Georgia, and the city of Cartersville, Georgia filed a purported state wide class action in the United States District Court for the Northern District of Georgia against a number of internet travel companies, including hotels.com, Hotwire and Expedia Washington. *City of Rome, Georgia, et al. v. Hotels.com, L.P., et al.,* No. 4:05-CV-249 (U.S. District Court, Northern District of Georgia, Rome Division). The complaint alleges that the defendants have failed to pay to the county and cities the hotel accommodations taxes as required by municipal ordinances. The complaint purports to assert claims for violation of excise and sales and use tax ordinances, conversion, unjust enrichment, imposition of a constructive trust, declaratory relief and injunctive relief. The complaint seeks damages and other relief in an unspecified amount. On February 6, 2006, the defendants moved to dismiss the complaint. On May 9, 2006, the court granted in part and denied in part defendants motion to dismiss. On June 8, 2006, plaintiffs filed an amended

complaint adding 16 more municipalities and political subdivisions as named plaintiffs. On February 9, 2007, the defendants filed a motion for summary judgment based on plaintiffs failure to exhaust their administrative remedies. On May 10, 2007, the court denied, without prejudice, defendants motion for summary judgment based on plaintiff s

failure to exhaust administrative remedies, but stayed the litigation, concluding that the plaintiffs must exhaust their administrative remedies before continuing to litigate their tax claims. On August 8, 2008, the court denied plaintiff s motion to lift the stay of the litigation. The administrative process is ongoing.

*Pitt County, North Carolina Litigation.* On December 1, 2005, Pitt County, North Carolina filed a purported statewide class action in state court against a number of internet travel companies, including hotels.com, Hotwire and Expedia Washington. *Pitt County, et al. v. Hotels.com, L.P. et al.,* No. 05-CVS-3017 (State of North Carolina, Pitt County, General Court of Justice, Superior Court Division). The complaint alleges that the defendants have failed to pay to the city hotel accommodations taxes as required by municipal ordinance. The complaint purports to assert claims for violation of that ordinance, violation of the deceptive trade practices act, conversion, imposition of a constructive trust and a declaratory judgment that defendants have engaged in unlawful business practices. The complaint seeks damages and other relief in an unspecified amount. On February 13, 2006, the defendants removed the action to the United States District Court for the Eastern District of North Carolina. On March 14, 2006, the defendants filed a motion to dismiss the complaint. Defendants removed the case to federal court on February 13, 2006. A hearing on defendants motion to dismiss was held on October 17, 2006. On March 29, 2007, the court denied the defendants motion to dismiss. On April 13, 2007, the defendants filed a motion for reconsideration or certification of an interlocutory appeal. On August 13, 2007, the court granted defendants motion for reconsideration, dismissing the lawsuit. The court found that the hotel occupancy tax ordinance at issue only applied to operators of hotels and because the defendants did not operate hotels, the tax only applied to the room price charged by the hotels themselves. The plaintiffs have appealed the court s order. Oral argument on the plaintiff s appeal of the court s order dismissing the litigation took place on October 30, 2008. On January 14, 2009, the Fourth Circuit Court of Appeals affirmed the district court s dismissal of the lawsuit.

*City of San Diego, California Litigation.* On February 9, 2006, the city of San Diego, California filed an action in state court against a number of internet travel companies, including hotels.com, Hotwire and Expedia Washington. *City of San Diego v. Hotels.com, L.P. et al.,* (Superior Court for the County of San Diego). The complaint alleges that the defendants have failed to pay to the city hotel accommodations taxes as required by municipal ordinance. The complaint purports to assert claims for violation of that ordinance, for violation of Section 17200 of the California Business and Professions Code, conversion, imposition of a constructive trust and declaratory judgment. The complaint seeks damages and other relief in an unspecified amount. On July 12, 2006, this lawsuit was coordinated with the City of Los Angeles lawsuit (No. DC326693, Superior Court of the State of California, Los Angeles County, Central District).

*Orange County, Florida Litigation.* On March 13, 2006, Orange County, Florida filed an action in state court against a number of internet travel companies, including hotels.com, Hotwire and Expedia Washington. See *Orange County et al v. Expedia, Inc., et al.,* 2006-CA-2104 Div. 39 (Circuit Court Ninth Judicial District, Orange County, FL). The complaint alleges that the defendants have failed to pay the county hotel accommodations taxes as required by municipal ordinance. The complaint seeks a declaratory judgment regarding the county s right to audit and collect tax on certain of the defendants hotel room transactions. The case was removed to federal court on April 13, 2006. The federal court remanded the case to state court on August 2, 2006. On February 2, 2007, the court granted defendants motion to dismiss. On February 9, 2007, the county filed a motion for rehearing and on February 19, 2007, the court denied the plaintiff s motion for rehearing. On March 9, 2007, the plaintiff filed an amended complaint. On April 9, 2007, the defendants filed a motion to dismiss or, in the alternative, stay the lawsuit. On July 17, 2007, the court entered an order granting defendants motion to dismiss the county s Amended Complaint. On August 9, 2007, the county filed a notice of appeal. The court of Appeals held oral argument on May 14, 2008 on the plaintiff s appeal. On June 13, 2008, the Court of Appeals reversed the trial court s order dismissing the lawsuit. The defendants then sought to invoke the Supreme Court s jurisdiction, seeking review of the Court of Appeals order overturning the trial court s decision granting defendants motion to dismiss. On December 22, 2008, the Florida Supreme Court declined to accept jurisdiction.

*City of Atlanta, Georgia Litigation.* On March 29, 2006, the city of Atlanta, Georgia filed suit against a number of internet travel companies, including hotels.com, Hotwire and Expedia Washington. See *City of Atlanta, Georgia v. Hotels.com, L.P., et al.*, 2006-CV-114732 (Superior Court of Fulton County, Georgia). The

complaint alleges that the defendants have failed to pay to the city hotel accommodations taxes as required by municipal ordinances. The complaint purports to assert claims for violation of the ordinance, conversion, unjust enrichment, imposition of a constructive trust, declaratory judgment and an equitable accounting. The complaint seeks damages and other relief in an unspecified amount. The defendants answered on June 5, 2006. On December 11, 2006, the court dismissed the lawsuit. The city of Atlanta filed a notice of appeal on January 10, 2007. On October 26, 2007, the Georgia Court of Appeals affirmed the trial court s order dismissing the city of Atlanta s lawsuit for failure to exhaust its administrative remedies. On November 5, 2007, the city of Atlanta filed a motion for reconsideration of the Court of Appeals decision. On November 13, 2007, the Court of Appeals denied plaintiff s motion. On December 10, 2007, the city filed a Petition of Certiorari to the Georgia Supreme Court. On September 8, 2008, the Georgia Supreme Court heard oral argument on plaintiff s appeal of the dismissal of the litigation. The Georgia Supreme Court has not yet issued a decision.

*City of Charleston, South Carolina Litigation.* On April 26, 2006, the city of Charleston, South Carolina filed suit in state court against a number of internet travel companies, including hotels.com, Hotwire and Expedia Washington. See *City of Charleston, South Carolina v. Hotels.com, et al.*, 2:06-CV-01646-PMD (United States District Court, District of South Carolina, Charleston Division). The case was removed to federal court on May 31, 2006. The complaint alleges that the defendants have failed to pay the city hotel accommodations taxes as required by municipal ordinance. The complaint purports to assert claims for violation of that ordinance, conversion, constructive trust and legal accounting. The complaint seeks damages in an unspecified amount. The defendants answered on July 7, 2006. On August 22, 2006, Hotels.com GP, LLC was voluntarily dismissed. On April 26, 2007, the court entered an order consolidating the lawsuits filed by the City of Charleston and the Town of Mt. Pleasant. On May 14, 2007, the plaintiff filed its first amended complaint. On June 4, 2007, the defendants filed a motion to dismiss and on November 5, 2007, the court denied the defendants motion to dismiss. On November 30, 2007, the defendants filed a motion for reconsideration or for certification of interlocutory appeal. Trial is currently scheduled to begin on December 8, 2008. On June 2, 2008, the court issued an amended scheduling order setting the trial date for August 3, 2009.

*City of San Antonio, Texas Litigation.* On May 8, 2006, the city of San Antonio filed a putative statewide class action in federal court against a number of internet travel companies, including hotels.com, Hotwire, and Expedia Washington. See *City of San Antonio, et al. v. Hotels.com, L.P., et al.*, SA06CA0381 (United States District Court, Western District of Texas, San Antonio Division). The complaint alleges that the defendants have failed to pay to the city hotel accommodations taxes as required by municipal ordinance. The complaint purports to assert claims for violation of that ordinance, common-law conversion, and declaratory judgment. The complaint seeks damages in an unspecified amount, restitution and disgorgement. The defendants filed a motion to dismiss on June 30, 2006. On August 28, 2006, the plaintiffs filed a motion for class certification. On March 20, 2007, the court denied the defendants motion to dismiss. On May 16 and 17, 2007, the court held a hearing on plaintiff s motion for certification. On May 27, 2008, the court issued an order granting plaintiff s motion for class certification. On June 19, 2008, the court entered a scheduling order setting the trial date for June 15, 2009. On July 3, 2008, the Fifth Circuit Court of Appeals denied defendants petition for leave to appeal the court s order on class certification.

*City of Gallup, New Mexico Litigation.* On May 17, 2006, the city of Gallup, New Mexico filed a putative statewide class action in state court against a number of internet travel companies, including hotels.com, Hotwire and Expedia Washington. See *City of Gallup, New Mexico, et al. v. Hotels.com, L.P., et al.*, CIV-06-0549 JC/RLP (United States District Court, District of New Mexico). The case was removed to federal court on June 23, 2006. The complaint alleges that the defendants have failed to pay to the city hotel accommodations taxes as required by municipal ordinances. The complaint purports to assert claims for violation of those ordinances, conversion, and declaratory judgment. The complaint seeks damages in an unspecified amount, restitution and disgorgement. On July 31, 2006, the defendants filed a motion to dismiss. On January 30, 2007, the court granted in part and denied in part defendants motion to dismiss. On April 18, 2007, the court granted plaintiffs motion to dismiss its own lawsuit. On July 6, 2007,

the city of Gallup refiled its lawsuit. The defendants answered the complaint on August 27, 2007. Class certification discovery is ongoing.

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*Town of Mt. Pleasant, South Carolina Litigation.* On May 23, 2006, the town of Mount Pleasant, South Carolina filed suit in state court against a number of internet travel companies, including hotels.com, Hotwire and Expedia Washington. See *Town of Mount Pleasant, South Carolina v. Hotel.com, et al.*, 2-06-CV-020987-PMD (United States District Court, District of South Carolina, Charleston Division). The case was removed to federal court on July 21, 2006. The complaint alleges that the defendants have failed to pay to the city hotel accommodations taxes as required by municipal ordinance. The complaint purports to assert claims for violation of that ordinance, conversion, constructive trust and legal accounting. The complaint seeks damages in an unspecified amount. On August 22, 2006, hotels.com GP, LLC was voluntarily dismissed. The defendants answered the complaint on September 15, 2006. Discovery is ongoing. On April 26, 2007, the court consolidated the lawsuits filed by the city of Charleston and the town of Mt. Pleasant. On May 14, 2007, the town filed its first amended complaint. On June 4, 2007, the defendants filed a motion to dismiss. On November 5, 2007, the court denied the defendants motion to dismiss. On November 30, 2007, the defendants filed a motion for reconsideration or for certification of interlocutory appeal. On April 29, 2008, the court denied defendants motions for reconsideration or certification for interlocutory appeal. On June 2, 2008, the court issued an amended scheduling order setting the trial date for August 3, 2009.

*Columbus, Georgia Litigation.* On May 30, 2006, the city of Columbus, Georgia filed suit against Expedia, Inc. and on June 7, 2006 filed suit against hotels.com both in state court. See *Columbus, Georgia v. Hotels.com, Inc., et al.*, 4:06-CV-80; *Columbus, Georgia v. Expedia, Inc.*, 4:06-CV-79 (United States District Court, Middle District of Georgia, Columbus Division). The cases were removed to federal court on July 12, 2006. During this same time period, the city of Columbus filed similar lawsuits against other internet travel companies. The complaints allege that the defendants have failed to pay the city hotel accommodations taxes as required by municipal ordinance. The complaints purport to assert claims for violation of that ordinance, unjust enrichment, imposition of a constructive trust, equitable accounting, and declaratory judgment. The complaint seeks damages in an unspecified amount, restitution and disgorgement. The lawsuits were removed to federal court on July 12, 2006. Defendants filed answers on July 26, 2006. On August 1, 2007, Expedia and hotels.com filed motions for summary judgment based on the plaintiff s failure to exhaust its administrative remedies prior to filing the lawsuit. On October 5, 2007, the plaintiff filed a motion for declaratory judgment and injunctive relief in the Expedia lawsuit. On November 5, 2007, Expedia and hotels.com re-removed the lawsuit to federal court. On November 8, 2007, the plaintiff filed an emergency motion to remand the case to state court. On November 16, 2007, the court denied expedited consideration of plaintiff s emergency motion to remand the case to state court. On November 26, 2007, the court granted the parties joint motion to stay the proceedings pending the court s decision on the plaintiff s motion to remand. On July 30, 2008, the federal court remanded the cases back to state court. On September 22, 2008, the court denied Expedia s motion for summary judgment for failure to exhaust administrative remedies and granted plaintiff s motion for injunctive relief against Expedia. On November 7, 2008, the court denied hotels.com s motion for summary judgment for failure to exhaust administrative remedies and granted plaintiff s motion for injunctive relief against hotels.com. On October 22, 2008, Expedia filed its notice of appeal and on December 3, 2008, hotels.com filed its notice of appeal, both challenging the trial court s denial of Expedia and hotels.com s motion for summary judgment and grant of plaintiff s injunction.

*Lake County, Indiana Convention and Visitors Bureau Litigation.* On June 12, 2006, the Lake County Convention and Visitors Bureau, Inc. and Marshall County filed a putative statewide class action in federal court on behalf of themselves and all other similarly situated political subdivisions in the state of Indiana against a number of internet travel companies, including hotels.com, Hotwire and Expedia Washington. See *Lake County Convention and Visitors Bureau, Inc., et al. v. Hotels.com, LP*, 2:06-CV-207 (United States District Court for the Northern District of Indiana, Hammond Division). The complaint alleges that the defendants have failed to pay to municipalities hotel accommodations taxes as required by municipal ordinances. The complaint purports to assert claims for violation of those ordinances, conversion, unjust enrichment, imposition of a constructive trust, and declaratory judgment. The complaint seeks damages in an unspecified amount. On August 17, 2006, the plaintiffs filed an amended complaint. The defendants filed a motion to dismiss, which is pending. On July 14, 2008, the court denied the defendants motion to dismiss the lawsuit.

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*City of Orange, Texas Litigation.* On July 18, 2006, the city of Orange, Texas filed a putative statewide class action in federal court against a number of internet travel companies, including hotels.com, Hotwire and Expedia Washington. See *City of Orange, Texas, et al. v. Hotels.com, L.P., et al.*, 1:06-CV-0413-RHC-KFG (United States District Court, Eastern District of Texas, Beaumont Division). The complaint alleges that the defendants have failed to pay to municipalities hotel accommodations taxes as required by municipal ordinances. The complaint purports to assert claims for violation of those ordinances, conversion, civil conspiracy, and declaratory judgment. The complaint seeks damages in an unspecified amount. Defendants filed a motion to dismiss on September 12, 2006, which is pending. On September 5, 2007, a federal magistrate issued a Report & Recommendation that the lawsuit be dismissed because the tax ordinance at issue imposes a tax consideration paid to a hotel or motel, not on the amount that the guest pays to the defendants. On September 21, 2007, the court adopted the magistrate s Report & Recommendation and dismissed the case in its entirety. Plaintiff did not appeal that dismissal.

*Cities of Columbus and Dayton, Ohio Litigation.* On August 8, 2006, the city of Columbus, Ohio and the city of Dayton, Ohio, filed a putative statewide class action in federal court against a number of internet travel companies, including hotels.com, Hotwire and Expedia Washington. See *City of Columbus, et al. v. Hotels.com, L.P., et al.*, 2:06-cv-00677 (United States District Court, Southern District of Ohio). The complaint alleges that the defendants have failed to pay to counties and cities in Ohio hotel accommodation taxes as required by local ordinances. The complaint purports to assert claims for violation of those ordinances, unjust enrichment, violation of the doctrine of money had and received, conversion, declaratory judgment, and seeks imposition of a constructive trust. The complaint seeks damages in an unspecified amount. Defendants filed a motion to dismiss on September 25, 2006 and a motion to transfer venue to the Northern District of Ohio on September 27, 2006. The motion to dismiss is pending. The case was transferred to the Northern District of Ohio and defendant s motion to dismiss was granted in part, consistent with the ruling in the *City of Findlay, Ohio* lawsuit. On February 22, 2008, plaintiffs filed a First Amended Consolidated Complaint adding the city of Toledo, city of Northwood, city of Rossford, city of Maumee, city of Perrysburg, Perrysburg Township and Springfield Township as plaintiffs in the lawsuit. On March 26, 2008, defendants filed a motion asking the court to dismiss the First Amended Consolidated Complaint for failure to state a claim and to extend the court s earlier decision that the tax ordinances at issue in Findlay, Columbus and Dayton, Ohio do not apply to the defendants. On June 19, 2008, the court issued a memorandum opinion denying defendants motion to dismiss the claims asserted by the seven joined plaintiffs. The court concluded that the defendants are not directly obligated to pay the hotel occupancy taxes at issue.

*North Myrtle Beach Litigation.* On August 28, 2006, the city of North Myrtle Beach, South Carolina filed a lawsuit in state court against a number of internet travel companies, including hotels.com, Hotwire, and Expedia Washington. See *City of North Myrtle Beach v. Hotels.com, et al.*, 4: 06-cv-03063-RBH (United States District Court, District of South Carolina, Florence Division). The complaint alleges that the defendants have failed to pay the hotel accommodation taxes as required by local ordinances. The complaint purports to assert claims for violation of those ordinances, as well as a claim for conversion, imposition of a constructive trust, and demand for an accounting. The complaint seeks damages in an unspecified amount. On October 27, 2006, the case was removed to federal court. On December 1, 2006, the defendants filed a motion to dismiss. On September 30, 2007, the court denied defendants motion to dismiss. On October 15, 2007, the defendants answered the complaint. On June 16, 2008, the court entered an amended scheduling setting the trial date for on or after November 9, 2009.

*Louisville/Jefferson County Metro Government, Kentucky Litigation.* On September 21, 2006, the Louisville/Jefferson County Metro Government filed a putative statewide class action in federal court against a number of internet travel companies, including hotels.com, Hotwire, and Expedia Washington. See *Louisville/Jefferson County Metro Government v. Hotels.com, L.P., et al.*, 3:06CV-480-R (United States District Court for the Western District of Kentucky, Louisville Division). The complaint alleges that the defendants have failed to pay the counties and cities in Kentucky hotel accommodation taxes as required by local ordinances. The complaint purports to assert claims for violation of those ordinances, unjust enrichment, money had and received, conversion,

imposition of a constructive trust, and declaratory judgment. The complaint seeks damages in an unspecified amount. On December 22, 2006, the defendants filed a motion to dismiss, which

was denied on August 10, 2007. On October 26, 2007, the defendants filed a motion for reconsideration or certification of interlocutory appeal. On April 16, 2008, the Lexington-Fayette Urban County Government filed an intervening complaint, joining the lawsuit. On May 16, 2008, the defendants moved to dismiss Lexington-Fayette complaint. On September 30, 2008, the court granted defendants motion for reconsideration of defendants motion to dismiss and dismissed the case in its entirety. Louisville/Jefferson County Metro Government filed a notice of appeal on October 8, 2008.

*Nassau County, New York Litigation.* On October 24, 2006, the county of Nassau, New York filed a putative statewide class action in federal court against a number of internet travel companies, including hotels.com, Hotwire, and Expedia Washington. See *Nassau County, New York, et al. v. Hotels.com, L.P., et al.*, (United States District Court, Eastern District of New York). The complaint alleges that the defendants have failed to pay cities, counties and local governments in New York hotel accommodation taxes as required by local ordinances. The complaint purports to assert claims for violations of those ordinances, as well as claims for conversion, unjust enrichment, and imposition of a constructive trust. The complaint seeks damages in an unspecified amount. The defendants filed a motion to dismiss on January 31, 2007. The county s deadline to respond to the motion was April 2, 2007. On August 17, 2007, the court granted defendants motion dismissing the lawsuit due to the plaintiff s failure to exhaust its administrative remedies. On September 12, 2007, the plaintiff filed a notice of appeal. Oral argument on plaintiff s appeal was scheduled for January 22, 2009.

*Wake County, North Carolina Litigation.* On November 3, 2006, the county of Wake, North Carolina filed a lawsuit in state court against a number of internet travel companies, including hotels.com, Hotwire, and Expedia Washington. See *Wake County v. Hotels.com, L.P., et al.*, 06 CV 016256 (General Court of Justice, Superior Court Division, Wake County). The complaint alleges that the defendants have failed to pay the county hotel accommodation taxes as required by local ordinance. The complaint purports to assert claims for violation of the local ordinance, as well as claims for declaratory judgment or injunction, conversion, imposition of a constructive trust, demand for an accounting, unfair and deceptive trade practices, and agency. The complaint seeks damages in an unspecified amount. The defendants filed a motion to dismiss on February 12, 2007. On April 4, 2007, the court consolidated the Wake County, Dare County, Buncombe County, and Cumberland County lawsuits. On May 9, 2007, the defendants moved to dismiss the lawsuits. On November 19, 2007, the court granted in part and denied in part defendants motion to dismiss the Wake County lawsuit. Trial is scheduled for February 1, 2010.

*Cumberland County, North Carolina Litigation.* On December 4, 2006, the county of Cumberland, North Carolina filed a lawsuit in state court against a number of internet travel companies, including hotels.com, Hotwire, and Expedia Washington. See *Cumberland County v. Hotels.com, L.P., et al.*, 06 CVS 10630 (General Court of Justice, Superior Court Division, Cumberland County). The complaint alleges that the defendants have failed to pay the county hotel accommodation taxes as required by local ordinance. The complaint purports to assert claims for violation of the local ordinance, as well as claims for declaratory judgment or injunction, conversion, imposition of a constructive trust, demand for an accounting, unfair and deceptive trade practices, and agency. The complaint seeks damages in an unspecified amount. The defendants filed a motion to dismiss on February 12, 2007. On April 4, 2007, the court consolidated the Wake County, Dare County, Buncombe County, and Cumberland County lawsuits. On May 9, 2007, the defendants moved to dismiss the lawsuits. On November 19, 2007, the Court granted defendants motion to dismiss the Cumberland County lawsuit due to the county s failure to exhaust its administrative remedies. This dismissal is without prejudice and allows the plaintiff to refile its lawsuit following exhaustion of its administrative remedies.

*Branson, Missouri Litigation.* On December 28, 2006, the city of Branson, Missouri filed a lawsuit in state court against a number of internet travel companies, including hotels.com, Hotwire, and Expedia Washington. See *City of Branson, MO v. Hotels.com, L.P., et al.*, 106CC5164 (Circuit Court of Greene County, Missouri). The complaint alleges that the defendants have failed to pay the city hotel accommodation taxes as required by local ordinance. The

complaint purports to assert claims for violation of the local ordinance, as well as claims for declaratory judgment, conversion, and demand for an accounting. The complaint seeks damages in an unspecified amount. The deadline for defendants to respond to the lawsuit has not yet been established. On April 23, 2007, the defendants filed a motion to dismiss the lawsuit. On November 26, 2007, the court denied the defendants motion to dismiss.

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*Buncombe County Litigation.* On February 1, 2007, Buncombe County, North Carolina filed a lawsuit in state court against a number of internet travel companies, including hotels.com, Hotwire, and Expedia Washington. See *Buncombe County v. Hotels.com, et al.*, 7 CV 00585 (General Court of Justice, Superior Court Division, Buncombe County, North Carolina). The complaint alleges that the defendants have failed to pay the county hotel accommodation taxes as required by local ordinance. The complaint purports to assert claims for violation of the local ordinance, as well as claims for declaratory judgment. The complaint seeks damages in an unspecified amount. The deadline for defendants to respond to the lawsuit has not yet been established. On April 4, 2007, the court consolidated the Wake County, Dare County, Buncombe County, and Cumberland County lawsuits. On May 9, 2007, the defendants moved to dismiss the lawsuits. On November 19, 2007, the court granted in part and denied in part defendants motion to dismiss the Buncombe County lawsuit. Trial is scheduled for February 1, 2010.

*Dare County, North Carolina Litigation.* On January 26, 2007, Dare County, North Carolina filed a lawsuit in state court against a number of internet travel companies, including hotels.com, Hotwire, and Expedia Washington. See *Dare County v. Hotels.com, L.P., et al.*, 07 CVS 56 (General Court of Justice, Superior Court Division, Dare County, North Carolina). The complaint alleges that the defendants have failed to pay the county hotel accommodation taxes as required by local ordinance. The complaint purports to assert claims for violation of the local ordinance, as well as claims for declaratory judgment, injunction, conversion, constructive trust, accounting, unfair and deceptive trade practices and agency. The complaint seeks damages in an unspecified amount. The deadline for defendants to respond to the lawsuit has not yet been established. On April 4, 2007, the court consolidated the Wake County, Dare County, Buncombe County, and Cumberland County lawsuits. On May 9, 2007, the defendants moved to dismiss the lawsuits. On November 19, 2007, the court granted in part and denied in part defendants motion to dismiss the Dare County lawsuit. Trial is scheduled for February 1, 2010.

*Myrtle Beach, South Carolina Litigation.* On February 2, 2007, the city of Myrtle Beach, South Carolina filed an individual lawsuit in state court against a number of internet travel companies, including hotels.com, Hotwire and Expedia. *City of Myrtle Beach v. Hotels.com, LP, et al.*, 2007 CP26-0738 (Court of Common Pleas, Fifteenth Judicial Circuit, County of Horry, South Carolina). The complaint alleges that the defendants have failed to pay to the county hotel accommodations taxes as required by municipal ordinances. The complaint purports to assert a claim for declaratory judgment that the accommodations tax at issue is owed by the defendants. The complaint seeks damages in an unspecified amount. The defendants moved to dismiss the lawsuit due to the plaintiff s failure to exhaust its administrative remedies prior to filing its lawsuit. On March 18, 2008, the court denied the defendants motion. On August 14, 2008, the defendants filed a motion to dismiss the lawsuit for lack of a justiciable controversy. On September 17, 2008, the court denied the defendants motion to dismiss the lawsuit. Trial is scheduled to begin in November 2009.

*Horry County, South Carolina Litigation.* On February 2, 2007, Horry County, South Carolina filed an individual lawsuit in state court against a number of internet travel companies, including hotels.com, Hotwire and Expedia. *Horry County v. Hotels.com, LP, et al.*, 2007 CP26-0737 (Court of Common Please, County of Horry, South Carolina). The complaint alleges that the defendants have failed to pay to the county hotel accommodations taxes as required by municipal ordinances. The complaint purports to assert a claim for declaratory judgment that the accommodations tax at issue is owed by the defendants. The complaint seeks damages in an unspecified amount. On April 23, 2007, the defendants filed a motion to dismiss the county s complaint due to the plaintiff s failure to exhaust its administrative remedies prior to filing its lawsuit. On January 7, 2008, the court denied the defendants motion. On August 14, 2008, filed a motion to dismiss the lawsuit for lack of a justiciable controversy. On September 17, 2008, the court denied the defendants motion to dismiss the lawsuit.

*City of Fayetteville, Arkansas Litigation.* On February 28, 2007, the city of Fayetteville filed a putative class action in state court against a number of internet travel companies, including hotels.com, Hotwire and Expedia. *City of Fayetteville v. Hotels.com, L.P., et al.*, CV 07 567-1 (Circuit Court of Washington County, Arkansas). The complaint

alleges that the defendants have failed to pay to the city hotel accommodations taxes as required by municipal ordinances. The complaint purports to assert claims for violation of those ordinances, unjust enrichment, conversion, imposition of a constructive trust, and declaratory judgment. The complaint

seeks damages in an unspecified amount. Plaintiff filed an amended complaint on July 24, 2007. On August 7, 2007, defendants filed a motion to dismiss. On July 25, 2008, the court issued an order granting defendants motion to dismiss. The city did not appeal the dismissal.

*City of Houston, Texas Litigation.* On March 5, 2007, the city of Houston filed an individual lawsuit in state court against a number of internet travel companies, including hotels.com, Hotwire and Expedia. *City of Houston v. Hotels.com, L.P., et al.*, 2007-13227 (District Court of Harris County, 270th Judicial District, Texas). The lawsuit alleges that the defendants have failed to pay to the city hotel accommodations taxes as required by municipal ordinance. The lawsuit purports to assert claims for violation of that ordinance, conversion, imposition of a constructive trust, civil conspiracy, and demand for accounting. The complaint seeks damages in an unspecified amount. On April 30, 2007, the defendants filed their answers and special exceptions to the plaintiff s complaint. On July 5, 2007, the court held a hearing on defendants special exceptions. The court granted the defendants special exception with respect to requiring plaintiff to plead the maximum amount of damages sought and denied the remaining special exceptions. Plaintiff filed an amended petition on October 4, 2007, adding the Harris County-Houston Sports Authority as a plaintiff. On October 15, 2007, defendants again filed special exceptions to the plaintiffs amended petition. The court held a hearing on defendants special exceptions on November 9, 2007, during which the court indicated that it would grant defendants special exceptions. On January 2, 2008, the plaintiffs filed a motion for clarification of the court s November 9, 2007 ruling. On January 11, 2008, the court issued an order granting defendants special exceptions and ordering the plaintiffs to replead their petition by January 22, 2008. On February 4, 2008, defendants filed special exceptions to plaintiffs second amended petition. On March 13, 2008, the court granted defendants special exceptions, dismissing plaintiffs claims. On April 14, 2008, plaintiffs filed a motion for a new trial and a motion for clarification of the courts order granting defendants special exceptions and order dismissing the lawsuit. Plaintiffs also filed a third amended petition. On May 27, 2008, the court granted plaintiffs motion for a new trial, vacating the court s March 13, 2008 order dismissing plaintiffs claims. Trial is currently scheduled to begin on October 19, 2009.

*Jefferson City, Missouri Litigation.* On June 27, 2007, Jefferson City, Missouri filed a putative class action in state court against a number of internet travel companies, including hotels.com, Hotwire and Expedia. *Jefferson City v. Hotels.com, L.P., et al.*, 07AC-CC0055 (Circuit Court of Cole County). The complaint alleges that the defendants have failed to pay to the city hotel accommodations taxes as required by municipal ordinance. The complaint purports to assert claims for violation of that ordinance, violation of Missouri s Merchandising Practices Act, conversion, unjust enrichment, breach of fiduciary duties, constructive trust, and declaratory judgment. The complaint seeks injunctive relief and damages in an unspecified amount. On November 5, 2007, the defendants filed a motion to dismiss the plaintiff s lawsuit. On June 19, 2008, the court granted in part and denied in part defendants motion to dismiss the lawsuit. Trial is scheduled to begin on March 15, 2010.

*City of Oakland, California Litigation.* On June 29, 2007, the city of Oakland filed an individual lawsuit in federal court against a number of internet travel companies, including hotels.com, Hotwire and Expedia. *City of Oakland v. Hotels.com, L.P., et al.*, C-07-3432 (United States District Court, Northern District of California). The complaint alleges that the defendants have failed to pay to the city hotel accommodations taxes as required by municipal ordinance. The complaint purports to assert claims for violation of that ordinance. The complaint seeks injunctive relief and damages in an unspecified amount, including punitive damages and restitution. On September 18, 2007, the defendants filed a motion to dismiss the lawsuit. On November 5, 2007, the court granted the defendant s motion to dismiss for failure to exhaust administrative remedies. The Plaintiff filed a notice of appeal on December 6, 2007. That appeal is pending.

*City of Madison, Wisconsin Litigation.* On November 30, 2007, the city of Madison, Wisconsin filed an individual lawsuit in state court against a number of internet travel companies, including Expedia, hotels.com, and Hotwire. *City of Madison v. Expedia, Inc., et al.*, 07 CV 4488 (Circuit Court of Dane County, Wisconsin). The complaint alleges

that the defendants have failed to pay to the city hotel accommodations taxes as required by municipal ordinance. The complaint purports to seek a declaratory judgment as well as an award of costs and attorneys fees. On January 23, 2008, defendants filed a motion to dismiss the lawsuit. On June 23, 2008, the court granted defendants motion to dismiss the lawsuit. The city did not appeal the dismissal.

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*Mecklenburg County Litigation.* On January 10, 2008, the county of Mecklenberg, North Carolina filed an individual lawsuit in state court against a number of internet travel companies, including Expedia, hotels.com, and Hotwire. *County of Mecklenburg v. Hotels.com L.P., et al.*, (General Court of Justice, Superior Court Division, Mecklenburg County, North Carolina). The complaint alleges that the defendants have failed to pay to the county hotel accommodations taxes as required by municipal ordinance. The complaint purports to assert claims for violation of the local ordinance, as well as claims for declaratory judgment, injunction, conversion, constructive trust, accounting, unfair and deceptive trade practices and agency. The complaint seeks damages in an unspecified amount. The deadline for defendants to respond to the lawsuit is March 24, 2008. Trial is scheduled for February 1, 2010.

*Cities of Goodlettsville and Brentwood, Tennessee Litigation.* On June 2, 2008, the cities of Goodlettsville and Brentwood, Tennessee filed a putative class action in federal court against a number of internet travel companies, including Expedia, hotels.com, and Hotwire. *City of Goodlettsville and City of Brentwood v. Priceline.com, Inc., et al.*, 3-08-0561 (United States District Court for the Middle District of Tennessee). The complaint alleges that the defendants have failed to pay to the cities hotel accommodations taxes as required by municipal ordinance. The complaint purports to assert claims for violation of the local ordinance, as well as claims for unjust enrichment and conversion. The complaint seeks damages in an unspecified amount. Plaintiffs have voluntarily dismissed the city of Brentwood. Defendant s motion to dismiss is pending.

*County of Monroe, Florida Litigation.* On June 3, 2008, the county of Monroe, Florida filed an individual action in federal court against a number of internet travel companies, including Expedia, hotels.com, and Hotwire. *County of Monroe, Florida v. Priceline.com, Inc., et al.*, 08-10044-CIV (United States District Court for the Southern District of Florida). The complaint alleges that the defendants have failed to pay to the county hotel accommodations taxes as required by municipal ordinance. The complaint purports to assert claims for violation of the local ordinance, as well as claims for unjust enrichment and conversion. The complaint seeks damages in an unspecified amount. On June 25, 2008, the plaintiff filed a Notice of Voluntary Dismissal. On June 26, 2008, the court entered an order dismissing the lawsuit. On January 12, 2009, the county of Monroe refiled its lawsuit.

*Township of Lyndhurst, New Jersey Litigation.* On June 18, 2008, the township of Lyndhurst filed a putative class action in federal court against a number of internet travel companies, including Expedia, hotels.com, and Hotwire. *Township of Lyndhurst v. Priceline.com, Inc., et al.*, 2:08-CV-03033-JLL-CCC (United States District Court for District of New Jersey). The complaint alleges that the defendants have failed to pay to the township hotel accommodations taxes as required by municipal ordinance. The complaint purports to assert claims for violation of the local ordinance, as well as claims for unjust enrichment and conversion. The complaint seeks damages in an unspecified amount. The deadline for defendants to respond to the lawsuit is August 19, 2008. Defendants filed a motion to dismiss on August 19, 2008.

*City of Baltimore Litigation.* On December 10, 2008, the city of Baltimore filed an individual action in federal court against a number of internet travel companies, including Expedia, hotels.com, and Hotwire. *Mayor and City Council of Baltimore v. Pricline.com, Inc. et al.*, MJG-07-2807 (United States District Court for the District of Maryland). The complaint alleges that the defendants have failed to pay to the city hotel accommodations taxes as required by municipal ordinance. The complaint purports to assert claims for violation of the local ordinance, as well as claims for conversion, unjust enrichment, assumpsit, declaratory judgment, imposition of a constructive trust, and injunctive relief. The complaint seeks damages in an unspecified amount. The deadline to respond to the lawsuit is March 16, 2009.

*Worcester County, Maryland Litigation.* On January 6, 2009, the county of Worcester, Maryland filed an individual action in federal court against a number of internet travel companies, including Expedia, hotels.com, and Hotwire. *County Commissioners of Worcester County, Maryland v. Pricline.com, Inc. et al.*, 09-CV-00013-JFM (United States District Court for the District of Maryland). The complaint alleges that the defendants have failed to pay to the city

hotel accommodations taxes as required by municipal ordinance. The complaint purports to assert claims for violation of the local ordinance, as well as claims for conversion, unjust

enrichment, and assumpsit. The complaint seeks damages in an unspecified amount. The deadline to respond to the lawsuit is March 16, 2009.

*City of Anaheim Hotel Occupancy Tax Assessment.* On October 10, 2007, the city of Anaheim instituted an audit of a number of internet travel companies, including Expedia, hotels.com, and Hotwire, for hotel occupancy taxes. On or before May 23, 2008, the city completed its audit and issued assessments against each of those online travel companies. The online travel companies challenged those assessments through an administrative appeals process. On January 28, 2009, the hearing examiner issued his decision, rejecting the online travel companies challenges to those assessments. On February 6, 2009, the hearing examiner issued a decision setting forth the assessed amounts due by each online travel company (Expedia $9,884,872, hotels.com $7,452,772, and Hotwire $404,555). On February 11, 2009, the online travel companies filed a petition for writ of mandate in the California superior court seeking to vacate the decision of the hearing examiner and asking for a declaratory judgment that the online travel companies are not subject to Anaheim s hotel occupancy tax. On February 17, 2009, the online travel companies filed a motion asking the court to rule that the city is not entitled to require us to pay the tax assessment prior to commencing litigation to challenge the applicability of the ordinance.

*City of San Francisco Transient Occupancy Tax Assessment.* On May 13, 2008, the city of San Francisco instituted an audit of a number of internet travel companies, including Expedia, hotels.com, and Hotwire, for hotel occupancy taxes. On or before October 31, 2008, the city completed its audit and issued assessments against each of those online travel companies. The online travel companies have challenged those assessments through an administrative appeals process and in hearings during January 2009. The hearing examiner has not yet issued a decision on the online travel companies challenges to those assessments. If the hearing examiner upholds the city s assessments, the online travel companies intend to challenge those assessments in court. In addition, the online travel companies intend to challenge the city s purported right to require us to pay the tax assessment prior to commencing litigation to challenge the applicability of the ordinance.

*City of San Diego Transient Occupancy Tax Assessment.* On October 17, 2007, the city of San Diego instituted an audit of a number of internet travel companies, including Expedia, hotels.com, and Hotwire, for hotel occupancy taxes. On or before November 20, 2008, the city completed its audit and assessed hotel occupancy taxes against each of those online travel companies. The online travel companies have challenged those assessments through an administrative appeals process. Hearings on those challenges have not yet taken place. If the hearing examiner upholds the city s assessments, the online travel companies intend to challenge those assessments in court. In addition, the online travel companies intend to challenge the city s purported right to require us to pay the tax assessment prior to commencing litigation to challenge the applicability of the ordinance.

At various times, the Company has also received notices of audit, or tax assessments from municipalities and other taxing jurisdictions concerning our possible obligations with respect to state and local hotel occupancy or related taxes. The states of South Carolina, Texas, Pennsylvania, Florida, Georgia and Indiana; the counties of Miami-Dade and Broward, Florida, the cities of Alpharetta, Atlanta, Augusta, Cartersville, Cedartown, Clayton, College Park, Columbus, Dalton, East Point, Hart, Hartwell, Macon, Richmond, Rockmart, Rome, Tybee Island and Warner Robins, Georgia, the counties of Cobb, DeKalb, Fulton and Gwinnett, Georgia, the cities of Los Angeles, San Diego, San Francisco, Anaheim, West Hollywood, South Lake Tahoe, Palm Springs, Monterey County, Sacramento, Long Beach, Napa, Newport Beach, Oakland, Irvine, Fresno, La Quinta, Dana Point, Laguna Beach, Riverside, Eureka, La Palma, Twenty-nine Palms, California, the county of Monterey, California and the city of Phoenix, Arizona, among others, have begun or attempted to pursue formal or informal audits or administrative procedures, or stated that they may assert claims against us relating to allegedly unpaid state or local hotel occupancy or related taxes.

The Company believes that the claims in all of the lawsuits relating to hotel occupancy taxes lack merit and will continue to defend vigorously against them.

*Worldspan Litigation.* On July 26, 2006, Expedia filed a lawsuit against Worldspan, L.P. in state court in Washington seeking a declaratory judgment, and other relief, regarding the rights and obligations of Expedia and Worldspan under the parties June 2001 Amended and Restated Development Agreement and the parties

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CRS Marketing, Services and Development Agreement and all amendments thereto. See *Expedia. Inc. v. Worldspan, L.P.*, (King County Superior Court). Worldspan answered the lawsuit on August 15, 2006, denying the allegations. The parties have settled the lawsuit. The court dismissed the case on August 14, 2008.

*Ryanair Limited v. Travelscape, LLC.* On or about May 9, 2008, Ryanair filed a lawsuit against Travelscape, LLC in London claiming breach of the parties Marketing Agreement entered into on March 21, 2007. See *Ryanair Limited v. Travelscape*, 2008 Folio 453 (In the High Court of Justice, Commercial Court). On July 9, 2008, Travelscape filed its defense and a counterclaim, denying Ryanair s allegations and asserting its own claim for breach of the parties Marketing Agreement. On October 14, 2008, Ryanair provided Travelscape with a notice of intention to terminate the parties Marketing Agreement. Trial is scheduled for November 16, 2009. Travelscape believes that Ryanair s claims lack merit and will continue to vigorously defend against them. In addition, Travelscape will continue to vigorously assert its claims against Ryanair.

**Part I. Item 4.** ***Submission of Matters to a Vote of Security Holders***

There were no matters submitted to a vote of our security holders during the fourth quarter of 2008.

**Part II.** Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

**Market Information**

Our common stock is quoted on the NASDAQ Global Select Market under the ticker symbol EXPE. Our Class B common stock is not listed and there is no established public trading market. As of February 13, 2009, there were approximately 4,645 holders of record of our common stock and the closing price of our common stock was $9.17 on NASDAQ. As of February 13, 2009, all of our Class B common stock was held by a subsidiary of Liberty.

The following table sets forth the intra-day high and low prices per share for our common stock during the periods indicated:

| | High | Low |
|---|---|---|
| **Year ended December 31, 2008** | | |
| Fourth Quarter | $ 15.36 | $ 6.00 |
| Third Quarter | 20.42 | 13.61 |
| Second Quarter | 25.50 | 18.31 |
| First Quarter | 31.88 | 20.18 |

| | High | Low |
|---|---|---|
| **Year ended December 31, 2007** | | |
| Fourth Quarter | $ 35.28 | $ 27.48 |
| Third Quarter | 32.57 | 25.45 |
| Second Quarter | 29.85 | 22.44 |
| First Quarter | 23.34 | 19.97 |

**Dividend Policy**

We have not historically paid cash dividends on our common stock or Class B common stock. Declaration and payment of future dividends, if any, is at the discretion of the Board of Directors and will depend on, among other things, our results of operations, cash requirements and surplus, financial condition, share dilution management, legal risks, capital requirements relating to research and development, investments and acquisitions, challenges to our business model and other factors that the Board of Directors may deem relevant. In addition, our credit agreement and high yield indenture limit our ability to pay cash dividends under certain circumstances.

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**Unregistered Sales of Equity Securities**

During the quarter ended December 31, 2008, we did not issue or sell any shares of our common stock or other equity securities pursuant to unregistered transactions in reliance upon an exemption from the registration requirements of the Securities Act of 1933, as amended.

**Issuer Purchases of Equity Securities**

We did not make any purchases of our outstanding common stock during the quarter ended December 31, 2008.

During 2006, our Board of Directors authorized the repurchase of up to 20 million outstanding shares of our common stock. There is no fixed termination date for this authorization to repurchase. As of February 13, 2009, we had not made any share repurchases under this specific authorization. The amount of repurchases we may make under this authorization are subject to certain of our debt covenants.

**Performance Comparison Graph**

The graph below compares the 41-month cumulative total return, assuming the reinvestment of dividends, on Expedia common stock with that of the NASDAQ Composite Index, the RDG (Research Data Group) Internet Composite Index and the S&P 500 Index. This graph assumes $100 was invested on August 9, 2005 in Expedia common stock, and on July 31, 2005 in each of the NASDAQ Composite Index companies, the RDG Internet Composite Index companies and the companies in the S&P 500 Index. The stock price performance shown in the graph is not necessarily indicative of future price performance.

## Part II. Item 6. *Selected Financial Data*

We have derived the following selected financial data presented below from the consolidated financial statements and related notes. The information set forth below is not necessarily indicative of future results and should be read in conjunction with the consolidated financial statements and related notes and Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

Our financial statements present our results of operations, financial position, stockholders equity and cash flows on a combined basis up until the Spin-Off on August 9, 2005, and on a consolidated basis thereafter.

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## SELECTED FINANCIAL DATA

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2008(1) | 2007 | 2006 | 2005 | 2004 |
| | (In thousands, except per share data) | | | | |
| **Consolidated Statements of Operations Data:** | | | | | |
| Revenue | $ 2,937,013 | $ 2,665,332 | $ 2,237,586 | $ 2,119,455 | $ 1,843,013 |
| Operating income (loss) | (2,428,953) | 529,069 | 351,329 | 397,052 | 240,473 |
| Net income (loss) | (2,517,763) | 295,864 | 244,934 | 228,730 | 163,473 |
| **Net income (loss) per share available to common stockholders:** | | | | | |
| Basic | $ (8.80) | $ 1.00 | $ 0.72 | $ 0.68 | $ 0.49 |
| Diluted | (8.63) | 0.94 | 0.70 | 0.65 | 0.48 |
| **Shares used in computing income (loss) per share:** | | | | | |
| Basic | 286,167 | 296,640 | 338,047 | 336,819 | 335,540 |
| Diluted | 291,830 | 314,233 | 352,181 | 349,530 | 340,549 |

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2005 | 2004 |
| **Consolidated Balance Sheet Data:** | | | | | |
| Working capital (deficit) | $ (367,454) | $ (728,697) | $ (224,770) | $ (847,981) | $ 1,263,678 |
| Total assets | 5,894,249 | 8,295,422 | 8,264,317 | 7,756,892 | 9,537,187 |
| Minority interest | 52,937 | 61,935 | 61,756 | 71,774 | 18,435 |
| Long-term debt | 1,544,548 | 1,085,000 | 500,000 | | |
| Total stockholders equity | 2,328,394 | 4,818,081 | 5,904,290 | 5,733,763 | N/A |
| Total invested equity | N/A | N/A | N/A | N/A | 8,152,629 |

(1) The year ended December 31, 2008 includes an approximately $3 billion impairment charge related to goodwill, intangible and other long-lived assets.

**Part II. Item 7.** ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

**Overview**

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

transactions through our various media and advertising offerings on both the TripAdvisor Media Network and on our transaction-based websites. For additional information about our portfolio of brands, see the disclosure set forth in Part I, Item 1, Business, under the caption Management Overview.

***Trends***

The travel industry, including offline agencies, online agencies and suppliers of travel products and services, has been characterized by intense competition, as well as rapid and significant change. In addition, beginning in September 2008, global economic and financial market conditions worsened markedly, creating

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uncertainty for travelers and suppliers. This macroeconomic downturn pressured discretionary spending on travel and advertising, with weakness we previously identified in the United States and the United Kingdom markets increasing and spreading to all geographies. We cannot predict the magnitude or duration of the downturn, but our current limited visibility does not suggest any near-term improvement.

***Airline Sector***

The airline sector in particular has historically experienced significant turmoil. Most recently, U.S. airlines have responded to chronic overcapacity, financial losses and extreme volatility in oil prices by aggressively reducing their cost structures and seating capacities. In addition, many carriers have raised their per seat yields by increasing fares in the early part of 2008, assessing fuel surcharges and increasing the use of a la carte pricing for such items as baggage, food and beverage and preferred seating.

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. Carriers have announced incremental capacity reductions in 2009, which will again pressure our inventories and impact our opportunity to sell other travel products.

Fare increases, fuel surcharges and other fees are generally negative for Expedia s business, as they may negatively impact traveler demand with no corresponding increase in our remuneration as our air revenue is tied principally to ticket volumes, not prices. Fare increases were especially pronounced through the first three quarters of 2008, but have moderated more recently with slowing demand.

In addition to capacity and pricing actions, carriers have responded to industry conditions by aggressively reducing costs in every aspect of their operations, including distribution costs. Prior to 2008, airlines lowered (and in some cases, eliminated) travel agent commissions and overrides, and increased direct distribution through their proprietary websites. Carriers also reduced payments to GDS intermediaries, which have historically passed on a portion of these payments to large travel agents, including Expedia.

Primarily, as a result of these decreased costs of distribution and reduced access to excess air supply, our revenue per air ticket decreased more than 10% in each of 2005, 2006 and 2007. As a result of these pressures and the relative growth of our non-air business lines, air revenue constituted less than 15% of 2008 global revenue. We saw greater stability in air revenue per ticket in 2008 due to our signing long-term agreements with nine of the top ten domestic carriers and three GDS providers in prior years, as well as an increase in booking fees for Expedia.com travelers. However, due to the weakening economy, we may encounter additional pressure on air remuneration as certain supply agreements renew in 2009 and beyond as well as potential pressure on air booking fees due to actions by some of our competitors and increased traveler sensitivity to fees in the current environment.

In addition to the above challenges, larger carriers participating in the Expedia marketplace have generally reduced their share of total air seat capacity, while leading low-cost carriers such as Southwest in the United States and EasyJet in Europe have increased their relative capacities, but have generally chosen not to participate in the Expedia marketplace. This trend has negatively impacted our ability to obtain supply in our air business, and increased the relative attractiveness of other online and offline sales channels.

***Hotel Sector***

In 2008, the hotel sector witnessed supply growth and slowing demand, resulting in declining occupancy rates. ADR growth, which had been robust in 2006 and 2007, slowed considerably throughout 2008, and by the end of the year had stopped growing entirely. Some key leisure travel markets for Expedia, such as Las Vegas and Hawaii, have seen

dramatic year-on-year declines in ADRs. In addition, in early 2009 due primarily to continued declines in industry occupancy rates, we have continued to see a weakening in our ADRs.

While lower occupancies have historically increased our supply of merchant hotel rooms, and a lower rate of ADR growth can positively impact underlying room night growth, lower ADRs also decrease our revenue per room night as our remuneration varies proportionally with the room price. ADRs on Expedia s worldwide sites grew 7% in 2007, but declined 1% in 2008, including a 10% decrease in the fourth quarter of

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2008 compared to the same period in 2007. Our hotel remuneration is also impacted by our hotel margins, which declined in 2008 due to adverse movements in foreign exchange rates, lower fees and more competitive hotel pricing.

Industry sources forecast lower occupancies and year-on-year declines in ADRs in 2009. These trends, combined with softer demand in a weakening economy and lower air capacity into our core leisure travel destinations, create a challenging backdrop for our hotel business, which has been a key source of revenue and profitability growth for Expedia.

***Online Travel***

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

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

Differentiation among the various website offerings has narrowed dramatically in the past several years, and the travel landscape has grown extremely competitive, with the need for competitors to generally differentiate their offerings on features other than price. Newer competitive entrants such as meta search companies have in some cases been able to introduce differentiated features and content compared with the legacy online travel agency companies, although in most cases they are not providing actual travel booking services.

The online travel industry has also seen the development of alternative business models and timing of payment by travelers and to suppliers, which in some cases place pressure on historical business models. Intense competition has also led to aggressive marketing spend by the travel suppliers and intermediaries, and a meaningful reduction in our overall marketing efficiency and operating margins.

***Strategy***

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

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

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

Classic Vacations brand.

We believe our flagship Expedia brand appeals to the broadest range of travelers, with our extensive product offering ranging from single item bookings of discounted product to dynamic bundling of higher-end

travel packages. Our hotels.com site and its international versions target travelers with premium hotel content such as 360 degree tours and hotel reviews. In the United States, hotels.com generally appeals to travelers with shorter booking windows who prefer to drive to their destinations, and who make a significant portion of their travel bookings over the telephone.

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

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

*Technology and Continuous Innovation.* Expedia has an established tradition of technology innovation, from Expedia.com s inception as a division of Microsoft to our introduction of more recent innovations such as Expedia.com s TravelAds sponsored search product for hotel advertisers, Hotwire s Air Price Protection, hotels.com s slider tools for improving search results, hotel.com s iPod and iPhone applications and the TripAdvisor Media Network s offering of travel applications for download on social media sites such as Facebook.com and MySpace.com.

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

*Global Reach.* Our Expedia, hotels.com and TripAdvisor Media Network brands operate both in North America and internationally. We also offer Chinese travelers an array of products and services through our majority ownership in eLong, and we offer hotels to European-based travelers through our wholly-owned subsidiary Venere, which we acquired in the third quarter of 2008. In 2008, our European segment accounted for approximately 21% of worldwide gross bookings and 23% of worldwide revenue.

We intend to continue investing in and growing our international points of sale. We anticipate launching points of sale in additional countries where we find large travel markets and rapid growth of online commerce. Future launches may occur under any of our brands, or through acquisition of third party brands, as in the case of eLong and Venere.

Egencia, our corporate travel business, currently operates in Australia, Belgium, Canada, China, France, Germany, India, Ireland, Italy, the Netherlands, Spain, Switzerland, the United Kingdom and the United States. We believe the corporate travel sector represents a large opportunity for Expedia, and we believe we offer a compelling technology solution to businesses seeking to optimize travel costs and improve their employees travel experiences. We intend to continue investing in and expanding the geographic footprint and technology infrastructure of Egencia.

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

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

advertisers.

*Breadth of Product Offering.* We offer a comprehensive array of innovative travel products and services to our travelers. We plan to continue improving and growing these offerings, as well as expand them to our

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worldwide points of sale over time. Travelers can interact with us how and when they prefer, including via our 24/7 1-800 telesales service, which is an integral part of the Company s appeal to travelers.

Over 60% of our revenue comes from transactions involving the booking of hotel reservations, with less than 15% of our worldwide revenue derived from the sale of airline tickets. We facilitate travel products and services either as stand-alone products or as part of package transactions. We have emphasized growing our merchant hotel and packages businesses as these result in higher revenue per transaction; however, through Venere we are working to grow our agency hotel business, particularly in Europe. We also seek to continue diversifying our revenue mix beyond core air and hotel products to car rental, destination services, cruise and other product offerings. We have been working toward and will continue to work toward increasing the mix of advertising and media revenue from both the expansion of our TripAdvisor Media Network, as well as increasing advertising revenue from our worldwide websites such as Expedia.com and hotels.com, which have historically been focused on transaction revenue. In 2008, advertising and media revenue accounted for nearly 10% of worldwide revenue.

***Seasonality***

We generally experience seasonal fluctuations in the demand for our travel products and services. For example, traditional leisure travel bookings are generally the highest in the first three quarters as travelers plan and book their spring, summer and holiday travel. The number of bookings typically decreases in the fourth quarter. Because revenue in 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. As a result, revenue is typically the lowest in the first quarter and highest in the third quarter. The macroeconomic downturn in the latter part of 2008 also affected our general revenue seasonality trends in the fourth quarter of 2008. In addition, the continued growth of our international operations or a change in our product mix may influence the typical trend of our seasonality in the future.

**Critical Accounting Policies and Estimates**

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

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

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

- 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 more information on each of these policies, see Note 2 Significant Accounting Policies, in the notes to consolidated financial statements. We discuss information about the nature and rationale for our critical accounting estimates below.

***Accounting for Certain Merchant Revenue***

We accrue the cost of certain merchant revenue based on the amount we expect to be billed by suppliers. In certain instances when a supplier invoices us for less than the cost we accrued, we generally recognize

those amounts as revenue six months in arrears, net of an allowance, when we determine it is not probable that we will be required to pay the supplier, based on historical experience and contract terms. Actual revenue could be greater or less than the amounts estimated due to changes in hotel billing practices or changes in traveler behavior.

***Marketing Promotions***

We periodically provide incentive offers to our customers to encourage booking of travel products and services, which include inducement offers. Inducement offers include discounts granted at the time of a current purchase to be applied against a future qualifying purchase. We treat inducement offers as a reduction to revenue based on estimated future redemption rates. We allocate the discount amount between the current purchase and the potential future purchase based on our expected relative value of the transactions. We estimate our redemption rates using our historical experience for similar inducement offers, and the amounts we record as a reduction to revenue on current purchases could vary significantly based on the redemption estimates used.

***Recoverability of Goodwill and Indefinite and Definite-Lived Intangible Assets***

*Goodwill.* We assess goodwill for impairment annually as of October 1, or more frequently, if events and circumstances indicate impairment may have occurred. The impairment test requires us to estimate the fair value of our reporting units. If the carrying value of a reporting unit exceeds its fair value, the goodwill of that reporting unit is potentially impaired and we proceed to step two of the impairment analysis. In step two of the analysis, we will record an impairment loss equal to the excess of the carrying value of the reporting unit s goodwill over its implied fair value should such a circumstance arise.

We generally base our measurement of fair value of reporting units on a blended analysis of the present value of future discounted cash flows and market valuation approach. The discounted cash flows model indicates the fair value of the reporting units based on the present value of the cash flows that we expect the reporting units to generate in the future. Our significant estimates in the discounted cash flows model include: our weighted average cost of capital; long-term rate of growth and profitability of our business; and working capital effects. The market valuation approach indicates the fair value of the business based on a comparison of the Company to comparable publicly traded firms in similar lines of business. Our significant estimates in the market approach model include identifying similar companies with comparable business factors such as size, growth, profitability, risk and return on investment and assessing comparable revenue and operating income multiples in estimating the fair value of the reporting units.

We believe the weighted use of discounted cash flows and market approach is the best method for determining the fair value of our reporting units because these are the most common valuation methodologies used within the travel and internet industries; and the blended use of both models compensates for the inherent risks associated with either model if used on a stand-alone basis.

In addition to measuring the fair value of our reporting units as described above, we consider the combined carrying and fair values of our reporting units in relation to the Company s total fair value of equity plus debt as of the assessment date. Our equity value assumes our fully diluted market capitalization, using either the stock price on the valuation date or the average stock price over a range of dates around the valuation date, plus an estimated acquisition premium which is based on observable transactions of comparable companies. The debt value is based on the highest value expected to be paid to repurchase the debt, which can be fair value, principal or principal plus a premium depending on the terms of each debt instrument.

*Indefinite-Lived Intangible Assets.* We base our measurement of fair value of indefinite-lived intangible assets, which primarily consist of trade name and trademarks, using the relief-from-royalty method. This method assumes that the trade name and trademarks have value to the extent that their owner is relieved of the obligation to pay royalties for

the benefits received from them. This method requires us to estimate the future revenue for the related brands, the appropriate royalty rate and the weighted average cost of capital.

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*Definite-Lived Intangible Assets.* We review the carrying value of long-lived assets or asset groups to be used in operations whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. Factors that would necessitate an impairment assessment include a significant adverse change in the extent or manner in which an asset is used, a significant adverse change in legal factors or the business climate that could affect the value of the asset, or a significant decline in the observable market value of an asset, among others. If such facts indicate a potential impairment, we would assess the recoverability of an asset group by determining if the carrying value of the asset group exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the assets over the remaining economic life of the primary asset in the asset group. If the recoverability test indicates that the carrying value of the asset group is not recoverable, we will estimate the fair value of the asset group using appropriate valuation methodologies which would typically include an estimate of discounted cash flows. Any impairment would be measured as the difference between the asset groups carrying amount and its estimated fair value.

The use of different estimates or assumptions in determining the fair value of our goodwill, indefinite-lived and definite-lived intangible assets may result in different values for these assets, which could result in an impairment or, in period in which an impairment is recognized, could result in a materially different impairment charge. For additional information about our goodwill and intangible asset impairments recorded in 2008, see Note 5 Goodwill and Intangible Assets, Net in the notes to consolidated financial statements.

***Income Taxes***

In accordance with Statement of Financial Accounting Standards ( SFAS ) No. 109, *Accounting for Income Taxes*, we record income taxes under the liability method. Deferred tax assets and liabilities reflect our estimation of the future tax consequences of temporary differences between the carrying amounts of assets and liabilities for book and tax purposes. We determine deferred income taxes based on the differences in accounting methods and timing between financial statement and income tax reporting. Accordingly, we determine the deferred tax asset or liability for each temporary difference based on the enacted tax rates expected to be in effect when we realize the underlying items of income and expense. We consider many factors when assessing the likelihood of future realization of our deferred tax assets, including our recent earnings experience by jurisdiction, expectations of future taxable income, and the carryforward periods available to us for tax reporting purposes, as well as other relevant factors. We may establish a valuation allowance to reduce deferred tax assets to the amount we believe is more likely than not to be realized. Due to inherent complexities arising from the nature of our businesses, future changes in income tax law, tax sharing agreements or variances between our actual and anticipated operating results, we make certain judgments and estimates. Therefore, actual income taxes could materially vary from these estimates.

We record liabilities to address uncertain tax positions we have taken in previously filed tax returns or that we expect to take in a future tax return. The determination for required liabilities is based upon an analysis of each individual tax position, taking into consideration whether it is more likely than not that our tax position, based on technical merits, will be sustained upon examination. For those positions for which we conclude it is more likely than not it will be sustained, we recognize the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with the taxing authority. The difference between the amount recognized and the total tax position is recorded as a liability. The ultimate resolution of these tax positions may be greater or less than the liabilities recorded. We adopted Financial Accounting Standards Board Interpretation No. 48 ( FIN 48 ), *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*, in the first quarter of 2007.

***Other Long-Term Liabilities***

*Various Legal and Tax Contingencies.* We record liabilities to address potential exposures related to business and tax positions we have taken that have been or could be challenged by taxing authorities. In addition, we record liabilities

associated with legal proceedings and lawsuits. These liabilities are recorded when the likelihood of payment is probable and the amounts can be reasonably estimated. The determination for required liabilities is based upon analysis of each individual tax issue, or legal proceeding, taking into

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consideration the likelihood of adverse judgments and the range of possible loss. In addition, our analysis may be based on discussions with outside legal counsel. The ultimate resolution of these potential tax exposures and legal proceedings may be greater or less than the liabilities recorded.

*Occupancy Tax.* Some states and localities impose a transient occupancy or accommodation tax, or a form of sales tax, on the use or occupancy of hotel accommodations. Generally, hotels charge taxes based on the room rate paid to the hotel and remit these taxes to the various tax authorities. When a customer books a room through one of our travel services, we collect a tax recovery charge from the customer which we pay to the hotel. We do not collect or remit occupancy taxes, nor do we pay occupancy taxes to the hotel operator on the portion of the customer payment we retain. Some jurisdictions have questioned our practice in this regard. While the applicable tax provisions vary among the jurisdictions, we generally believe that we are not required to collect and remit such occupancy taxes. We are engaged in discussions with tax authorities in various jurisdictions to resolve this issue. Some tax authorities have brought lawsuits or have levied assessments asserting that we are required to collect and remit occupancy tax. The ultimate resolution in all jurisdictions cannot be determined at this time. Certain jurisdictions may require us to pay tax assessments, including occupancy tax assessments, prior to contesting any such assessments.

We have established a reserve for the potential settlement of issues related to hotel occupancy taxes for prior and current periods, consistent with applicable accounting principles and in light of all current facts and circumstances. A variety of factors could affect the amount of the liability (both past and future), which factors include, but are not limited to, the number of, and amount of revenue represented by, jurisdictions that ultimately assert a claim and prevail in assessing such additional tax or negotiate a settlement and changes in relevant statutes.

We note that there are more than 7,000 taxing jurisdictions in the United States, and it is not feasible to analyze the statutes, regulations and judicial and administrative rulings in every jurisdiction. Rather, we have obtained the advice of state and local tax experts with respect to tax laws of certain states and local jurisdictions that represent a large portion of our hotel revenue. Many of the fundamental statutes and regulations that impose these taxes were established before the growth of the internet and e-commerce. It is possible that some jurisdictions may introduce new legislation regarding the imposition of occupancy taxes on businesses that arrange the booking of hotel accommodations. We continue to work with the relevant tax authorities and legislators to clarify our obligations under new and emerging laws and regulations. We will continue to monitor the issue closely and provide additional disclosure, as well as adjust the level of reserves, as developments warrant. Additionally, certain of our businesses are involved in occupancy tax related litigation which is discussed in Part I, Item 3, Legal Proceedings.

***Stock-Based Compensation***

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

**New Accounting Pronouncements**

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

**Segments**

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

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Our North America segment provides a full range of travel and/or advertising services to customers primarily located in the United States, Canada and Mexico. This segment operates through a variety of brands including Classic Vacations, Expedia.com, hotels.com, Hotwire.com and the TripAdvisor Media Network.

Our Europe segment provides travel services primarily through localized Expedia websites in Austria, Belgium, Denmark, France, Germany, Ireland, Italy, the Netherlands, Norway, Spain, Sweden and the United Kingdom, as well as localized versions of hotels.com in various European countries. In addition, Venere is included within our Europe segment from its acquisition date in the third quarter of 2008 forward.

Corporate and Other includes Egencia, Expedia Asia Pacific and unallocated corporate functions and expenses. Egencia provides travel products and services to corporate customers in North America, Europe and the Asia Pacific region. Expedia Asia Pacific provides online travel information and reservation services primarily through eLong in China, localized Expedia websites in Australia, India, Japan and New Zealand, as well as localized versions of hotels.com in various Asian countries.

We are in the process of reorganizing our business around our global brands. Our chief operating decision makers are assessing our new structure to determine how we will manage our business and report our financial results. Beginning in the first quarter of 2009, we expect our reportable segments to change as we will no longer manage the business on a geographical basis.

**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 Expedia. 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 seen our gross bookings increase, reflecting the growth in the online travel industry and our business acquisitions. Revenue margin is defined as revenue as a percentage of gross bookings.

***Reclassifications***

We restated our Europe segment and total gross bookings for 2007 and 2006 to conform to our current period presentation. The restatement had no impact on revenue.

***Gross Bookings and Revenue Margin***

| | Year Ended December 31, | | | % Change | |
|---|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2008 vs 2007 | 2007 vs 2006 |
| | | ($ in thousands) | | | |
| ***Gross bookings*** | | | | | |
| North America | $ 14,465,508 | $ 13,937,381 | $ 12,736,765 | 4% | 9% |
| Europe | 4,565,994 | 3,871,695 | 2,722,609 | 18% | 42% |
| Corporate and Other | 2,237,291 | 1,822,769 | 1,423,098 | 23% | 28% |
| Total gross bookings | $ 21,268,793 | $ 19,631,845 | $ 16,882,472 | 8% | 16% |

| | | | |
|---|---|---|---|
| ***Revenue margin*** | | | |
| North America | 14.2% | 13.6% | 13.1% |
| Europe | 15.1% | 15.7% | 16.6% |
| Corporate and Other | 8.9% | 8.8% | 8.3% |
| Total revenue margin | 13.8% | 13.6% | 13.3% |

The year-over-year increases in worldwide gross bookings in 2008 and 2007 were primarily due to increases in transaction volumes and travel product prices.

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The increase in worldwide and North America revenue margin in 2008 as compared to 2007 was primarily due to an increased mix of advertising and media revenue. The decrease in Europe revenue margin in 2008 as compared to 2007 was primarily due to the impact of foreign exchange.

The increase in worldwide and North America revenue margin in 2007 as compared to 2006 was primarily due to an increased mix of advertising and media revenue, partially offset by a decline in revenue per air ticket. The decrease in Europe revenue margin in 2007 as compared to 2006 was primarily due to lower air commissions and booking fees as well as lower revenue resulting from more competitive hotel pricing.

**Results of Operations**

***Revenue***

| | Year Ended December 31, | | | % Change | |
|---|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2008 vs 2007 | 2007 vs 2006 |
| | ($ in thousands) | | | | |
| North America | $ 2,047,807 | $ 1,897,995 | $ 1,666,804 | 8% | 14% |
| Europe | 689,978 | 606,997 | 452,012 | 14% | 34% |
| Corporate and Other | 199,228 | 160,340 | 118,770 | 24% | 35% |
| Total revenue | $ 2,937,013 | $ 2,665,332 | $ 2,237,586 | 10% | 19% |

In 2008, the increase in revenue was primarily due to increases in worldwide hotel revenue and advertising and media revenue.

Worldwide hotel revenue (including both merchant and agency) increased 6% in 2008 compared to 2007. The increase was primarily due to a 13% increase in room nights stayed, including rooms delivered as a component of vacation packages, partially offset by an 6% decrease in revenue per room night. Revenue per room night decreased due to changes in foreign exchange rates and a 1% decrease in worldwide ADRs.

Worldwide air revenue increased 2% in 2008 compared to 2007 due to a 2% increase in revenue per air ticket. Tickets sold were flat for the year as an 8% growth in the first half of the year was offset by an 8% decline in the second half of the year due to lower passenger volumes as a result of carrier capacity cuts and softer consumer demand.

Our remaining worldwide revenue other than hotel and air revenue discussed above, which includes advertising and media, car rental, destination services and cruise, increased by 29% in 2008 compared to 2007 primarily due to increases in our advertising and media revenue and car rental revenue. Advertising and media revenue increased 55% in 2008, accounting for nearly 10% of worldwide revenue.

Package revenue declined 4% in 2008 compared to the prior year primarily due to foreign exchange and lower worldwide volumes.

In 2007, the increase in revenue was primarily due to increases in worldwide hotel revenue and, to a lesser extent, advertising and media revenue.

Worldwide hotel revenue increased 19% in 2007 compared to 2006. The increase was primarily due to a 11% increase in room nights stayed, including rooms delivered as a component of vacation packages, as well as a 7% increase in revenue per room night. Revenue per room night increased due to a 7% increase in worldwide ADRs partially offset by a decline in hotel margin.

Worldwide air revenue decreased 2% in 2007 compared to 2006 due to a 12% decrease in revenue per air ticket partially offset by an increase of 12% in air tickets sold. The decrease in revenue per air ticket primarily reflects decreased compensation from air carriers and GDS providers, and to a lesser extent, reduced air service fees versus the prior year period.

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Our remaining worldwide revenue other than hotel and air revenue discussed above increased by 43% in 2007 compared to 2006 primarily due to an increase in advertising and media revenue as well as car rental revenues.

Package revenue grew 7% in 2007 compared to the prior year primarily due to higher European package bookings.

***Cost of Revenue and Gross Profit***

| | Year Ended December 31, | | | % Change | |
|---|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2008 vs 2007 | 2007 vs 2006 |
| | ($ in thousands) | | | | |
| Cost of revenue | $ 634,744 | $ 562,401 | $ 502,638 | 13% | 12% |
| % of revenue | 21.6% | 21.1% | 22.5% | | |
| Gross profit | $ 2,302,269 | $ 2,102,931 | $ 1,734,948 | 9% | 21% |
| % of revenue | 78.39% | 78.90% | 77.5% | | |

Cost of revenue primarily consists of (1) costs of our data and call centers, including telesales, (2) credit card expenses, including merchant fees, charge backs and fraud, (3) fees paid to fulfillment vendors for processing airline tickets and related customer services and (4) costs paid to suppliers for certain destination supply.

The year-over-year increases in cost of revenue were primarily due to higher costs associated with an increase in transaction volumes.

The year-over-year increases in gross profit were primarily due to increased revenue. In 2008, the increase in revenue was partially offset by a 51 basis point decrease in gross margin primarily due to cost increases including our summer gas card promotion and costs associated with our data center and other projects. Gross margin increased in 2007 as compared to 2006 primarily due to an increased mix of advertising and media revenue as well as cost savings from our various efficiency initiatives.

***Selling and Marketing***

| | Year Ended December 31, | | | % Change | |
|---|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2008 vs 2007 | 2007 vs 2006 |
| | ($ in thousands) | | | | |
| Selling and marketing | $ 1,101,403 | $ 992,560 | $ 786,195 | 11% | 26% |
| % of revenue | 37.5% | 37.2% | 35.1% | | |

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

In 2008 and 2007, the increase in selling and marketing was primarily due to increased direct online search spend across our worldwide points of sale, as well as higher personnel costs. In addition, during 2007 brand spend across our

worldwide points of sale also increased.

***General and Administrative***

| | Year Ended December 31, | | | % Change | |
|---|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2008 vs 2007 | 2007 vs 2006 |
| | ($ in thousands) | | | | |
| General and administrative | $ 355,431 | $ 321,250 | $ 289,649 | 11% | 11% |
| % of revenue | 12.1% | 12.1% | 12.9% | | |

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

In 2008, the increase in general and administrative expense was primarily due to the overall growth of our businesses, including personnel and other costs related to our information technology functions as well as costs related to our European businesses and the TripAdvisor Media Network.

In 2007, the increase in general and administrative expense was primarily due to higher personnel costs related to expansion of our corporate information technology functions, our European businesses and the TripAdvisor Media Network as well as higher incentive compensation expense, higher legal expenses and higher payroll taxes related to stock option exercises.

***Technology and Content***

| | Year Ended December 31, | | | % Change | |
|---|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2008 vs 2007 | 2007 vs 2006 |
| | ($ in thousands) | | | | |
| Technology and content | $ 208,952 | $ 182,483 | $ 140,371 | 15% | 30% |
| % of revenue | 7.1% | 6.8% | 6.3% | | |

Technology and content expense consists of expenses for customizing our websites, amortization of website and internal software development costs, localization of our websites, and product development expenses such as personnel-related costs, including stock-based compensation.

The year-over-year expense increase in 2008 was due to increased personnel-related expenses primarily in our higher growth businesses, including the TripAdvisor Media Network, as well as an increase in the amortization of software development costs.

The year-over-year expense increase in 2007 was primarily due to growth in personnel-related expenses in our software development and engineering teams as we continued to increase our level of website innovation and increased amortization of capitalized software development costs. For additional information about our policy related to capitalized software costs, see Note 2 Significant Accounting Policies in the notes to consolidated financial statements.

***Amortization of Intangible Assets***

| | Year Ended December 31, | | | % Change | |
|---|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2008 vs 2007 | 2007 vs 2006 |
| | ($ in thousands) | | | | |
| Amortization of intangible assets | $ 69,436 | $ 77,569 | $ 110,766 | (10)% | (30)% |
| % of revenue | 2.4% | 2.9% | 5.0% | | |

In 2008 and 2007, amortization of intangible assets expense decreased compared to 2007 and 2006 primarily due to the completion of amortization related to certain technology and supplier intangible assets, partially offset by amortization related to new business acquisitions. For additional information about our acquisitions, see Note 3 Acquisitions and Other Investments in the notes to consolidated financial statements.

***Impairment of Goodwill, Intangible and Other Long-lived Assets***

In 2008, we recorded impairments of approximately $3 billion of long-term assets, which consisted of $2.8 billion of goodwill, $223 million of intangible assets and $11 million related to capitalized software. Impaired intangible assets consisted of certain of our indefinite-lived trade names. In 2006, we recognized an impairment charge of $47 million in relation to Hotwire s indefinite-lived trade name intangible asset. For additional information about our impairments, see Note 5 Goodwill and Intangible Assets, Net in the notes to consolidated financial statements.

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As a result of continued adverse conditions in the markets in which we operate, we will continue to monitor goodwill and long-lived intangible assets, as well as long-lived tangible assets, for possible future impairment. We cannot assure that these assets will not be further impaired in future periods.

***Amortization of Non-Cash Distribution and Marketing***

Amortization of non-cash distribution and marketing expense consisted mainly of advertising from Universal Television contributed to us by IAC at Spin-Off with an original value of $17 million. We used this advertising without any cash cost, and during 2006 had fully utilized all media time.

***Operating Income (Loss)***

| | Year Ended December 31, | | | % Change | |
|---|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2008 vs 2007 | 2007 vs 2006 |
| | ($ in thousands) | | | | |
| Operating income (loss) | $ (2,428,953) | $ 529,069 | $ 351,329 | (559)% | 51% |
| % of revenue | (82.7)% | 19.9% | 15.7% | | |

In 2008, the recording of a significant operating loss and the resulting year-over-year decline was due to the impairment of long-term assets of approximately $3 billion.

In 2007, the increase in operating income was primarily due to an increase in gross profit, the impairment charge of $47 million in 2006 and a decrease in amortization of intangibles and amortization of non-cash distribution and marketing, partially offset by growth in sales and marketing expense and technology and content expense.

***Operating Income Before Amortization ( OIBA )***

| | Year Ended December 31, | | | % Change | |
|---|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2008 vs 2007 | 2007 vs 2006 |
| | ($ in thousands) | | | | |
| OIBA | $ 697,774 | $ 669,487 | $ 599,018 | 4% | 12% |
| % of revenue | 23.8% | 25.1% | 26.8% | | |

In 2008, the increase in OIBA was primarily due to higher revenue, partially offset by lower gross margin and increased operating expenses. OIBA as a percentage of revenue decreased primarily due to lower gross margin as well as higher growth in sales and marketing expense and technology and content expense as a percentage of revenue during 2008.

In 2007, the increase in OIBA was primarily due to an increase in gross profit, partially offset by growth in sales and marketing expenses and technology and content expenses. OIBA as a percentage of revenue decreased primarily due to growth in sales and marketing expenses as a percentage of revenue, partially offset by an increase in gross margin.

***Definition of OIBA***

We provide OIBA as a supplemental measure to GAAP operating income (loss) and net income (loss). We define OIBA as operating income (loss) plus: (1) stock-based compensation expense, (3) amortization of intangible assets and goodwill and intangible asset impairment, if applicable, (4) amortization of non-cash distribution and marketing expense and (4) certain one-time items, if applicable.

OIBA is the primary operating metric used by which management evaluates the performance of our business, on which internal budgets are based, and by which management is compensated. Management believes that investors should have access to the same set of tools that management uses to analyze our results. This non-GAAP measure should be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for, or superior to, GAAP. We endeavor to compensate for the limitation of the non-GAAP measure presented by also providing the comparable GAAP measure, GAAP financial

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statements, and descriptions of the reconciling items and adjustments, to derive the non-GAAP measure. We present a reconciliation of this non-GAAP financial measure to GAAP below.

OIBA represents the combined operating results of Expedia, Inc. s businesses, taking into account depreciation of property and equipment (including internal-use software and website development), which we believe is an ongoing cost of doing business, but excluding the effects of other non-cash expenses that may not be indicative of our core business operations. We believe this performance measure is useful to investors for the following reasons:

It corresponds more closely to the cash operating income generated from our core operations by excluding significant non-cash operating expenses, such as stock-based compensation; and

It provides greater insight into management decision making at Expedia, as OIBA is our primary internal metric for evaluating the performance of our business.

OIBA has certain limitations in that it does not take into account the impact of certain expenses to our consolidated statements of operations, including stock-based compensation, non-cash payments to partners, acquisition-related accounting and certain one-time items, if applicable.

***Reconciliation of OIBA to Operating Income (Loss) and Net Income (Loss)***

The following table presents a reconciliation of OIBA to operating income (loss) and net income (loss) for the years ended December 31, 2008, 2007 and 2006:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| | (In thousands) | | |
| OIBA | $ 697,774 | $ 669,487 | $ 599,018 |
| Amortization of intangible assets | (69,436) | (77,569) | (110,766) |
| Impairment of goodwill | (2,762,100) | | |
| Impairment of intangible and other long-lived assets | (233,900) | | (47,000) |
| Stock-based compensation | (61,291) | (62,849) | (80,285) |
| Amortization of non-cash distribution and marketing | | | (9,638) |
| Operating income (loss) | (2,428,953) | 529,069 | 351,329 |
| Interest income (expense), net | (41,573) | (13,478) | 14,799 |
| Other, net | (44,178) | (18,607) | 18,770 |
| Provision for income taxes | (5,966) | (203,114) | (139,451) |
| Minority interest in (income) loss of consolidated subsidiaries, net | 2,907 | 1,994 | (513) |
| Net income (loss) | $ (2,517,763) | $ 295,864 | $ 244,934 |

***Interest Income and Expense***

| | Year Ended December 31, | | | % Change |
|---|---|---|---|---|
| | 2008 | 2007 | 2006 | |

| | | | | 2008 vs 2007 | 2007 vs 2006 |
|---|---|---|---|---|---|
| | ($ in thousands) | | | | |
| Interest income | $ 30,411 | $ 39,418 | $ 32,065 | (23)% | 23% |
| Interest expense | (71,984) | (52,896) | (17,266) | 36% | 206% |

Interest income decreased in 2008 compared to 2007 primarily due to lower average interest rates. The year-over-year increase in 2007 was primarily due to higher average cash and cash equivalent balances.

Interest expense increased in 2008 as compared to 2007 due to higher average debt balances primarily resulting from the $400 million senior unsecured notes issued in June 2008. In 2007, interest expense increased as compared to 2006 due to interest expense related to the $500 million senior unsecured notes

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issuance in August 2006 and a $500 million draw on our revolving credit facility in August 2007 to fund a portion of the tender offer completed in the third quarter of 2007. At December 31, 2008, 2007 and 2006, our long-term indebtedness totaled $1.545 billion, $1.085 billion and $500 million.

***Other, net***

Other, net is comprised of the following:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| | (In thousands) | | |
| Foreign exchange rate gains (losses), net | $ (47,129) | $ (22,047) | $ 10,367 |
| Equity in gain (loss) of unconsolidated affiliates | (979) | (2,614) | 2,541 |
| Gain (loss) on derivative instruments assumed at Spin-Off | 4,600 | (5,748) | 8,137 |
| Federal excise tax refunds | | 12,058 | |
| Other | (670) | (256) | (2,275) |
| Total other, net | $ (44,178) | $ (18,607) | $ 18,770 |

In 2008, in connection with the closing of an acquisition and the related holding of euros to economically hedge the purchase price, we recognized a net loss of $21 million, included in foreign exchange rate gains (losses), net.

In 2007, we recognized a $12 million gain related to federal excise tax refunds from the Internal Revenue Service.

***Provision for Income Taxes***

| | Year Ended December 31, | | | % Change | |
|---|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2008 vs 2007 | 2007 vs 2006 |
| | ($ in thousands) | | | | |
| Provision for income taxes | $ 5,966 | $ 203,114 | $ 139,451 | (97)% | 46% |
| Effective tax rate | (0.2)% | 40.9% | 36.2% | | |

In 2008, our effective tax rate differed from the 35% statutory rate and the 2007 effective rate due to the impairment of goodwill, of which a substantial portion was not deductible for income tax purposes. Absent the impairment of goodwill and intangible assets, our 2008 effective tax rate would have been 41.5%, which was higher than the 35% statutory rate primarily due to state income taxes and accruals related to uncertain tax positions and higher than our 2007 rate primarily due to higher accruals related to uncertain tax positions.

In 2007, our effective tax rate was higher than the 35% statutory rate primarily due to state income taxes, taxes related to our foreign operations and non-deductible losses related to our derivative liabilities. The 2007 effective rate increased as compared to 2006 primarily due to higher state taxes, including increases to state tax rates, and non-deductible losses related to our derivative liabilities compared with a gain in 2006.

In 2006, our effective tax rate was higher than the 35% statutory rate primarily due to state income taxes and valuation allowance on certain foreign losses, partially offset by non-taxable gains related to our derivative liabilities.

**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 $758 million and $617 million at December 31, 2008 and 2007, which included $140 million and $158 million of cash and short-term investments at eLong, whose results are consolidated into our financial statements due to our controlling voting and economic ownership position; and our $1 billion revolving credit facility, of which $292 million was available as of December 31, 2008. This represents the total $1 billion facility less $650 million of outstanding borrowings and $58 million

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of outstanding stand-by letters of credit ( LOC ). We intend to repay $550 million of the outstanding borrowings by February 20, 2009.

On February 18, 2009, we amended our credit facility to replace our tangible net worth covenant with a minimum interest coverage covenant, among other changes. As part of this amendment our leverage ratio was tightened, pricing on our borrowings increased by 200 basis points and we paid approximately $6 million in fees, which will be amortized over the remaining term of the credit facility. Outstanding credit facility borrowings bear interest reflecting our financial leverage. Based on our December 31, 2008 financial statements and the new amendment, the interest rate would equate to a base rate plus 287.5 basis points. At our discretion, we may choose a base rate equal to (1) the greater of the Prime rate or the Federal Funds Rate plus 50 basis points or LIBOR plus 100 basis points or (2) various durations of LIBOR.

Under the merchant model, we receive cash from travelers at the time of booking and we record these amounts on our consolidated balance sheets as deferred merchant bookings. We pay our airline suppliers related to these merchant model bookings generally within two weeks after completing the transaction, but we are liable for the full value of such transactions until the flights are completed. For most other merchant bookings, which is primarily our merchant hotel business, we pay after the travelers use and subsequent billing from the hotel suppliers. Therefore, generally we receive cash from the traveler prior to paying our supplier, and this operating cycle represents a working capital source of cash to us. As long as the merchant hotel business grows, we expect that changes in working capital will positively impact operating cash flows. However, due to various factors, including decelerating bookings growth, growth in other business models that lack the same working capital benefits as the merchant model, and technology and process initiatives which have resulted in quicker payments to hotel suppliers, we have experienced a reduction in our working capital impacts to cash flows in 2008 compared to 2007.

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

As of December 31, 2008, we had a deficit in our working capital of $367 million, compared to a deficit of $729 million as of December 31, 2007.

We continue to invest in the development and expansion of our operations. Ongoing investments include but are not limited to improvements to infrastructure, which include our servers, networking equipment and software, release improvements to our software code and search engine optimization efforts. In addition, we relocated many of our global offices, including our corporate headquarters, to larger facilities in 2008 to accommodate the growth of our business. These moves resulted in significant investments to improve the new facilities. Our future capital requirements may include capital needs for acquisitions or expenditures in support of our business strategy. In the event we have acquisitions, this may reduce our cash balance and/or increase our debt.

Our cash flows are as follows:

| | Year Ended December 31, | | | $ Change | |
|---|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2008 vs 2007 | 2007 vs 2006 |
| | | | (In thousands) | | |

| | | | | | |
|---|---|---|---|---|---|
| Cash provided by (used in): | | | | | |
| Operating activities | $ 520,688 | $ 712,069 | $ 617,440 | $ (191,381) | $ 94,629 |
| Investing activities | (859,558) | (179,506) | (113,500) | (680,052) | (66,006) |
| Financing activities | 464,801 | (789,979) | 9,772 | 1,254,780 | (799,751) |
| Effect of foreign exchange rate changes on cash and cash equivalents | (77,905) | 21,528 | 42,146 | (99,433) | (20,618) |

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In 2008, net cash provided by operating activities decreased by $191 million primarily due to a decrease in changes in operating assets and liabilities, including an increase in tax payments and faster invoice and payment processing for our hotel suppliers in the current period. In 2007, net cash provided by operating activities increased by $95 million primarily due to an increase in changes in operating assets and liabilities and an increase in cash flows from operating income, partially offset by an increase in interest payments.

In 2008, cash used in investing activities increased by $680 million primarily due to a $479 million increase in cash paid for acquisitions, including $93 million as a contingent payment for the financial performance of a company we acquired during 2007, as well as the purchase of short-term investments of $93 million by eLong and an increase in capital expenditures of $73 million. In 2007, cash used in investing activities increased by $66 million primarily due to a $27 million increase in cash paid for acquisitions and a $32 million increase in long-term investments and deposits mainly related to our 50% investment in a travel company. These increases were offset by a decrease of $6 million in capital expenditures.

In February 2008, eLong announced approval by its board of directors of a share repurchase program of up to $20 million. Executed purchases are classified as acquisitions in the investing section of our statements of cash flows. As of November 25, 2008, eLong had executed approximately $14 million in purchases under the repurchase program.

Cash provided by financing activities in 2008 primarily included $457 million of net borrowings of debt.

Cash used in financing activities in 2007 primarily included cash paid to acquire shares in the first and third quarter tender offers pursuant to which we acquired 30 million tendered shares of our common stock at a purchase price of $22.00 per share and 25 million tendered shares of our common stock at $29.00 per share, for a total cost of $1.385 billion plus fees and expenses relating to the tender offers. In addition, we paid withholding taxes for stock option exercises of $121 million on behalf of our Chairman and Senior Executive in exchange for surrendering a portion of his vested shares which were concurrently cancelled. These were offset in part by $585 million in net borrowings on the revolving credit facility used primarily to fund a portion of the third quarter tender offer, $55 million in proceeds from stock option exercises and $96 million in excess tax benefits on equity awards, of which approximately $92 million related to the excess tax benefit associated with the stock options exercised by our Chairman and Senior Executive.

Cash provided by financing activities in 2006 was primarily due to the net proceeds of $495 million from our senior notes issuance in 2006 and $35 million in proceeds from stock option exercises, partially offset by $296 million of treasury stock activity primarily related to cash paid to acquire shares in the second and third quarters pursuant to which we acquired in open market trades 20 million shares of our common stock at an average per share price of $14.42 for a total cost of $288 million and the $230 million repayment of our revolving credit facility, which was initially borrowed in 2005.

In June 2008, we privately placed $400 million of 8.5% senior unsecured notes due in July 2016 (the 8.5% Notes ). The 8.5% Notes were issued at 98.572% of par resulting in a discount, which is being amortized over their life. Interest is payable semi-annually in January and July of each year, beginning January 1, 2009. We used the proceeds, net of the discount and issuance costs paid to date, of $392 million to repay the then outstanding borrowings under our credit facility of $330 million with the remaining cash was used for general corporate purposes.

In August 2006, we issued $500 million of 7.456% senior unsecured notes due in August 2018 (the 7.456% Notes ) for net proceeds of $495 million. Interest is payable semi-annually in February and August of each year, which began in February 2007. The 7.456% Notes are repayable in whole or in part on August 15, 2013, at the option of the Note holders, and are redeemable in whole or in part at any time at our option.

The effect of foreign exchange on our cash balances denominated in foreign currency in 2008 showed a net decrease of $99 million primarily due to a sharp depreciation in foreign currencies during the second half of 2008 compared with appreciating foreign currencies throughout 2007, and included a $21 million loss related to euro cash holdings during the third quarter of 2008 to economically hedge the purchase price of an acquisition. The effect of foreign exchange on our cash balances denominated in foreign currency in 2007

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showed a net decrease of $21 million. Our foreign currency cash balances in 2007 benefited from foreign currency appreciation, but to a lesser extent than 2006 due to a different mix of currencies held and relatively less appreciation in certain of the primary foreign currencies in which we transacted.

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

In connection with various occupancy tax audits and assessments, certain jurisdictions require that tax payers 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. We have been assessed approximately $8.2 million in taxes, plus $9.5 million in penalties and interest by the city of Anaheim, which has a pay to play tax ordinance. To preserve our right to contest this assessment, it is possible that we may be required to make a payment to Anaheim, as well as to other California jurisdictions that make similar assessments. We are challenging the city s purported right to require us to pay the tax assessment prior to commencing litigation. Other jurisdictions may also attempt to require that we pay any assessed taxes prior to being allowed to contest or litigate the applicability of similar tax ordinances. Payment of these amounts is not an admission that we believe we are subject to such taxes and we intend to continue defending our position vigorously.

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

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

***Contractual Obligations and Commercial Commitments***

The following table presents our material contractual obligations and commercial commitments as of December 31, 2008:

| | | By Period | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 Year | 1 to 3 Years | 3 to 5 Years | More than 5 Years |
| | | | (In thousands) | | |
| Long-term debt(1) | $ 1,545,359 | $ 71,839 | $ 142,560 | $ 142,560 | $ 1,188,400 |
| Credit facility(2) | 650,000 | | 650,000 | | |
| Operating leases(3) | 265,855 | 39,097 | 72,189 | 61,165 | 93,404 |
| Purchase obligations(4) | 32,293 | 22,101 | 10,192 | | |
| Guarantees(5) | 39,079 | 39,079 | | | |
| Letters of credit(5) | 58,226 | 57,045 | 1,181 | | |
| Total(6) | $ 2,590,812 | $ 229,161 | $ 876,122 | $ 203,725 | $ 1,281,804 |

(1) Our 8.5% Notes and 7.456% Notes include interest payments through maturity in 2016 and 2018, respectively, based on the stated fixed rates. In the above table, we have reflected the 7.456% Notes based on the maturity date in 2018; however such Notes are repayable in whole or in part on August 15, 2013 at the option of the holders.

(2) As we expect borrowings under our credit facility to vary, only repayment of principal outstanding at December 31, 2008 is included. Interest expense and fees related to our credit facility were $12 million in 2008.

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(3) The operating leases are for office space and related office equipment. We account for these leases on a monthly basis. Certain leases contain periodic rent escalation adjustments and renewal options. Operating lease obligations expire at various dates with the latest maturity in 2018.

(4) Our purchase obligations represent the minimum obligations we have under agreements with certain of our vendors and marketing partners. These minimum obligations are less than our projected use for those periods. Payments may be more than the minimum obligations based on actual use.

(5) Guarantees and LOCs are commitments that represent funding responsibilities that may require our performance in the event of third-party demands or contingent events. These commitments consist of stand-by LOCs and guarantees. We use our stand-by LOCs to secure payment for hotel room transactions to particular hotel properties. The outstanding balance of our stand-by LOCs directly reduces the amount available to us from our revolving credit facility. In addition, we provide a guarantee to the aviation authority of one country to protect against potential non-delivery of our packaged travel services sold within that country. This country holds all travel agents and tour companies to the same standard. The letter of credit amounts in the above table represent the amount of commitment expiration per period.

(6) Excludes $190 million of unrecognized tax benefits for which we cannot make a reasonably reliable estimate of the amount and period of payment.

Other than the items described above, we do not have any off-balance sheet arrangements as of December 31, 2008.

***Certain Relationships and Related Party Transactions***

For a discussion of certain relationships and related party transactions, see Note 15 Related Party Transactions in the notes to consolidated financial statements.

**Part II. Item 7A.** ***Quantitative and Qualitative Disclosures About Market Risk***

**Market Risk Management**

Market risk is the potential loss from adverse changes in interest rates, foreign exchange rates and market prices. Our exposure to market risk includes our long-term debt, our revolving credit facility, derivative instruments and cash and cash equivalents, accounts receivable, intercompany receivables, merchant accounts payable and deferred merchant bookings denominated in foreign currencies. We manage our exposure to these risks through established policies and procedures. Our objective is to mitigate potential income statement, cash flow and market exposures from changes in interest and foreign exchange rates.

***Interest Rate Risk***

In June 2008, we issued $400 million senior unsecured notes with a fixed rate of 8.5%. In August 2006, we issued $500 million senior unsecured notes with a fixed rate of 7.456%. As a result, if market interest rates decline, our required payments will exceed those based on market rates. The fair values of our 8.5% Notes and our 7.456% Notes were approximately $280 million and $365 million as of December 31, 2008 as calculated based on quoted market prices at year end. A 50 basis point increase or decrease in interest rates would decrease or increase the fair value of our 8.5% Notes by approximately $7 million and our 7.456% Notes by approximately $6 million.

In July 2005, we entered into a $1 billion revolving credit facility. The revolving credit facility bears interest based on market interest rates plus a spread, which is determined based on our financial leverage. The weighted average interest rate was 1.34% as of December 31, 2008. Because our interest rate is tied to a market rate, we will be susceptible to fluctuations in interest rates if, consistent with our practice to date, we do not hedge the interest rate exposure arising from any borrowings under our revolving credit facility. As of December 31, 2008 and 2007, our outstanding borrowing under the revolving credit facility were $650 million and $585 million. A hypothetical 10% increase in market rates would increase our interest expense by less than $1 million.

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We did not experience any significant impact from changes in interest rates for the years ended December 31, 2008, 2007 or 2006.

***Foreign Exchange Risk***

We conduct business in certain international markets, primarily in Australia, Canada, China and the European Union. Because we operate in international markets, we have exposure to different economic climates, political arenas, tax systems and regulations that could affect foreign exchange rates. Our primary exposure to foreign currency risk relates to transacting in foreign currency and recording the activity in U.S. dollars. Changes in exchange rates between the U.S. dollar and these other currencies will result in transaction gains or losses, which we recognize in our consolidated statements of operations.

To the extent practicable, we minimize our foreign currency exposures by maintaining natural hedges between our current assets and current liabilities in similarly denominated foreign currencies. Additionally, during the third and fourth quarter of 2008, we began using foreign currency forward contracts to economically hedge certain merchant revenue exposures and in lieu of holding certain foreign currency cash for the purpose of economically hedging our foreign currency-denominated merchant accounts payable and deferred merchant bookings balances. These instruments are typically short-term and are recorded at fair value with gains and losses recorded in Other, net. As of December 31, 2008, we had a net forward liability of $1 million recorded in accrued expenses and other current liabilities. We may enter into additional foreign exchange derivative contracts or other economic hedges in the future. 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. We make a number of estimates in conducting hedging activities including in some cases the level of future bookings, cancellations, refunds and payments in foreign currencies. In the event those estimates differ significantly from actual results, we could experience greater volatility as a result of our hedges.

Future net transaction gains and losses are inherently difficult to predict as they are reliant on how the multiple currencies in which we transact fluctuate in relation to the U.S. dollar, the relative composition and denomination of current assets and liabilities each period, and our effectiveness at forecasting and managing, through balance sheet netting or the use of derivative contracts, such exposures. As an example, if the foreign currencies in which we hold net asset balances were to all weaken 10% against the U.S. dollar and foreign currencies in which we hold net liability balances were to all strengthen 10% against the U.S. dollar, we would recognize foreign exchange losses of approximately $8 million based on our foreign currency forward positions and the net asset or liability balances of our foreign denominated cash and cash equivalents, accounts receivable, deferred merchant bookings and merchant accounts payable balances as of December 31, 2008. As the net composition of these balances fluctuate frequently, even daily, as do foreign exchange rates, the example loss could be compounded or reduced significantly within a given period.

During 2008, 2007 and 2006 we recorded net foreign exchange rate gains (losses) of $(47) million, $(22) million, and $10 million. As we increase our operations in international markets, our exposure to fluctuations in foreign currency exchange rates increases. The economic impact to us of foreign currency exchange rate movements is linked to variability in real growth, inflation, interest rates, governmental actions and other factors. These changes, if material, could cause us to adjust our financing and operating strategies.

**Part II. Item 8.** ***Consolidated Financial Statements and Supplementary Data***

The Consolidated Financial Statements and Schedule listed in the Index to Financial Statements, Schedules and Exhibits on page F-1 are filed as part of this report.

**Part II. Item 9.** ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

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**Part II. Item 9A.** ***Controls and Procedures***

***Changes in Internal Control over Financial Reporting.***

There were no changes to our internal control over financial reporting that occurred during the quarter ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

***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 the design and operation of our disclosure controls and procedures (as defined in Rule 13a-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.

***Management s Report on Internal Control over Financial Reporting.***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) of the Exchange Act. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with accounting principles generally accepted in the United States of America. Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria for effective control over financial reporting described in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has concluded that, as of December 31, 2008, the Company s internal control over financial reporting was effective. Management has reviewed its assessment with the Audit Committee. Ernst & Young, LLP, an independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of December 31, 2008, as stated in their report which is included below.

***Limitations on Controls.***

Management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all error and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

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***Report of Independent Registered Public Accounting Firm***

The Board of Directors and Stockholders
Expedia, Inc.

We have audited Expedia, Inc. s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Expedia, Inc. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed 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. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Expedia, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2008 consolidated financial statements of Expedia, Inc. and our report dated February 18, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Seattle, Washington
February 18, 2009

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**Part II. Item 9B.** ***Other Information***

None.

**Part III.**

We are incorporating by reference the information required by Part III of this report on Form 10-K from our proxy statement relating to our 2009 annual meeting of stockholders (the 2009 Proxy Statement ), which will be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2008.

**Part III. Item 10.** ***Directors, Executive Officers and Corporate Governance***

The information required by this item is included under the captions Election of Directors Nominees, Information Concerning Executive Officers and Section 16(a) Beneficial Ownership Reporting Compliance in the 2009 Proxy Statement and incorporated herein by reference.

**Part III. Item 11.** ***Executive Compensation***

The information required by this item is included under the captions Election of Directors Compensation of Non-Employee Directors, Election of Directors Compensation Committee Interlocks and Insider Participation, Compensation Discussion and Analysis, and Compensation Committee Report in the 2009 Proxy Statement and incorporated herein by reference.

**Part III. Item 12.** ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information required by this item is included under the captions Security Ownership of Certain Beneficial Owners and Management and Equity Compensation Plan Information in the 2009 Proxy Statement and incorporated herein by reference.

**Part III. Item 13.** ***Certain Relationships and Related Transactions, and Director Independence***

The information required by this item is included under the captions Certain Relationships and Related Person Transactions and Election of Directors Board Meetings and Committees in the 2009 Proxy Statement and incorporated herein by reference.

**Part III. Item 14.** ***Principal Accountant Fees and Services***

The information required by this item is included under the caption Audit Committee Report in the 2009 Proxy Statement and incorporated herein by reference.

**Part IV.**

Item 15. ***Exhibits, Consolidated Financial Statements and Financial Statement Schedules***

(a)(1) *Consolidated Financial Statements*

We have filed the consolidated financial statements listed in the Index to Consolidated Financial Statements, Schedules and Exhibits on page F-1 as a part of this report.

(a)(2) *Financial Statement Schedules*

All financial statement schedules have been omitted because they are not applicable, not material or the required information is shown in the consolidated financial statements or the notes thereto.

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(a)(3) *Exhibits*

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

| Exhibit No. | Exhibit Description | Filed Herewith | Incorporated by Reference | | | |
|---|---|---|---|---|---|---|
| | | | Form | SEC File No. | Exhibit | Filing Date |
| 2.1 | Separation Agreement by and between Expedia, Inc. and IAC/InterActiveCorp, dated as of August 9, 2005 | | 10-Q | 000-51447 | 2.1 | 11/14/2005 |
| 3.1 | Amended and Restated Certificate of Incorporation of Expedia, Inc. | | 8-K | 000-51447 | 3.1 | 08/15/2005 |
| 3.2 | Certificate of Designations of Expedia, Inc. Series A Cumulative Convertible Preferred Stock | | 8-K | 000-51447 | 3.2 | 08/15/2005 |
| 3.3 | Amended and Restated Bylaws of Expedia, Inc. | | 8-K | 000-51447 | 3.3 | 08/15/2005 |
| 4.1 | Equity Warrant Agreement for Warrants to Purchase up to 14,590,514 Shares of Common Stock expiring February 4, 2009, between Expedia, Inc. and The Bank of New York, as Equity Warrant Agent, dated as of August 9, 2005 | | 8-A/A | 000-51447 | 4.2 | 08/22/2005 |
| 4.2 | Stockholder Equity Warrant Agreement for Warrants to Purchase up to 11,450,182 Shares of Common Stock, between Expedia, Inc. and Mellon Investor Services LLC, as Equity Warrant Agent, dated as of August 9, 2005 | | 8-A/A | 000-51447 | 4.3 | 08/22/2005 |
| 4.3 | Optionholder Equity Warrant Agreement for Warrants to Purchase up to 1,558,651 Shares of Common Stock, between Expedia, Inc. and Mellon Investor Services LLC, as Equity Warrant Agent, dated as of August 9, 2005 | | 8-A/A | 000-51447 | 4.4 | 08/22/2005 |
| 4.4 | Indenture, dated as of August 21, 2006, among Expedia, Inc., as Issuer, the Subsidiary Guarantors from time to time parties thereto, and The Bank of New York Trust Company, N.A., as Trustee, relating to Expedia, Inc. s 7.456% Senior Notes due 2018 | | 10-Q | 000-51447 | 4.1 | 11/14/2006 |
| 4.5 | First Supplemental Indenture, dated as of January 19, 2007, among | | S-4 | 333-140195 | 4.2 | 01/25/2007 |

| | | | | | |
|---|---|---|---|---|---|
| | Expedia, Inc., the Subsidiary Guarantors party thereto and The Bank of New York Trust Company, N.A., as Trustee | | | | |
| 10.1 | Governance Agreement, by and among Expedia, Inc., Liberty Media Corporation and Barry Diller, dated as of August 9, 2005 | 10-Q | 000-51447 | 10.6 | 11/14/2005 |
| 10.2 | First Amendment to Governance Agreement, dated as of June 19, 2007, among Expedia, Inc., Liberty Media Corporation and Barry Diller | 8-K | 000-51447 | 10.1 | 06/19/2007 |
| 10.3 | Stockholders Agreement, by and between Liberty Media Corporation and Barry Diller, dated as of August 9, 2005 | 10-Q | 000-51447 | 10.7 | 11/14/2005 |

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| Exhibit No. | Exhibit Description | Filed Herewith | Incorporated by Reference | | | |
|---|---|---|---|---|---|---|
| | | | Form | SEC File No. | Exhibit | Filing Date |
| 10.4 | Tax Sharing Agreement by and between Expedia, Inc. and IAC/InterActiveCorp, dated as of August 9, 2005 | | 10-Q | 000-51447 | 10.10 | 11/14/2005 |
| 10.5 | Employee Matters Agreement by and between Expedia, Inc. and IAC/InterActiveCorp, dated as of August 9, 2005 | | 10-Q | 000-51447 | 10.11 | 11/14/2005 |
| 10.6 | Transition Services Agreement by and between Expedia, Inc. and IAC/InterActiveCorp, dated as of August 9, 2005 | | 10-Q | 000-51447 | 10.12 | 11/14/2005 |
| 10.7 | Credit Agreement dated as of July 8, 2005, among Expedia, Inc., a Delaware corporation, Expedia, Inc., a Washington corporation, Travelscape, Inc., a Nevada corporation, hotels.com, a Delaware corporation and Hotwire, Inc., a Delaware corporation, as Borrowers; the Lenders party thereto; Bank of America, N.A., as Syndication Agent; Wachovia Bank, N.A. and The Royal Bank of Scotland PLC, as Co-Documentation Agents; JPMorgan Chase Bank, N.A., as Administrative Agent; and J.P. Morgan Europe Limited, as London Agent ( Credit Agreement ) | | 8-K | 333-124303-01 | 10.1 | 07/14/2005 |
| 10.8 | First Amendment to Credit Agreement, dated as of December 7, 2006 | | SC TO | 005-80935 | (b)(2) | 12/11/2006 |
| 10.9 | Second Amendment to Credit Agreement, dated as of December 18, 2006 | | SC TO/A | 005-80935 | (b)(3) | 12/22/2006 |
| 10.10 | Third Amendment to Credit Agreement, dated as of August 7, 2007 | | 8-K | 000-51447 | 10.1 | 08/08/2007 |
| 10.11 | Office Building Lease by and between Tower 333 LLC, a Delaware limited liability company, and Expedia, Inc., a Washington corporation, dated June 25, 2007 | | 10-Q | 000-51447 | 10.1 | 08/03/2007 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 10.12* | Amended and Restated Expedia, Inc. 2005 Stock and Annual Incentive Plan, effective as of January 1, 2009 | X | | | | |
| 10.13* | Amended and Restated Expedia, Inc. Non-Employee Director Deferred Compensation Plan, effective as of January 1, 2009 | X | | | | |
| 10.14* | Form of Restricted Stock Unit Agreement (domestic employees) | | 10-Q | 000-51447 | 10.24 | 11/14/2006 |
| 10.15* | Form of Restricted Stock Unit Agreement (directors) | | 10-Q | 000-51447 | 10.9 | 11/14/2005 |
| 10.16* | Summary of Expedia, Inc. Non-Employee Director Compensation Arrangements | | 10-Q | 000-51447 | 10.1 | 05/09/2007 |
| 10.17* | Amended and Restated Expedia, Inc. Executive Deferred Compensation Plan, effective as of January 1, 2009 | X | | | | |

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| Exhibit No. | Exhibit Description | Filed Herewith | Incorporated by Reference | | | |
|---|---|---|---|---|---|---|
| | | | Form | SEC File No. | Exhibit | Filing Date |
| 10.18* | Expedia Restricted Stock Unit Agreement between Dara Khosrowshahi and Expedia, Inc., dated March 7, 2006 | | 10-K | 000-51447 | 10.16 | 03/31/2006 |
| 10.19* | Amendment Agreement between Dara Khosrowshahi and Expedia, Inc., dated December 31, 2008 | X | | | | |
| 10.20* | Employment Agreement between Michael B. Adler and Expedia, Inc., effective as of May 16, 2006 | | 10-Q | 000-51447 | 10.19 | 11/14/2006 |
| 10.21* | Expedia, Inc. Restricted Stock Unit Agreement between Expedia, Inc. and Michael B. Adler, effective as of May 16, 2006 | | 10-Q | 000-51447 | 10.20 | 11/14/2006 |
| 10.22* | Amendment to Employment Agreement and Restricted Stock Unit Agreements between Expedia, Inc. and Michael B. Adler, dated December 31, 2008 | X | | | | |
| 10.23* | Employment Agreement by and between Burke Norton and Expedia, Inc., effective October 25, 2006 | | 10-Q | 000-51447 | 10.21 | 11/14/2006 |
| 10.24* | Expedia, Inc. Restricted Stock Unit Agreement (First Agreement) between Expedia, Inc. and Burke Norton, dated as of October 25, 2006 | | 10-Q | 000-51447 | 10.22 | 11/14/2006 |
| 10.25* | Expedia, Inc. Restricted Stock Unit Agreement (Second Agreement) between Expedia, Inc. and Burke Norton, dated as of October 25, 2006 | | 10-Q | 000-51447 | 10.23 | 11/14/2006 |
| 10.26* | Amendment to Employment Agreement and Restricted Stock Unit Agreements between Expedia, Inc. and Burke Norton, dated December 31, 2008 | X | | | | |
| 10.27* | Separation Agreement between Paul Onnen and Expedia, Inc., dated August 30, 2007 | | 10-Q | 000-51447 | 10.1 | 11/08/2007 |
| 10.28* | Stock Option Agreement between IAC/InterActiveCorp and Barry Diller, dated as of June 7, 2005 | | 10-Q** | 000-20570 | 10.8 | 11/09/2005 |
| 10.29* | | | S-4/A** | 333-124303 | Annex J | 06/17/2005 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | IAC/InterActiveCorp 2005 Stock and Annual Incentive Plan | | | | | |
| 10.30* | Employment Agreement by and between Pierre Samec and Expedia, Inc., effective August 7, 2007 | | 10-K | 000-51447 | 10.29 | 02/22/2008 |
| 10.31* | First Amendment to Employment Agreement between Pierre V. Samec and Expedia, Inc., dated October 27, 2008 | X | | | | |
| 21 | Subsidiaries of the Registrant | X | | | | |
| 23.1 | Consent of Independent Registered Public Accounting Firm | X | | | | |
| 31.1 | Certifications of the Chairman and Senior Executive Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | X | | | | |

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| Exhibit No. | Exhibit Description | Filed Herewith | Incorporated by Reference | | | |
|---|---|---|---|---|---|---|
| | | | Form | SEC File No. | Exhibit | Filing Date |
| 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 | | | | |

* Indicates a management contract or compensatory plan or arrangement.

** Indicates reference to filing of IAC/InterActiveCorp

*Certain instruments defining the rights of certain holders of long-term debt securities of Expedia, Inc. are omitted pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K. Expedia, Inc. hereby agrees to furnish copies of these instruments to the Securities Exchange Commission upon request.*

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## Signatures

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

Expedia, Inc.

By: /s/ DARA KHOSROWSHAHI

Dara Khosrowshahi
Chief Executive Officer

February 19, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on February 19, 2009.

| Signature | Title |
|---|---|
| /s/ DARA KHOSROWSHAHI<br>Dara Khosrowshahi | Chief Executive Officer, President and Director<br>(Principal Executive Officer) |
| /s/ MICHAEL B. ADLER<br>Michael B. Adler | Chief Financial Officer<br>(Principal Financial Officer) |
| /s/ PATRICIA L. ZUCCOTTI<br>Patricia L. Zuccotti | Chief Accounting Officer and Controller<br>(Principal Accounting Officer) |
| /s/ BARRY DILLER<br>Barry Diller | Director (Chairman of the Board) |
| /s/ VICTOR A. KAUFMAN<br>Victor A. Kaufman | Director (Vice Chairman) |
| /s/ A. GEORGE BATTLE<br>A. George Battle | Director |
| /s/ SIMON J. BREAKWELL<br>Simon J. Breakwell | Director |

| | |
|---|---|
| /s/ JONATHAN L. DOLGEN | Director |
| Jonathan L. Dolgen | |
| /s/ WILLIAM R. FITZGERALD | Director |
| William R. Fitzgerald | |
| /s/ CRAIG A. JACOBSON | Director |
| Craig A. Jacobson | |

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| Signature | Title |
|---|---|
| /s/ PETER M. KERN | Director |
| Peter M. Kern | |
| /s/ JOHN C. MALONE | Director |
| John C. Malone | |

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## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS, SCHEDULES AND EXHIBITS

**Consolidated Financial Statements**


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**Exhibits**


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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders
Expedia, Inc.

We have audited the accompanying consolidated balance sheets of Expedia, Inc. as of December 31, 2008 and 2007, and the related consolidated statements of operations, consolidated statements of changes in stockholders equity and comprehensive income (loss), and consolidated statements of cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Expedia, Inc. at December 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board ( FASB ) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*, effective January 1, 2007.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Expedia, Inc. s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 18, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Seattle, Washington
February 18, 2009

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**Consolidated Financial Statements**

**EXPEDIA, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| | (In thousands, except per share data) | | |
| Revenue | $ 2,937,013 | $ 2,665,332 | $ 2,237,586 |
| Cost of revenue(1) | 634,744 | 562,401 | 502,638 |
| Gross profit | 2,302,269 | 2,102,931 | 1,734,948 |
| Operating expenses: | | | |
| Selling and marketing(1) | 1,101,403 | 992,560 | 786,195 |
| General and administrative(1) | 355,431 | 321,250 | 289,649 |
| Technology and content(1) | 208,952 | 182,483 | 140,371 |
| Amortization of intangible assets | 69,436 | 77,569 | 110,766 |
| Impairment of goodwill | 2,762,100 | | |
| Impairment of intangible and other long-lived assets | 233,900 | | 47,000 |
| Amortization of non-cash distribution and marketing | | | 9,638 |
| Operating income (loss) | (2,428,953) | 529,069 | 351,329 |
| Other income (expense): | | | |
| Interest income | 30,411 | 39,418 | 32,065 |
| Interest expense | (71,984) | (52,896) | (17,266) |
| Other, net | (44,178) | (18,607) | 18,770 |
| Total other income (expense), net | (85,751) | (32,085) | 33,569 |
| Income (loss) before income taxes and minority interest | (2,514,704) | 496,984 | 384,898 |
| Provision for income taxes | (5,966) | (203,114) | (139,451) |
| Minority interest in (income) loss of consolidated subsidiaries, net | 2,907 | 1,994 | (513) |
| **Net income (loss)** | $ (2,517,763) | $ 295,864 | $ 244,934 |
| **Net income (loss) per share available to common stockholders:** | | | |
| Basic | $ (8.80) | $ 1.00 | $ 0.72 |
| Diluted | (8.63) | 0.94 | 0.70 |
| **Shares used in computing income (loss) per share:** | | | |
| Basic | 286,167 | 296,640 | 338,047 |
| Diluted | 291,830 | 314,233 | 352,181 |
| (1) Includes stock-based compensation as follows: | | | |
| Cost of revenue | $ 2,253 | $ 2,893 | $ 8,399 |
| Selling and marketing | 10,324 | 12,472 | 15,893 |
| General and administrative | 34,335 | 31,851 | 36,877 |

| | | | |
|---|---|---|---|
| Technology and content | 14,379 | 15,633 | 19,116 |
| Total stock-based compensation | $ 61,291 | $ 62,849 | $ 80,285 |

See notes to consolidated financial statements.

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**EXPEDIA, INC.**

**CONSOLIDATED BALANCE SHEETS**

| | December 31, 2008 | 2007 |
|---|---|---|
| | (In thousands, except per share data) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 665,412 | $ 617,386 |
| Restricted cash and cash equivalents | 3,356 | 16,655 |
| Short-term investments | 92,762 | |
| Accounts receivable, net of allowance of $12,584 and $6,081 | 267,270 | 268,008 |
| Prepaid merchant bookings | 66,081 | 66,778 |
| Prepaid expenses and other current assets | 103,833 | 76,828 |
| Total current assets | 1,198,714 | 1,045,655 |
| Property and equipment, net | 247,954 | 179,490 |
| Long-term investments and other assets | 75,593 | 93,182 |
| Intangible assets, net | 833,419 | 970,757 |
| Goodwill | 3,538,569 | 6,006,338 |
| **TOTAL ASSETS** | $ 5,894,249 | $ 8,295,422 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Accounts payable, merchant | $ 625,059 | $ 704,044 |
| Accounts payable, other | 150,534 | 148,233 |
| Deferred merchant bookings | 523,563 | 609,117 |
| Deferred revenue | 15,774 | 11,957 |
| Accrued expenses and other current liabilities | 251,238 | 301,001 |
| Total current liabilities | 1,566,168 | 1,774,352 |
| Long-term debt | 894,548 | 500,000 |
| Credit facility | 650,000 | 585,000 |
| Deferred income taxes, net | 189,541 | 351,168 |
| Other long-term liabilities | 212,661 | 204,886 |
| Minority interest | 52,937 | 61,935 |
| Commitments and contingencies | | |
| Stockholders equity: | | |
| Preferred stock $.001 par value | | |
| Authorized shares: 100,000 | | |
| Series A shares issued and outstanding: 1 and 1 | | |
| Common stock $.001 par value | 340 | 337 |
| Authorized shares: 1,600,000 | | |

| | | |
|---|---|---|
| Shares issued: 339,525 and 337,057<br>Shares outstanding: 261,374 and 259,489<br>Class B common stock $.001 par value<br>Authorized shares: 400,000<br>Shares issued and outstanding: 25,600 and 25,600 | 26 | 26 |
| Additional paid-in capital | 5,979,484 | 5,902,582 |
| Treasury stock Common stock, at cost<br>Shares: 78,151 and 77,568 | (1,731,235) | (1,718,833) |
| Retained earnings (deficit) | (1,915,559) | 602,204 |
| Accumulated other comprehensive income (loss) | (4,662) | 31,765 |
| Total stockholders equity | 2,328,394 | 4,818,081 |
| **TOTAL LIABILITIES AND STOCKHOLDERS EQUITY** | $ 5,894,249 | $ 8,295,422 |

See notes to consolidated financial statements.

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**EXPEDIA, INC.**

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME (LOSS)**

| Common Stock | | Class B Common Stock | | Additional Paid-in | Treasury Stock | | Retained Earnings | Accumulat Other Comprehen Income |
|---|---|---|---|---|---|---|---|---|
| Shares | Amount | Shares | Amount | Capital | Shares | Amount | (Deficit) | (Loss) |
| | | | | (In thousands, except share data) | | | | |
| 323,184,577 | $ 323 | 25,599,998 | $ 26 | $ 5,695,498 | 1,205,091 | $ (25,464) | $ 64,978 | $ (1,59 |
| | | | | | | | 244,934 | |
| | | | | | | | | (1,11 |
| | | | | | | | | 14,69 |
| | | | | 80,832 | | | | |
| 4,881,699 | 5 | | | 34,283 | | | | |
| | | | | 19,139 | | | | |
| | | | | (10,296) | | | | |
| | | | | 2,524 | | | | |
| | | | | | 960,137 | (7,292) | | |
| | | | | | 20,000,000 | (288,399) | | |
| | | | | 2,930 | | | | |
| | | | | 78,290 | | | | |
| 328,066,276 | 328 | 25,599,998 | 26 | 5,903,200 | 22,165,228 | (321,155) | 309,912 | 11,97 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | 295,864 | |
| ve | | | | | | | | | |
| | | | | | | | | | 3,01 |
| n | | | | | | | | | |
| | | | | | | | | | 16,76 |
| e | | | | | | | | | |
| f | | | | | | | | | |
| | | | | | | | | (3,572) | |
| ative | | | | | | | | | |
| | | | | | 6,579 | | | | |
| cise | | | | | | | | | |
| ts | 8,990,484 | 9 | | | 54,843 | | | | |
| or | | | | | | | | | |
| es | | | | | (121,208) | | | | |
| | | | | | (459) | | | | |
| ity | | | | | | | | | |
| | | | | | | 402,427 | (9,389) | | |
| | | | | | | 55,000,003 | (1,388,289) | | |
| nse | | | | | 60,333 | | | | |
| | | | | | (706) | | | | |
| | 337,056,760 | 337 | 25,599,998 | 26 | 5,902,582 | 77,567,658 | (1,718,833) | 602,204 | 31,76 |
| s: | | | | | | | | | |
| | | | | | | | | (2,517,763) | |
| ve | | | | | | | | | |
| | | | | | | | | | (33 |
| n | | | | | | | | | |
| | | | | | | | | | (36,08 |
| e | | | | | | | | | |
| ative | | | | | | | | | |
| | | | | | 10,500 | | | | |
| ss | | | | | 1,624 | | | | |
| cise | | | | | | | | | |
| ts | 2,468,708 | 3 | | | 6,330 | | | | |
| | | | | | (1,646) | | | | |
| ity | | | | | | | | | |
| | | | | | | 583,515 | (12,402) | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| nse | | | | 60,094 | | | |
| 339,525,468 | $ 340 | 25,599,998 | $ 26 | $ 5,979,484 | 78,151,173 | $ (1,731,235) | $ (1,915,559) | $ (4,66 |

We had 751 shares of preferred stock outstanding as of December 31, 2008 and 2007.

See notes to consolidated financial statements.

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**EXPEDIA, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| | (In thousands) | | |
| **Operating activities:** | | | |
| Net income (loss) | $ (2,517,763) | $ 295,864 | $ 244,934 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Depreciation of property and equipment, including internal-use software and website development | 76,800 | 59,526 | 48,779 |
| Amortization of intangible assets, non-cash distribution and marketing and stock-based compensation | 130,727 | 140,418 | 200,689 |
| Deferred income taxes | (209,042) | (1,583) | (10,652) |
| (Gain) loss on derivative instruments assumed at Spin-Off | (4,600) | 5,748 | (8,137) |
| Equity in (income) loss of unconsolidated affiliates | 979 | 2,614 | (2,541) |
| Minority interest in income (loss) of consolidated subsidiaries, net | (2,907) | (1,994) | 513 |
| Impairment of goodwill | 2,762,100 | | |
| Impairment of intangible and other long-lived assets | 233,900 | | 47,000 |
| Foreign exchange (gain) loss on cash and cash equivalents, net | 77,958 | (12,524) | (37,182) |
| Realized loss on foreign currency forwards | 55,175 | | |
| Other | 2,967 | 3,801 | 1,100 |
| Changes in operating assets and liabilities, net of effects from acquisitions: | | | |
| Accounts receivable | 32,208 | (44,363) | (32,148) |
| Prepaid merchant bookings and prepaid expenses | (15,072) | (32,378) | (20,694) |
| Accounts payable, merchant | (75,443) | 101,068 | 63,246 |
| Accounts payable, other, accrued expenses and other current liabilities | 54,400 | 51,702 | 59,858 |
| Deferred merchant bookings | (85,443) | 142,608 | 59,450 |
| Deferred revenue | 3,744 | 1,562 | 3,225 |
| **Net cash provided by operating activities** | 520,688 | 712,069 | 617,440 |
| **Investing activities:** | | | |
| Capital expenditures, including internal-use software and website development | (159,827) | (86,658) | (92,631) |
| Acquisitions, net of cash acquired | (538,439) | (59,622) | (32,518) |
| Reclassification of Reserve Primary Fund holdings | (80,360) | | |
| Distribution from Reserve Primary Fund | 64,387 | | |
| Net settlement of foreign currency forwards | (55,175) | | |
| Purchase of short-term investments | (92,923) | | |
| Changes in long-term investments and deposits | 1,155 | (33,226) | (1,514) |
| Proceeds from sale of business to a related party | 1,624 | | 13,163 |

| | | | |
|---|---|---|---|
| **Net cash used in investing activities** | (859,558) | (179,506) | (113,500) |
| **Financing activities:** | | | |
| Credit facility borrowings | 740,000 | 755,000 | |
| Credit facility repayments | (675,000) | (170,000) | (230,000) |
| Proceeds from issuance of long-term debt, net of issuance costs | 392,348 | | 495,346 |
| Changes in restricted cash and cash equivalents | 11,753 | (6,494) | 4,578 |
| Proceeds from exercise of equity awards | 6,353 | 55,038 | 35,258 |
| Excess tax benefit on equity awards | 3,191 | 95,702 | 1,317 |
| Withholding taxes for stock option exercises | | (121,208) | |
| Treasury stock activity | (12,865) | (1,397,173) | (295,691) |
| Other, net | (979) | (844) | (1,036) |
| **Net cash provided by (used in) financing activities** | 464,801 | (789,979) | 9,772 |
| Effect of exchange rate changes on cash and cash equivalents | (77,905) | 21,528 | 42,146 |
| **Net increase (decrease) in cash and cash equivalents** | 48,026 | (235,888) | 555,858 |
| Cash and cash equivalents at beginning of year | 617,386 | 853,274 | 297,416 |
| **Cash and cash equivalents at end of year** | $ 665,412 | $ 617,386 | $ 853,274 |
| **Supplemental cash flow information** | | | |
| Cash paid for interest | $ 53,459 | $ 49,266 | $ 4,287 |
| Income tax payments, net | 179,273 | 78,345 | 126,126 |

See notes to consolidated financial statements.

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**Expedia, Inc.**

**Notes to Consolidated Financial Statements**

## NOTE 1 Organization and Basis of Presentation

### *Description of Business*

Expedia, Inc. and its subsidiaries provide travel products and services to leisure and corporate travelers in the United States and abroad. These travel products and services are offered through a diversified portfolio of brands including: Expedia.com®, hotels.com®, Hotwire.com™, the TripAdvisor® Media Network, our private label programs (Worldwide Travel Exchange and Interactive Affiliate Network), Classic Vacations, Expedia Local Expert, Egencia™ (formerly Expedia® Corporate Travel), eLong™, Inc. ( eLong ) and Venere Net SpA ( Venere ). In addition, many of these brands have related international points of sale. We refer to Expedia, Inc. and its subsidiaries collectively as Expedia, the Company, us, we and our in these consolidated financial statements.

### *Spin-Off from IAC/InterActiveCorp*

On December 21, 2004, IAC/InterActiveCorp ( IAC ) announced its plan to separate into two independent public companies. We refer to this transaction as the Spin-Off. A new company, Expedia, Inc., was incorporated under Delaware law in April 2005, to hold substantially all of IAC s travel and travel-related businesses. On August 9, 2005, the Spin-Off from IAC was completed and Expedia, Inc. shares began trading on The Nasdaq Global Select Market ( NASDAQ ) under the symbol EXPE.

### *Basis of Presentation*

The accompanying 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 record our investments in entities that we do not control, but over which we have the ability to exercise significant influence, using the equity method. We record our investments in entities over which we do not have the ability to exercise significant influence using the cost method. We have eliminated significant intercompany transactions and accounts.

We believe that the assumptions underlying our consolidated financial statements are reasonable. However, these consolidated financial statements do not present our future financial position, the results of our future operations and cash flows.

### *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 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. As a result, revenue is typically the lowest in the first quarter and highest in the third quarter. The macroeconomic downturn in the latter part of 2008 also affected our general revenue seasonality trends in the fourth quarter of 2008.

**NOTE 2 Significant Accounting Policies**

***Consolidation***

Our consolidated financial statements include the accounts of Expedia, Inc., our wholly-owned subsidiaries, and entities for which we control a majority of the entity s outstanding common stock. We record minority interest in our consolidated financial statements to recognize the minority ownership interest in our consolidated subsidiaries. Minority interests in the earnings and losses of consolidated subsidiaries represent

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**Expedia, Inc.**

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

the share of net income or loss allocated to members or partners in our consolidated entities, which primarily includes the minority interest share of net income or loss from eLong.

In addition, eLong, Inc. has variable interests in certain affiliated entities in China in order to comply with Chinese laws and regulations, which restricts foreign investment in the air-ticketing, travel agency and internet content provision businesses. Through a series of contractual agreements, eLong, Inc. is the primary beneficiary of the cash losses or profits of such variable interest entities. As such, although we do not own capital stock of the Chinese affiliates, based on our majority ownership of eLong, Inc., we consolidate their results.

We have eliminated significant intercompany transactions and accounts in our consolidated financial statements.

***Accounting Estimates***

We use estimates and assumptions in the preparation of our consolidated financial statements in accordance with accounting principles generally accepted in the United States ( 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 consolidated financial statements. These estimates and assumptions also affect the reported amount of net income or loss during any period. Our actual financial results could differ significantly from these estimates. The significant estimates underlying our 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; stock-based compensation and accounting for derivative instruments.

***Reclassifications***

We have reclassified prior period financial statements to conform to the current period presentation.

***Revenue Recognition***

We recognize revenue when it is earned and realizable based on the following criteria: persuasive evidence that an arrangement exists, services have been rendered, the price is fixed or determinable and collectibility is reasonably assured.

We also evaluate the presentation of revenue on a gross versus a net basis through application of Emerging Issues Task Force No. ( EITF ) 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*. The consensus of this literature is that the presentation of revenue as the gross amount billed to a customer because it has earned revenue from the sale of goods or services or the net amount retained (that is, the amount billed to a customer less the amount paid to a supplier) because it has earned a commission or fee is a matter of judgment that depends on the relevant facts and circumstances. In making an evaluation of this issue, some of the factors that should be considered are: whether we are the primary obligor in the arrangement (strong indicator); whether we have general supply risk (before customer order is placed or upon customer return) (strong indicator); and whether we have latitude in establishing price. The guidance clearly indicates that the evaluations of these factors, which at times can be contradictory, are subject to significant judgment and subjectivity. If the conclusion drawn is that we perform as an agent or a broker without assuming the risks and rewards of ownership of goods, revenue should be reported on a net basis. For our primary revenue models, discussed below, we have determined net presentation is appropriate for the majority of

revenue transactions.

We offer travel products and services on a stand-alone and package basis primarily through two business models: the merchant model and the agency model.

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**Expedia, Inc.**

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

Under the merchant model, we facilitate the booking of hotel rooms, airline seats, car rentals and destination services from our travel suppliers and we are the merchant of record for such bookings.

Under the agency model, we act as the agent in the transaction, passing reservations booked by the traveler to the relevant travel provider. We receive commissions or ticketing fees from the travel supplier and/or traveler. For agency airline, hotel and car transactions, we also receive fees from global distribution systems partners that control the computer systems through which these reservations are booked.

*Merchant Hotel.* Our travelers pay us for merchant hotel transactions prior to departing on their trip, generally when they book the reservation. We record the payment in deferred merchant bookings until the stay occurs, at which point we record the revenue. In certain nonrefundable, nonchangeable transactions where we have no significant post-delivery obligations, we record revenue when the traveler completes the transaction on our website, less a reserve for chargebacks and cancellations based on historical experience. Amounts received from customers are presented net of amounts paid to suppliers. In certain instances when a supplier invoices us for less than the cost we accrued, we generally recognize those amounts as revenue six months in arrears, net of an allowance, when we determine it is not probable that we will be required to pay the supplier, based on historical experience and contract terms.

We generally contract in advance with lodging providers to obtain access to room allotments at wholesale rates. Certain contracts specifically identify the number of potential rooms and the negotiated rate of the rooms to which we may have access over the terms of the contracts, which generally range from one to three years. Other contracts are not specific with respect to the number of rooms and the rates of the rooms to which we may have access over the terms of the contracts. In either case we may return unbooked hotel room allotments with no obligation to the lodging providers within a period specified in each contract. For hotel rooms that are cancelled by the traveler after the specified period of time, we charge the traveler a cancellation fee or penalty that is at least equal to the amount a hotel may invoice us for the cancellation.

*Merchant Air.* Generally, we determine the ticket price for merchant air transactions. We pay the cost of the airline ticket generally within two weeks after booking. We record cash paid by the traveler as deferred merchant bookings and the cost of the airline ticket as prepaid merchant bookings. When the flight occurs, we record the difference between the deferred merchant bookings and the prepaid merchant bookings as revenue on a net basis.

When we have nonrefundable and generally noncancelable merchant air transactions, with no significant post-delivery obligations, we record revenue upon booking. We record a reserve for chargebacks and cancellations at the time of the transaction based on historical experience.

*Agency Air, Hotel, Car and Cruise.* Our agency revenue comes from airline ticket transactions, certain hotel transactions as well as cruise and car rental reservations. We record agency revenue on air transactions when the traveler books the transaction, as we have no significant post-delivery obligations. We generally record agency revenue on hotel reservations when the stay occurs or on receipt of commissions from individual suppliers. We record agency revenue on cruise and car rental reservations either on an accrual basis for payments from a commission clearinghouse, or on receipt of commissions from an individual supplier. We record an allowance for cancellations and chargebacks on this revenue based on historical experience.

*Click-Through Fees.* We record revenue from click-through fees charged to our travel partners for traveler leads sent to the travel partners websites. We record revenue from click-through fees after the traveler makes the click-through to the related travel partners websites.

*Advertising.* We record advertising revenue ratably over the advertising period or upon delivery of advertising impressions, depending on the terms of the advertising contract.

*Other.* We record revenue from all other sources either upon delivery or when we provide the service.

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**Expedia, Inc.**

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

***Cash and Cash Equivalents***

Our cash and cash equivalents include cash and liquid financial instruments with maturities of 90 days or less when purchased.

***Short-term Investments***

Our short-term investments consist of time deposits with financial institutions held by eLong with maturities greater than 90 days but less than one year.

***Accounts Receivable***

Accounts receivable are generally due within thirty days and are recorded net of an allowance for doubtful accounts. We consider accounts outstanding longer than the contractual payment terms as past due. We determine our allowance by considering a number of factors, including the length of time trade accounts receivable are past due, previous loss history, a specific customer s ability to pay its obligations to us, and the condition of the general economy and industry as a whole.

***Prepaid Expenses and Other Current Assets***

At December 31, 2008, prepaid expenses and other current assets included $16 million in redemptions of money market holdings due from the Reserve Primary Fund (the Fund ). The Fund is currently being liquidated due to the Reserve s September 16, 2008 announcement that the Fund had a net asset value less than $1.00 and ensuing significant redemption requests. As a result, during the third quarter of 2008, we reclassified $80 million in redemptions due from the Fund from cash and cash equivalents to prepaid expenses and other current assets, which was net of an approximate $1 million allowance for our estimated pro rata share of losses related to the Fund s write-down of debt security holdings of Lehman Brothers Holdings, Inc. We received $64 million in distributions from the Fund during the fourth quarter of 2008. The timing of receipt of the remaining proceeds cannot be determined at this time; however, the maturities of the underlying investments are within one year. In addition, under the Fund s plan of liquidation announced December 3, 2008, future distributions will continue to be made on a pro-rata basis up to the amount of a special reserve, which will be established to satisfy legal and accounting fees of the Fund. As the Fund has not yet quantified the amount of the special reserve, there is no way to determine our pro-rata share of such reserve and we may be required to record additional losses in future periods.

***Property and Equipment***

We record property and equipment at cost, net of accumulated depreciation and amortization. We also capitalize certain costs incurred related to the development of internal use software in accordance with Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, and EITF No. 00-02, *Accounting for Website Development Costs*. We capitalize costs incurred during the application development stage related to the development of internal use software. We expense costs incurred related to the planning and post-implementation phases of development as incurred.

We compute depreciation using the straight-line method over the estimated useful lives of the assets, which is three to five years for computer equipment, capitalized software development and furniture and other equipment. We amortize leasehold improvement using the straight-line method, over the shorter of the estimated useful life of the improvement or the remaining term of the lease.

In accordance with Statement of Financial Accounting Standards ( SFAS ) No. 143, *Accounting for Asset Retirement Obligations*, we establish assets and liabilities for the present value of estimated future costs to return certain of our leased facilities to their original condition. Such assets are depreciated over the lease

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**Expedia, Inc.**

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

period into operating expense, and the recorded liabilities are accreted to the future value of the estimated restoration costs.

***Recoverability of Goodwill and Indefinite-Lived Intangible Assets***

Goodwill is assigned to reporting units that are expected to benefit from the synergies of the business combination as of the acquisition date. We assess goodwill and indefinite-lived intangible assets, neither of which is amortized, for impairment annually as of October 1, or more frequently, if events and circumstances indicate impairment may have occurred. See Note 5 Goodwill and Intangible Assets, Net for discussion of impairment of goodwill and indefinite-lived assets in 2008 and 2006.

In the evaluation of goodwill for impairment, we first compare the fair value of the reporting unit to the carrying value. If the carrying value of a reporting unit exceeds its fair value, the goodwill of that reporting unit is potentially impaired and we proceed to step two of the impairment analysis. In step two of the analysis, we will record an impairment loss equal to the excess of the carrying value of the reporting unit s goodwill over its implied fair value should such a circumstance arise.

We generally base our measurement of fair value of reporting units on a blended analysis of the present value of future discounted cash flows and market valuation approach. The discounted cash flows model indicates the fair value of the reporting units based on the present value of the cash flows that we expect the reporting units to generate in the future. Our significant estimates in the discounted cash flows model include: our weighted average cost of capital; long-term rate of growth and profitability of our business; and working capital effects. The market valuation approach indicates the fair value of the business based on a comparison of the Company to comparable publicly traded firms in similar lines of business. Our significant estimates in the market approach model include identifying similar companies with comparable business factors such as size, growth, profitability, risk and return on investment and assessing comparable revenue and operating income multiples in estimating the fair value of the reporting units.

We believe the weighted use of discounted cash flows and market approach is the best method for determining the fair value of our reporting units because these are the most common valuation methodologies used within the travel and internet industries; and the blended use of both models compensates for the inherent risks associated with either model if used on a stand-alone basis.

In addition to measuring the fair value of our reporting units as described above, we consider the combined carrying and fair values of our reporting units in relation to the Company s total fair value of equity plus debt as of the assessment date. Our equity value assumes our fully diluted market capitalization, using either the stock price on the valuation date or the average stock price over a range of dates around the valuation date, plus an estimated acquisition premium which is based on observable transactions of comparable companies. The debt value is based on the highest value expected to be paid to repurchase the debt, which can be fair value, principal or principal plus a premium depending on the terms of each debt instrument.

In the evaluation of indefinite-lived intangible assets, an impairment charge is recorded for the excess of the carrying value of indefinite-lived intangible assets over their fair value. We base our measurement of fair value of indefinite-lived intangible assets, which primarily consist of trade name and trademarks, using the relief-from-royalty method. This method assumes that the trade name and trademarks have value to the extent that their owner is relieved

of the obligation to pay royalties for the benefits received from them.

***Recoverability of Intangible Assets with Definite Lives and Other Long-Lived Assets***

Intangible assets with definite lives and other long-lived assets are carried at cost and are amortized on a straight-line basis over their estimated useful lives of two to twelve years. We review the carrying value of long-lived assets or asset groups, including property and equipment, to be used in operations whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. Factors

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**Expedia, Inc.**

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

that would necessitate an impairment assessment include a significant adverse change in the extent or manner in which an asset is used, a significant adverse change in legal factors or the business climate that could affect the value of the asset, or a significant decline in the observable market value of an asset, among others. If such facts indicate a potential impairment, we would assess the recoverability of an asset group by determining if the carrying value of the asset group exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the assets over the remaining economic life of the primary asset in the asset group. If the recoverability test indicates that the carrying value of the asset group is not recoverable, we will estimate the fair value of the asset group using appropriate valuation methodologies which would typically include an estimate of discounted cash flows. Any impairment would be measured as the difference between the asset groups carrying amount and its estimated fair value. See Note 5 Goodwill and Intangible Assets, Net for discussion of impairment of other long-lived assets in 2008.

Assets held for sale, to the extent we have any, are reported at the lower of cost or fair value less costs to sell.

***Long-term Investments***

We record investments, which are non-marketable, using the cost basis when we do not have the ability to exercise significant influence over the investee and generally when our ownership in the investee is less than 20%. We record investments using the equity method when we have the ability to exercise significant influence over the investee.

We periodically evaluate the recoverability of investments and record a write-down to fair value if a decline in value is determined to be other-than-temporary.

***Income Taxes***

In accordance with SFAS No. 109, *Accounting for Income Taxes*, we record income taxes under the liability method. Deferred tax assets and liabilities reflect our estimation of the future tax consequences of temporary differences between the carrying amounts of assets and liabilities for book and tax purposes. We determine deferred income taxes based on the differences in accounting methods and timing between financial statement and income tax reporting. Accordingly, we determine the deferred tax asset or liability for each temporary difference based on the enacted tax rates expected to be in effect when we realize the underlying items of income and expense. We consider many factors when assessing the likelihood of future realization of our deferred tax assets, including our recent earnings experience by jurisdiction, expectations of future taxable income, and the carryforward periods available to us for tax reporting purposes, as well as other relevant factors. We may establish a valuation allowance to reduce deferred tax assets to the amount we believe is more likely than not to be realized. Due to inherent complexities arising from the nature of our businesses, future changes in income tax law, tax sharing agreements or variances between our actual and anticipated operating results, we make certain judgments and estimates. Therefore, actual income taxes could materially vary from these estimates.

On January 1, 2007, we adopted Financial Accounting Standards Board ( FASB ) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* ( FIN 48 ). FIN 48 gives guidance related to the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and requires that we recognize in our financial statements the impact of a tax position, if that position is more likely than not to be sustained upon an examination, based on the technical merits of the position.

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**Expedia, Inc.**

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

***Occupancy Tax***

Some states and localities impose a transient occupancy or accommodation tax, or a form of sales tax, on the use or occupancy of hotel accommodations. Generally, hotels charge taxes based on the room rate paid to the hotel and remit these taxes to the various tax authorities. When a customer books a room through one of our travel services, we collect a tax recovery charge from the customer which we pay to the hotel. We do not collect or remit occupancy taxes, nor do we pay occupancy taxes to the hotel operator on the portion of the customer payment we retain. Some jurisdictions have questioned our practice in this regard. While the applicable tax provisions vary among the jurisdictions, we generally believe that we are not required to collect and remit such occupancy taxes. We are engaged in discussions with tax authorities in various jurisdictions to resolve this issue. Some tax authorities have brought lawsuits or have levied assessments asserting that we are required to collect and remit occupancy tax. The ultimate resolution in all jurisdictions cannot be determined at this time. We have established a reserve for the potential settlement of issues related to hotel occupancy taxes.

***Presentation of Taxes in the Income Statement***

We present taxes that we collect from customers and remit to government authorities on a net basis in our consolidated statements of operations.

***Derivative Instruments***

Derivative instruments are carried at fair value on our consolidated balance sheets.

We had designated cross currency swap agreements as cash flow hedges of certain inter-company loan agreements denominated in currencies other than the lending subsidiaries functional currency (the hedged items ). The hedges were determined to be highly effective, at designation and up until settlement during the third quarter of 2008. As such, we recorded the total change in the fair value of the hedges in other comprehensive income ( OCI ) each period, and concurrently reclassify a portion of the gain or loss to Other, net to perfectly offset gains or losses related to transactional remeasurement of the hedged items.

We report the change in the fair value of derivative instruments, which primarily consist of foreign currency forward contracts as of December 31, 2008, that do not qualify for hedge accounting treatment in Other, net. We do not hold or issue financial instruments for speculative or trading purposes.

For additional information about derivative instruments, see Note 7 Derivative Instruments.

***Foreign Currency Translation and Transaction Gains and Losses***

Certain of our operations outside of the United States use the related local currency as their functional currency. We translate revenue and expense at average rates of exchange during the period. We translate assets and liabilities at the rates of exchange as of the consolidated balance sheet dates and include foreign currency translation gains and losses as a component of accumulated OCI. Due to the nature of our operations and our corporate structure, we also have subsidiaries that have significant transactions in foreign currencies other than their functional currency. We record transaction gains and losses in our consolidated statements of operations related to the recurring remeasurement and

settlement of such transactions.

To the extent practicable, we attempt to minimize this exposure by maintaining natural hedges between our current assets and current liabilities of similarly denominated foreign currencies. Additionally, during the third and fourth quarter of 2008, we began using foreign currency forward contracts to economically hedge certain merchant revenue exposures and in lieu of holding certain foreign currency cash for the purpose of economically hedging our foreign currency-denominated merchant accounts payable and deferred merchant bookings balances. These instruments are typically short-term and are recorded at fair value with gains and

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**Expedia, Inc.**

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

losses recorded in Other, net. Valuation of the foreign currency forward contracts is based on foreign currency exchange rates in active markets; thus, we measure the fair value of these contracts under a Level 2 input as defined by SFAS No. 157, *Fair Value Measurements*. As of December 31, 2008, we had a net forward liability of $1 million recorded in accrued expenses and other current liabilities.

***Debt Issuance Costs***

We defer costs we incur to issue debt and amortize these costs to interest expense over the term of the debt or, when the debt can be redeemed at the option of the holders, over the term of the redemption option.

***Marketing Promotions***

We periodically provide incentive offers to our customers to encourage booking of travel products and services. Generally, our incentive offers are as follows:

*Current Discount Offers.* These promotions include dollar off discounts to be applied against current purchases. We record the discounts as reduction in revenue at the date we record the corresponding revenue transaction.

*Inducement Offers.* These promotions include discounts granted at the time of a current purchase to be applied against a future qualifying purchase. We treat inducement offers as a reduction to revenue based on estimated future redemption rates. We allocate the discount amount between the current purchase and the potential future purchase based on our expected relative value of the transactions. We estimate our redemption rates using our historical experience for similar inducement offers.

*Concession Offers.* These promotions include discounts to be applied against a future purchase to maintain customer satisfaction. Upon issuance, we record these concession offers as a reduction to revenue based on estimated future redemption rates. We estimate our redemption rates using our historical experience for concession offers.

***Advertising Expense***

We incur advertising expense consisting of offline costs, including television and radio advertising, and online advertising expense to promote our brands. We expense the production costs associated with advertisements in the period in which the advertisement first takes place. We expense the costs of communicating the advertisement (e.g., television airtime) as incurred each time the advertisement is shown. For the years ended December 31, 2008, 2007 and 2006, our advertising expense was $598 million, $539 million and $427 million. As of December 31, 2008 and 2007, we had $10 million and $8 million of prepaid marketing expenses included in prepaid expenses and other current assets.

***Stock-Based Compensation***

We account for stock-based compensation in accordance with SFAS No. 123(R), *Share-Based Payment*, and related guidance. We measure and amortize the fair value of restricted stock units, stock options and warrants as follows:

*Restricted Stock Units.* Restricted stock units ( RSU ) are stock awards that are granted to employees entitling the holder to shares of common stock as the award vests, typically over a five-year period. We measure the value of RSUs at fair value based on the number of shares granted and the quoted price of our common stock at the date of grant. We amortize the fair value, net of estimated forfeitures, as stock-based compensation expense over the vesting term on a straight-line basis. We record RSUs that may be settled by the holder in cash, rather than shares, as a liability and we remeasure these instruments at fair value at the end of each reporting period. Upon settlement of these awards, our total compensation expense recorded over the

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**Expedia, Inc.**

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

vesting period of the awards will equal the settlement amount, which is based on our stock price on the settlement date.

Performance-based RSUs vest upon achievement of certain company-based performance conditions. On the date of grant, we determine the fair value of the performance-based award based on the fair value of our common stock at that time and we assess whether it is probable that the performance targets will be achieved. If assessed as probable, we record compensation expense for these awards over the estimated performance period using the accelerated method. At each reporting period, we reassess the probability of achieving the performance targets and the performance period required to meet those targets. The estimation of whether the performance targets will be achieved and of the performance period required to achieve the targets requires judgment, and to the extent actual results or updated estimates differ from our current estimates, the cumulative effect on current and prior periods of those changes will be recorded in the period estimates are revised, or the change in estimate will be applied prospectively depending on whether the change affects the estimate of total compensation cost to be recognized or merely affects the period over which compensation cost is to be recognized. The ultimate number of shares issued and the related compensation expense recognized will be based on a comparison of the final performance metrics to the specified targets.

*Stock Options and Warrants.* We measure the value of stock options and warrants issued or modified, including unvested options assumed in acquisitions, on the grant date (or modification or acquisition dates, if applicable) at fair value, using the Black-Scholes option valuation model. We amortize the fair value, net of estimated forfeitures, over the remaining vesting term on a straight-line basis.

Estimates of fair value are not intended to predict actual future events or the value ultimately realized by employees who receive these awards, and subsequent events are not indicative of the reasonableness of our original estimates of fair value. In determining the estimated forfeiture rates for stock-based awards, we periodically conduct an assessment of the actual number of equity awards that have been forfeited to date as well as those expected to be forfeited in the future. We consider many factors when estimating expected forfeitures, including the type of award, the employee class and historical experience. The estimate of stock awards that will ultimately be forfeited requires significant judgment and to the extent that actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period such estimates are revised.

***Earnings Per Share***

We compute basic earnings per share by taking net income (loss) available to common shareholders divided by the weighted average number of common and Class B common shares outstanding during the period excluding restricted stock and stock held in escrow. Diluted earnings per share include the potential dilution that could occur from stock-based awards and other stock-based commitments using the treasury stock or the as if converted methods, as applicable. For additional information on how we compute earnings per share, see Note 12 Earnings Per Share.

***Fair Value of Financial Instruments***

The carrying amounts of cash and cash equivalents, restricted cash and cash equivalents and short-term investments reported on our consolidated balance sheets approximate fair value as we maintain them with various high-quality financial institutions. The accounts receivable are short-term in nature and are generally settled shortly after the sale.

***Certain Risks and Concentrations***

Our business is subject to certain risks and concentrations including dependence on relationships with travel suppliers, primarily airlines and hotels, dependence on third-party technology providers, exposure to

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**Expedia, Inc.**

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

risks associated with online commerce security and credit card fraud. We also rely on global distribution system partners and third-party service providers for certain fulfillment services, including one third-party service provider for which we accounted for approximately 41% of its total revenue for the year ended December 31, 2007 and approximately 35% of its total revenue for the nine months ended September 30, 2008.

Financial instruments, which potentially subject us to concentration of credit risk, consist primarily of cash and cash equivalents. We maintain some cash and cash equivalents balances with financial institutions that are in excess of Federal Deposit Insurance Corporation insurance limits. Our cash and cash equivalents are primarily composed of U.S. government obligations and treasury funds as well as interest bearing bank account balances denominated in U.S. dollars, euros and British pound sterling.

***Contingent Liabilities***

We have a number of regulatory and legal matters outstanding, as discussed further in Note 14 Commitments and Contingencies. Periodically, we review the status of all significant outstanding matters to assess the potential financial exposure. When (i) it is probable that an asset has been impaired or a liability has been incurred and (ii) the amount of the loss can be reasonably estimated, we record the estimated loss in our consolidated statements of operations. We provide disclosure in the notes to the consolidated financial statements for loss contingencies that do not meet both these conditions if there is a reasonable possibility that a loss may have been incurred that would be material to the financial statements. Significant judgment is required to determine the probability that a liability has been incurred and whether such liability is reasonably estimable. We base accruals made on the best information available at the time which can be highly subjective. The final outcome of these matters could vary significantly from the amounts included in the accompanying consolidated financial statements.

***Recently Adopted Accounting Pronouncements***

On January 1, 2008, we adopted certain provisions of SFAS No. 157, *Fair Value Measurements* ( SFAS 157 ). SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS 157 applies when another standard requires or permits assets or liabilities to be measured at fair value. Accordingly, SFAS 157 does not require any new fair value measurements. We will adopt the provisions of SFAS 157 as it relates to nonfinancial assets and liabilities that are not recognized or disclosed at fair value on a recurring basis on January 1, 2009. The partial adoption of SFAS 157 did not materially impact, nor do we expect the full adoption to materially impact, our consolidated financial statements.

On January 1, 2008, we adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of SFAS Statement No. 115* ( SFAS 159 ). SFAS 159 permits an entity to choose to measure many financial instruments and certain other items at fair value at specified election dates as defined in the standard. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. As we did not elect fair value treatment for qualifying instruments that existed as of January 1, 2008, the adoption of this Statement did not have an impact on our consolidated financial statements. We may elect to measure qualifying instruments at fair value in the future.

***New Accounting Pronouncements***

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations* ( SFAS 141R ), which replaces SFAS 141. SFAS 141R applies to all transactions or other events in which an entity obtains control of one or more businesses and requires that all assets and liabilities of an acquired business as well as any noncontrolling interest in the acquiree be recorded at their fair values at the acquisition date. Contingent

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**Expedia, Inc.**

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

consideration arrangements will be recognized at their acquisition date fair values, with subsequent changes in fair value generally reflected in earnings. Pre-acquisition contingencies will also typically be recognized at their acquisition date fair values. In subsequent periods, contingent liabilities will be measured at the higher of their acquisition date fair values or the estimated amounts to be realized. The Statement is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We do not expect the adoption of SFAS 141R will have a material impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Accounting and Reporting on Non-controlling Interest in Consolidated Financial Statements, an Amendment of ARB 51* ( SFAS 160 ), which is effective for fiscal years beginning after December 15, 2008. SFAS 160 states that accounting and reporting for minority interests will be recharacterized as noncontrolling interests and classified as a component of equity. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. FAS 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. Beginning on January 1, 2009 upon adoption of SFAS 160, we will recharacterize our minority interest as a noncontrolling interest and classify it as a component of equity in our consolidated financial statements with the exception of shares redeemable at the option of the minority holders, which will remain an obligation outside of stockholders equity.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ( SFAS 161 ), which is effective for fiscal years and interim periods beginning after November 15, 2008. SFAS 161 requires enhanced disclosures about an entity s derivative and hedging activities, including how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. We do not expect the adoption of SFAS 161 will have a material impact on our consolidated financial statements.

**NOTE 3 Acquisitions and Other Investments**

In 2008, we acquired four online travel media content companies, one corporate travel company and two online travel product and service companies, which includes Venere, an online travel provider based in Italy that focuses on hotel reservations under an agency model. The purchase price of these companies as well as contingent purchase consideration under prior acquisitions and other acquisition-related costs totaled $475 million, of which $465 million was paid in cash and $10 million was accrued as of December 31, 2008. The following table summarizes the allocation of the purchase price for all acquisitions made in 2008, in thousands:

| | |
|---|---|
| Goodwill | $ 328,449 |
| Intangible assets with definite lives(1) | 112,968 |
| Intangible assets with indefinite lives | 47,641 |
| Net liabilities and minority interests acquired, which includes $21,480 of cash aquired | (14,486) |
| Total | $ 474,572 |

(1) Acquired intangible assets primarily consist of supplier relationship assets with a weighted average life of 10.6 years and technology assets with a weighted average life of 3 years. In total, the weighted average life of acquired intangible assets was 8.3 years.

The purchase price allocation of these acquisitions is preliminary and subject to revision, and any change to the fair value of net assets acquired will lead to a corresponding change to the purchase price allocable to goodwill. The results of operations of each of the acquired businesses have been included in our consolidated

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**Expedia, Inc.**

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

results from each transaction closing date forward; their effect on consolidated revenue and operating loss during 2008 was not significant.

In one of these 2008 transactions, we acquired a 74% controlling interest with certain rights whereby we may acquire, and the minority shareholders may sell to us, the additional shares of the company at fair value at various times through 2011. In another of these 2008 transactions, we acquired an 86% controlling interest with certain rights whereby we may acquire, and the minority shareholders may sell to us, the additional shares of the company at fair value, or at an adjusted fair value at our option, during a 30-day period beginning October 1, 2012. Future changes in fair value of the shares for which the minority holders may sell to us above the initial minority interest basis will be recorded to the minority interest and as charges or credits to retained earnings (deficit).

In 2007, we acquired three travel-related companies. The purchase price of these and other acquisition related costs totaled $152 million, $60 million of which we paid in cash and $92 million of which was accrued at December 31, 2007 as a result of the financial performance of one of the acquired companies during 2007. The accrued purchase consideration represented $92 million of $100 million total additional purchase price that could be achieved based on the annual results of 2007 or 2008, or the two periods combined. During 2008, we paid $93 million of the additional purchase price based on the annual results of 2007. In addition, we accrued the remaining $7 million based on the annual results of 2008 to be paid in 2009 and this amount was included within the 2008 total purchase price above. As a result of these acquisitions, we recorded $126 million in goodwill and $18 million of intangible assets with definite lives. The results of operations of each of the acquired businesses have been included in our consolidated results from each transaction closing date forward; their effect on consolidated net revenue and operating income during 2007 was not significant.

During 2007, we also acquired a 50% ownership interest in a travel company for $26 million in cash. We include this investment in Long-term investments and other assets and account for it under the equity-method. The investment agreement contains certain rights, whereby we may acquire and the investee may sell to us the additional shares of the company, at fair value or at established multiples of future earnings at our discretion, at various times beginning in the first quarter of 2009 through 2013. We have also entered into a commitment to provide the investee a $10 million revolving operating line of credit and a credit facility for up to $20 million. As of the end of 2008 or at any time and from time to time thereafter, any amounts due under the credit facility are convertible, at our option, into shares of the company at a premium to the then fair market value. The revolving operating line of credit had $2 million drawn against it and no amounts were drawn against the credit facility as of December 31, 2008.

In 2006, we purchased the remaining 4.9% minority ownership in TripAdvisor for $18 million in cash.

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**Expedia, Inc.**

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

## NOTE 4 Property and Equipment, Net

Our property and equipment consists of the following:

| | December 31, | |
|---|---|---|
| | 2008 | 2007 |
| | (In thousands) | |
| Capitalized software development | $ 286,935 | $ 230,168 |
| Computer equipment | 103,866 | 74,569 |
| Furniture and other equipment | 57,423 | 40,706 |
| Leasehold improvements | 64,620 | 30,746 |
| | 512,844 | 376,189 |
| Less: accumulated depreciation | (292,650) | (250,094) |
| Projects in progress | 27,760 | 53,395 |
| Property and equipment, net | $ 247,954 | $ 179,490 |

As of December 31, 2008 and 2007, our recorded capitalized software development costs, net of accumulated amortization, were $122 million and $113 million. For the years ended December 31, 2008, 2007 and 2006, we recorded amortization of capitalized software development costs of $47 million, $36 million and $28 million, most of which is included in technology and content expenses.

## NOTE 5 Goodwill and Intangible Assets, Net

We performed our annual impairment assessment for goodwill and indefinite-lived intangible assets as of October 1, 2008 and determined we had no impairment as of that date. However, during the fourth quarter of 2008, we experienced a significant decline in our stock price and operating results in part due to an increased negative impact of foreign exchange rates and the continued weakness in the macroeconomic environment. Based on these and other contributing factors, we concluded that sufficient indicators existed to require us to perform an interim assessment of goodwill and indefinite-lived intangible assets as of December 1, 2008. Accordingly, we performed an interim first step of our impairment assessment for each of our reporting units and determined there was a potential impairment of goodwill in certain reporting units. Therefore, we performed the second step of the assessment in which we compared the implied fair value of those reporting unit s goodwill to the book value of that goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. That is, the estimated fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including both recognized and unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the estimated fair value of the reporting unit was the purchase price paid. If the carrying amount of the reporting unit s goodwill exceeds the implied fair value of that unit s goodwill, an impairment loss is recognized in an amount equal to that excess.

We measured the fair value of each of our reporting units and both our indefinite-lived and definite lived intangible assets using accepted valuation techniques as described above in Note 2 Significant Accounting Policies. The significant estimates used included our weighted average cost of capital, long-term rate of growth and profitability of our business, and working capital effects. Our assumptions are based on the actual historical performance of each of the reporting units and take into account the recent weakening of operating results and implied risk premiums based on market prices of our equity and debt as of the assessment date. To validate the reasonableness of the reporting unit fair values, we reconcile the aggregate fair values of the reporting units determined in step one to the enterprise market capitalization. Enterprise market capitalization includes, among other factors, the fully diluted market capitalization of our stock, an acquisition premium based on historical data from acquisitions within the same or similar industries and the appropriate redemption

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**Expedia, Inc.**

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

values of our debt. In performing the reconciliation we may, depending on the volatility of the market value of our stock price, use either the stock price on the valuation date or the average stock price over a range of dates around that date and consider such other quantitative and qualitative factors we consider relevant, which may change depending on the date for which the assessment is made. This assessment resulted in the recognition in the fourth quarter of 2008 of a loss on impairment of long-term assets of approximately $3 billion, which consists of $2.8 billion of goodwill and $223 million of indefinite-lived trade names. A deferred tax benefit of $189 million was recognized as a result of these charges.

We determined that the adverse change in the business climate discussed above was also an indicator requiring the testing of our long-lived assets for recoverability and performed this test as of December 1, 2008. We tested the long-lived assets of our reporting units for recoverability based on a comparison of the respective aggregate values of their undiscounted cash flows to the respective carrying values. The results of the evaluation indicated that the carrying values of the related assets were recoverable. In addition to the above impairment analysis, during the fourth quarter of 2008, we wrote off $11 million related to capitalized software costs based on the abandonment of the related project.

As a result of continued adverse conditions in the markets in which we operate, we will continue to monitor goodwill and long-lived intangible assets, as well as long-lived tangible assets, for possible future impairment. We cannot assure that these assets will not be further impaired in future periods.

The following table presents our goodwill and intangible assets as of December 31, 2008 and 2007:

| | December 31, | |
|---|---|---|
| | 2008 | 2007 |
| | (In thousands) | |
| Goodwill | $ 3,538,569 | $ 6,006,338 |
| Intangible assets with indefinite lives | 689,541 | 867,246 |
| Intangible assets with definite lives, net | 143,878 | 103,511 |
| | $ 4,371,988 | $ 6,977,095 |

Our indefinite-lived intangible assets relate principally to trade names and trademarks acquired in various acquisitions. Of the $223 million impairment charge in the fourth quarter of 2008, $128 million related to trade names in our North America segment, $73 million in our Europe segment and $22 million in our Asia Pacific segment. In the third quarter of 2006, based on lower than expected year-to-date revenue growth, we determined that our indefinite-lived trade name intangible asset related to Hotwire, part of our North America segment, was impaired based on a valuation of that asset and recognized an impairment charge of $47 million.

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**Expedia, Inc.**

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

The following table presents the changes in goodwill by reportable segment:

| | North America | Europe | Other(1) | Total |
|---|---|---|---|---|
| | (In thousands) | | | |
| Balance as of January 1, 2007 | $ 4,740,698 | $ 1,021,351 | $ 99,243 | $ 5,861,292 |
| Additions | 140,428 | | 201 | 140,629 |
| Deductions | (9,402) | | | (9,402) |
| Foreign exchange translation | | 7,778 | 6,041 | 13,819 |
| Balance as of December 31, 2007 | $ 4,871,724 | $ 1,029,129 | $ 105,485 | $ 6,006,338 |
| Additions | 134,267 | 181,777 | 12,405 | 328,449 |
| Impairment charge | (1,982,000) | (758,900) | (21,200) | (2,762,100) |
| Other deductions | (2,823) | | | (2,823) |
| Foreign exchange translation | (3,765) | (22,126) | (5,404) | (31,295) |
| Balance as of December 31, 2008 | $ 3,017,403 | $ 429,880 | $ 91,286 | $ 3,538,569 |

(1) Other includes Asia Pacific and Egencia.

In 2008 and 2007, the additions to goodwill relate primarily to our acquisitions as described in Note 3 Acquisitions and Other Investments. In addition, basis adjustments resulting from the implementation of FIN 48 also contributed to the increase in 2007. The deductions from goodwill for both 2008 and 2007 primarily relate to the impairments discussed above as well as the income tax benefit realized pursuant to the exercise of stock options assumed in business acquisitions that were vested at the transaction date and are treated as a reduction in purchase price when the deductions are realized.

The following table presents the components of our intangible assets with definite lives as of December 31, 2008 and 2007:

| | December 31, 2008 | | | December 31, 2007 | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated Amortization | Net | Cost | Accumulated Amortization | Net |
| | (In thousands) | | | | | |
| Supplier relationships | $ 280,484 | $ (220,612) | $ 59,872 | $ 212,514 | $ (206,464) | $ 6,050 |
| Technology | 221,166 | (195,941) | 25,225 | 203,028 | (183,082) | 19,946 |
| Distribution agreements | 177,426 | (177,155) | 271 | 177,426 | (154,091) | 23,335 |
| Affiliate agreements | 34,782 | (18,381) | 16,401 | 33,049 | (14,899) | 18,150 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Customer lists | 26,540 | (21,895) | 4,645 | 26,549 | (20,723) | 5,826 |
| Domain names | 11,678 | (8,500) | 3,178 | 10,940 | (5,729) | 5,211 |
| Other | 81,659 | (47,373) | 34,286 | 61,809 | (36,816) | 24,993 |
| Total | $ 833,735 | $ (689,857) | $ 143,878 | $ 725,315 | $ (621,804) | $ 103,511 |

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**Expedia, Inc.**

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

Amortization expense was $69 million, $78 million and $111 million for the years ended December 31, 2008, 2007 and 2006. The estimated future amortization expense related to intangible assets with definite lives as of December 31, 2008, assuming no subsequent impairment of the underlying assets, is as follows, in thousands:

| | |
|---|---|
| 2009 | $ 36,143 |
| 2010 | 28,175 |
| 2011 | 19,966 |
| 2012 | 14,498 |
| 2013 | 9,811 |
| 2014 and thereafter | 35,285 |
| Total | $ 143,878 |

**NOTE 6 Debt**

The following table sets forth our outstanding debt:

| | December 31, 2008 | December 31, 2007 |
|---|---|---|
| | (In thousands) | |
| 8.5% senior notes due 2016, net of discount | $ 394,548 | $ |
| 7.456% senior notes due 2018 | 500,000 | 500,000 |
| Long-term debt | 894,548 | 500,000 |
| Credit facility | 650,000 | 585,000 |
| Total long-term indebtedness | $ 1,544,548 | $ 1,085,000 |

***Long-term Debt***

In June 2008, we privately placed $400 million of 8.5% senior unsecured notes due in July 2016 (the 8.5% Notes ). The 8.5% Notes were issued at 98.572% of par resulting in a discount, which is being amortized over their life. Interest is payable semi-annually in January and July of each year, beginning January 1, 2009. The 8.5% Notes are repayable in whole or in part upon the occurrence of a change of control, at the option of the holders, at a purchase price in cash equal to 101% of the principal plus accrued interest. Prior to July 1, 2011, in the event of a qualified equity offering, we may redeem up to 35% of the 8.5% Notes at a redemption price of 108.5% of the principal plus accrued interest. Additionally, we may redeem the 8.5% Notes prior to July 1, 2012 in whole or in part at a redemption price of 100% of the principal plus accrued interest, plus a make-whole premium. On or after July 1, 2012, we may redeem the 8.5% Notes in whole or in part at specified prices ranging from 104.250% to 100% of the

principal plus accrued interest.

Our $500 million in registered senior unsecured notes outstanding at December 31, 2008 are due in August 2018 and bear interest at 7.456% (the 7.456% Notes ). Interest is payable semi-annually in February and August of each year. The 7.456% Notes are repayable in whole or in part on August 15, 2013, at the option of the holders of such 7.456% Notes, at 100% of the principal amount plus accrued interest. We may redeem the 7.456% Notes in accordance with the terms of the agreement, in whole or in part at any time at our option.

The fair value of our 7.456% Notes was approximately $365 million and $517 million as of December 31, 2008 and 2007, and the fair value of the 8.5% Notes was approximately $280 million as of December 31, 2008 based on quoted market prices.

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**Expedia, Inc.**

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

The 7.456% and 8.5% Notes are senior unsecured obligations guaranteed by certain domestic Expedia subsidiaries and rank equally in right of payment with all of our existing and future unsecured and unsubordinated obligations. For further information, see Note 19 Guarantor and Non-Guarantor Supplemental Financial Information. Accrued interest related to the 7.456% and 8.5% Notes was $32 million as of December 31, 2008, and accrued interest related to the 7.456% Notes was $14 million as of December 31, 2007.

The 7.456% and 8.5% Notes include covenants that limit our ability to (i) incur liens, (ii) enter into sale and leaseback transactions and (iii) merge, consolidate or sell substantially all of our assets.

***Credit Facility***

In July 2005, we entered into a $1 billion five-year unsecured revolving credit facility with a group of lenders, which is unconditionally guaranteed by certain Expedia subsidiaries and expires in August 2010. The $650 million carrying amount of the borrowing approximates its fair value as of December 31, 2008. The facility bears interest based on market interest rates plus a spread, which is determined based on our financial leverage. The interest rate was 1.34% as of December 31, 2008 and 5.70% as of December 31, 2007. The annual fee to maintain the facility ranged from 0.1% to 0.2% on the unused portion of the facility, or approximately $1 million to $2 million if all of the facility was unused. The facility also contained financial covenants consisting of a leverage ratio and a minimum tangible net worth requirement.

The amount of stand-by letters of credit ( LOC ) issued under the facility reduces the amount available to us. As of December 31, 2008 and 2007, there were $58 million and $52 million of outstanding stand-by LOCs issued under the facility.

On February 18, 2009, we amended our credit facility to replace our tangible net worth covenant with a minimum interest coverage covenant, among other changes. As part of this amendment our leverage ratio was tightened, pricing on our borrowings increased by 200 basis points and we paid approximately $6 million in fees, which will be amortized over the remaining term of the credit facility.

**NOTE 7 Derivative Instruments**

The fair values of the derivative financial instruments generally represent the estimated amounts we would expect to receive or pay upon termination of the contracts as of the reporting date.

***Ask Jeeves Notes***

As a result of the Spin-Off, we assumed certain obligations of IAC related to IAC s Ask Jeeves Notes. When holders of the Ask Jeeves Notes convert their notes, they received shares of both IAC and Expedia common stock. Under the terms of the Spin-Off, we were obligated to issue shares of our common stock to IAC for delivery to the holders of the Ask Jeeves Notes, or pay cash in equal value, in lieu of issuing such shares, at our option. This obligation represented a derivative liability on our consolidated balance sheet because it was not indexed solely to shares of our common stock. We recorded the fair value of this derivative obligation on our consolidated balance sheets with any changes in fair value recorded in our consolidated statements of operations in Other, net. The estimated fair value of this liability fluctuated primarily based on changes in the price of our common stock.

In 2008, the remainder of these notes converted and we released approximately 0.5 million shares of our common stock with a fair value of $11 million to satisfy the final conversion requirements. In 2008, 2007 and 2006, we recognized net gains (losses) of $4 million, $(5) million and $8 million related to these Ask Jeeves Notes. As of June 1, 2008, we had no further obligations related to the Ask Jeeves Notes. As of December 31, 2007, the related derivative liability balance was $15 million and was included in accrued expenses and other current liabilities.

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**Expedia, Inc.**

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

***Cross-Currency Swaps***

We entered into cross-currency swaps to hedge against the change in value of certain intercompany loans denominated in currencies other than the lending subsidiaries functional currency.

In November 2003, we entered into a swap with a notional amount of Euro 39 million that matures in October 2013. Under the terms of this swap, we paid euro at a rate of the three-month EURIBOR plus 0.50% on euro 39 million and we received 4.90% interest on $46 million in U.S. dollars.

In April 2004, we entered into a swap with a notional amount of Euro 38 million that matures in April 2014. Under the terms of this swap, we paid euro at a rate of the six-month EURIBOR plus 0.90% on euro 38 million and we received 5.47% interest on $46 million in U.S. dollars.

These swaps were designated as cash flow hedges and were re-measured at fair value each reporting period. The fair values of our cross-currency swaps were determined using Level 2 valuation techniques, as defined in SFAS 157, and were based on the present value of net future cash payments and receipts, which fluctuate based on changes in market interest rates and the euro/U.S. dollar exchange rate.

During the third quarter of 2008, we terminated our cross-currency swap agreements for a cost of $17 million and concurrently capitalized the underlying intercompany loans. As a result of these transactions, we recognized a net gain of less than $1 million. At the time of termination, $13 million of cash collateral was held by the counterparty resulting in a net liability of $4 million that was unpaid as of December 31, 2008 and was classified in accrued expenses and other current liabilities. As of December 31, 2007, we had a $21 million cross-currency swap liability included in other long-term liabilities and a corresponding $21 million asset for cash collateral held by our counterparty included in long-term investments and other assets.

***Stock Warrants***

In connection with prior transactions, IAC assumed a number of stock warrants that were adjusted to become exercisable into IAC common stock and subsequent to the Spin-Off, also into our common stock. As of December 31, 2008, there are approximately 42,700 of these stock warrants outstanding with expiration dates through May 2010. Each stock warrant represents the right to receive the number of shares of IAC common stock and Expedia common stock that the stock warrant holder would have received had the holder exercised the stock warrant immediately prior to the Spin-Off. Under the terms of the Spin-Off between IAC and Expedia, we assumed the obligation to deliver our common stock to the stock warrant holders upon exercise and will receive a portion of the proceeds from exercise. This obligation represents a derivative instrument that we record at fair value on our consolidated balance sheets with any changes in value recorded in our consolidated statements of operations in Other, net. The estimated fair value of this liability fluctuates based on changes in the price of our common stock.

**NOTE 8 Employee Benefit Plans**

Our U.S. employees are generally eligible to participate in a retirement and savings plan that qualifies under Section 401(k) of the Internal Revenue Code. Participating employees may contribute up to 16% of their pretax salary, but not more than statutory limits. We contribute fifty cents for each dollar a participant contributes in this plan, with a

maximum contribution of 3% of a participant s earnings. Our contribution vests with the employee after the employee completes two years of service. Participating employees have the option to invest in our common stock, but there is no requirement for participating employees to invest their contribution or our matching contribution in our common stock. We also have various defined contribution plans for our international employees. Our contributions to these benefit plans were $12 million, $9 million and $8 million for the years ended December 31, 2008, 2007 and 2006.

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**Expedia, Inc.**

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

## NOTE 9 Stock-Based Awards and Other Equity Instruments

Pursuant to the 2005 Expedia, Inc. Stock and Annual Incentive Plan, we may grant restricted stock, restricted stock awards, RSUs, stock options and other stock-based awards to directors, officers, employees and consultants. As of December 31, 2008, we had approximately 8 million shares of common stock reserved for new stock-based awards under the 2005 Stock and Annual Incentive Plan. We issue new shares to satisfy the exercise or release of stock-based awards.

RSUs, which are stock awards that are granted to employees entitling the holder to shares of our common stock as the award vests, have been our primary form of stock-based award. We record RSUs that will settle in cash as a liability and we remeasure them to fair value at the end of each reporting period. These awards that settle in cash and the resulting liability are insignificant. Our RSUs generally vest over five years, but may accelerate in certain circumstances, including certain changes in control.

The following table presents a summary of RSU activity:

| | RSU s (In thousands) | Weighted Average Grant-Date Fair Value |
|---|---|---|
| Balance as of January 1, 2006 | 5,765 | $ 24.08 |
| Granted | 5,016 | 18.59 |
| Vested and released | (1,337) | 23.94 |
| Cancelled | (1,923) | 23.09 |
| Balance as of December 31, 2006 | 7,521 | 20.72 |
| Granted | 3,768 | 22.92 |
| Vested and released | (1,538) | 21.72 |
| Cancelled | (1,489) | 21.20 |
| Balance as of December 31, 2007 | 8,262 | 21.43 |
| Granted | 4,123 | 21.78 |
| Vested and released | (1,846) | 21.76 |
| Cancelled | (1,493) | 22.20 |
| Balance as of December 31, 2008 | 9,046 | 21.41 |

The total fair value of shares vested and released during the years ended December 31, 2008, 2007 and 2006 was $40 million, $33 million and $32 million. Included in RSUs outstanding at December 31, 2008 are approximately 1 million RSUs awarded to certain senior executives, for which vesting is tied to achievement of performance targets.

We have fully vested stock warrants with expiration dates through May 2012 outstanding, certain of which were traded on the NASDAQ under the symbols EXPEW and EXPEZ until their expiration on February 4, 2009. Each stock warrant is exercisable for a certain number of shares of our common stock or a fraction thereof.

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**Expedia, Inc.**

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

The following table presents a summary of our stock warrants (equivalent shares) from December 31, 2007 through December 31, 2008:

| Expiration Date | Weighted Average Exercise Price | Outstanding Warrants at December 31, 2007 | Exercised | Cancelled | Outstanding Warrants at December 31, 2008 |
|---|---|---|---|---|---|
| | | (In thousands, except per warrant data) | | | |
| May 2012 | $ 25.56 | 16,094 | | | 16,094 |
| February 2009 | 31.22 | 7,295 | | | 7,295 |
| February 2009 | 11.93 | 11,085 | (5) | | 11,080 |
| November 2009 to May 2010 | 13.23 | 163 | | | 163 |
| | | 34,637 | (5) | | 34,632 |

The following table presents a summary of our stock option activity:

| | Options (In thousands) | Weighted Average Exercise Price | Remaining Contractual Life | Aggregate Intrinsic Value (In thousands) |
|---|---|---|---|---|
| | | | (In years) | |
| Balance as of January 1, 2006 | 27,706 | $ 15.71 | | |
| Exercised | (3,657) | 9.41 | | |
| Cancelled | (916) | 20.38 | | |
| Balance as of December 31, 2006 | 23,133 | 16.52 | | |
| Exercised | (13,242) | 10.30 | | |
| Cancelled | (216) | 29.61 | | |
| Balance as of December 31, 2007 | 9,675 | 24.74 | | |
| Granted | 1,275 | 8.14 | | |
| Exercised | (618) | 10.14 | | |
| Cancelled | (498) | 29.14 | | |
| Balance as of December 31, 2008 | 9,834 | 23.29 | 4.8 | $ 1,273 |

| | | | | |
|---|---|---|---|---|
| Exercisable as of December 31, 2008 | 4,759 | 20.29 | 2.2 | 858 |
| Vested and expected to vest after December 31, 2008 | 9,427 | 23.94 | 4.6 | 1,136 |

During 2008, we also granted stock options to certain key employees. The fair value of stock options granted during the year ended December 31, 2008 was estimated at the date of grant using the Black-Scholes option pricing model, assuming no dividends and the following weighted average assumptions:

| | |
|---|---|
| Risk-free interest rate | 2.18% |
| Expected volatility | 45.63% |
| Expected life (in years) | 4.54 |
| Weighted-average estimated fair value of options granted during the year | $ 3.38 |

The aggregate intrinsic value of outstanding options shown in the table above represents the total pretax intrinsic value at December 31, 2008, based on our closing stock price of $8.24 as of the last trading date. The total intrinsic value of stock options exercised was $7 million, $299 million and $35 million for the years ended December 31, 2008, 2007 and 2006.

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**Expedia, Inc.**

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

The following table presents a summary of our stock options outstanding and exercisable at December 31, 2008:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Shares (In thousands) | Weighted-Average Price Per Share | Remaining Contractual Life (In years) | Shares (In thousands) | Weighted-Average Exercise Price |
| $ 0.01 - $5.00 | 184 | $ 3.77 | 3.8 | 184 | $ 3.77 |
| 5.01 - 8.00 | 668 | 7.58 | 9.7 | 18 | 6.25 |
| 8.01 - 12.00 | 947 | 9.06 | 7.1 | 322 | 9.80 |
| 12.01 - 18.00 | 911 | 14.76 | 3.1 | 911 | 14.76 |
| 18.01 - 25.00 | 2,691 | 21.40 | 1.7 | 2,691 | 21.40 |
| 25.01 - 35.00 | 2,768 | 28.39 | 6.1 | 368 | 27.77 |
| 35.01 - 45.00 | 1,632 | 38.34 | 5.7 | 232 | 38.28 |
| 45.01 - 97.00 | 33 | 73.49 | 1.0 | 33 | 73.49 |
| 0.01 - 97.00 | 9,834 | 23.29 | 4.8 | 4,759 | 20.29 |

In 2008, 2007 and 2006, we recognized stock-based compensation expense of $61 million, $63 million and $80 million. The total income tax benefit related to stock-based compensation expense was $21 million, $22 million and $27 million for 2008, 2007 and 2006.

Cash received from stock-based award exercises for the years ended December 31, 2008 and 2007 was $6 million and $55 million. Our employees that held IAC vested stock options prior to the Spin-Off received vested stock options in both Expedia and IAC. As these stock options are exercised, we receive a tax deduction. Total current income tax benefits during the years ended December 31, 2008 and 2007 associated with the exercise of IAC and Expedia stock-based awards held by our employees were $19 million and $121 million, of which we recorded approximately $2 million and $9 million as a reduction of goodwill.

In the fourth quarter of 2007, our Chairman and Senior Executive exercised options to purchase 9.5 million shares. 2.3 million shares were withheld and concurrently cancelled by the Company to cover the exercise price of $8.59 per share and 3.5 million shares were withheld and concurrently cancelled to cover tax obligations, with a net delivery of 3.7 million shares.

As of December 31, 2008, there was approximately $131 million of unrecognized stock-based compensation expense, net of estimated forfeitures, related to unvested stock-based awards, which is expected to be recognized in expense over a weighted-average period of 3.21 years.

**NOTE 10 Income Taxes**

The following table presents a summary of our U.S. and foreign income (loss) before income taxes and minority interest:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| | (In thousands) | | |
| U.S. | $ (2,442,297) | $ 500,624 | $ 388,588 |
| Foreign | (72,407) | (3,640) | (3,690) |
| Total | $ (2,514,704) | $ 496,984 | $ 384,898 |

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**Expedia, Inc.**

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

The following table presents a summary of our income tax expense components:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| | (In thousands) | | |
| Current income tax expense: | | | |
| Federal | $ 196,072 | $ 182,960 | $ 144,194 |
| State | 16,029 | 16,837 | 4,581 |
| Foreign | 2,907 | 4,900 | 1,328 |
| Current income tax expense | 215,008 | 204,697 | 150,103 |
| Deferred income tax (benefit) expense: | | | |
| Federal | (188,901) | (8,041) | (8,803) |
| State | (7,841) | 7,062 | (1,572) |
| Foreign | (12,300) | (604) | (277) |
| Deferred income tax benefit: | (209,042) | (1,583) | (10,652) |
| Income tax expense | $ 5,966 | $ 203,114 | $ 139,451 |

For all periods presented, we have computed current and deferred tax expense using our stand-alone effective tax rate. As of December 31, 2008, our current income tax payable represents amounts that we will pay to the Internal Revenue Service ( IRS ) and other tax authorities based on our taxable income.

We reduced our current income tax payable by $19 million, $121 million and $34 million for the years ended December 31, 2008, 2007 and 2006, for tax deductions attributable to stock-based compensation. For 2008, 2007 and 2006, we recorded $2 million, $9 million and $17 million of the related income tax benefits of this stock-based compensation as a reduction of goodwill.

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**Expedia, Inc.**

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

The tax effect of cumulative temporary differences and net operating losses that give rise to our deferred tax assets and deferred tax liabilities as of December 31, 2008 and 2007 are as follows:

| | December 31, | |
|---|---|---|
| | 2008 | 2007 |
| | (In thousands) | |
| **Deferred tax assets:** | | |
| Provision for accrued expenses | $ 26,395 | $ 23,705 |
| Deferred revenue | 16,646 | 3,041 |
| Net operating loss and tax credit carryforwards | 31,536 | 23,856 |
| Capitalized R&D expenditures | 10,779 | 14,834 |
| Stock-based compensation | 48,110 | 45,269 |
| Investment impairment | 8,586 | 8,556 |
| Other | 10,360 | 10,590 |
| Total deferred tax assets | 152,412 | 129,851 |
| Less valuation allowance | (32,085) | (27,911) |
| Net deferred tax assets | $ 120,327 | $ 101,940 |
| **Deferred tax liabilities:** | | |
| Prepaid merchant bookings and prepaid expenses | $ (44,647) | $ (39,825) |
| Intangible assets | (220,379) | (375,069) |
| Investment in subsidiaries | (10,449) | (10,823) |
| Unrealized gains | (12,946) | (18,719) |
| Property and equipment | (25,848) | (20,951) |
| Other | | (53) |
| Total deferred tax liabilities | $ (314,269) | $ (465,440) |
| Net deferred tax liability | $ (193,942) | $ (363,500) |

At December 31, 2008, we had federal, state and foreign net operating loss carryforwards ( NOLs ) of approximately $10 million, $53 million and $70 million. If not utilized, the federal and state NOLs will expire at various times between 2009 and 2028, $65 million foreign NOLs can be carried forward indefinitely, and $5 million foreign NOLs will expire at various times between 2009 and 2028.

At December 31, 2008, we had a valuation allowance of approximately $32 million related to the portion of net operating loss carryforwards and other items for which it is more likely than not that the tax benefit will not be realized. This amount represented an increase of approximately $4 million over the amount recorded as of December 31, 2007 and was primarily attributable to an increase in foreign operating losses.

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**Expedia, Inc.**

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

A reconciliation of total income tax expense to the amounts computed by applying the statutory federal income tax rate to income before income taxes and minority interest is as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| | (In thousands) | | |
| Income tax (benefit) expense at the federal statutory rate of 35% | $ (880,146) | $ 173,944 | $ 134,714 |
| Non-deductible goodwill impairment | 855,550 | | |
| State income taxes, net of effect of federal tax benefit | 11,317 | 9,844 | 4,813 |
| Unrecognized tax benefits and related interest | 12,525 | 4,211 | |
| Other, net | 6,720 | 15,115 | (76) |
| Income tax expense | $ 5,966 | $ 203,114 | $ 139,451 |

By virtue of the previously filed separate company and consolidated income tax returns filed with IAC, we are routinely under audit by federal, state, local and foreign authorities. These audits include questioning the timing and the amount of income and deductions and the allocation of income among various tax jurisdictions. Annual tax provisions include amounts considered sufficient to pay assessments that may result from the examination of prior year returns. We are no longer subject to tax examinations by tax authorities for years prior to 1998.

On January 1, 2007, we adopted FIN 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109.* A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows, in thousands:

| | |
|---|---|
| Balance at January 1, 2007 | $ 63,710 |
| Increases to tax positions related to the current year | 104,231 |
| Interest and penalties | 5,652 |
| Balance at December 31, 2007 | 173,593 |
| Increases to tax positions related to the current year | 15,883 |
| Decreases to tax positions related to the prior year | (22,520) |
| Audit settlements paid during 2008 | (4,911) |
| Interest and penalties | 17,794 |
| Balance at December 31, 2008(1) | $ 179,839 |

(1)

As of December 31, 2008, we had $180 million of unrecognized tax benefits, of which $190 million is classified as long-term and included in Other long-term liabilities.

Included in the balance at December 31, 2008 and 2007 were $68 million and $17 million of liabilities for uncertain tax positions that, if recognized, would decrease our provision for income taxes. Also included in the balance at December 31, 2008 were $122 million, of which $3 million and $95 million was added in 2008 and 2007, of excess tax benefits that resulted from our Chairman and Senior Executive s exercises of stock options during 2007 and 2005. If the IRS were to make a final determination that IAC and not Expedia were entitled to such deductions, then under the terms of our tax sharing agreement, IAC would pay to Expedia an amount equal to any such tax benefit at such time as it were actually realized by IAC. Therefore, an unfavorable outcome related to this position would not materially impact our cash flows.

We recognize interest and penalties related to our liabilities for uncertain tax positions in income tax expense. As of December 31, 2008 and 2007, we had approximately $24 million and $11 million accrued for the potential payment of estimated interest and penalties. During the years ended December 31, 2008, 2007

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**Expedia, Inc.**

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

and 2006, we recognized approximately $12 million, $4 million and $2 million of interest, net of federal benefit and penalties, related to our liabilities for uncertain tax positions.

## NOTE 11 Stockholders Equity

### *Common Stock and Class B Common Stock*

Our authorized common stock consists of 1.6 billion shares of common stock with par value of $0.001 per share, and 400 million shares of Class B common stock with par value of $0.001 per share. Both classes of common stock qualify for and would share equally in dividends, if declared by our Board of Directors, and generally vote together on all matters. Common stock is entitled to one vote per share and Class B common stock is entitled to 10 votes per share. Holders of common stock, voting as a single, separate class are entitled to elect 25% of the total number of directors. Class B common stockholders may, at any time, convert their shares into common stock, on a one for one share basis. Upon conversion, the Class B common stock is retired and is not available for reissue. In the event of liquidation, dissolution, distribution of assets or winding-up of Expedia, Inc., the holders of both classes of common stock have equal rights to receive all the assets of Expedia, Inc. after the rights of the holders of the preferred stock have been satisfied.

### *Preferred Stock*

Our preferred stock has a face value of $22.23 per share; each share is entitled to an annual dividend of 1.99%. Each preferred stockholder is entitled to two votes per share. Preferred stockholders may, at certain times through 2017, elect to have their shares redeemed or elect to convert their shares into common stock based upon formulas described in the related Certificate of Designations of Series A Cumulative Convertible Preferred Stock of Expedia, Inc. Beginning February 4, 2012, we may redeem the preferred stock for cash or common stock. On February 4, 2022, all outstanding shares of preferred stock automatically convert into common stock.

### *Share Repurchases*

During 2007, we completed two tender offers pursuant to which we acquired 30 million tendered shares of our common stock at a purchase price of $22.00 per share and 25 million tendered shares of our common stock at $29.00 per share, for a total cost of $1.4 billion plus fees and expenses relating to the tender offers.

During 2006, we completed the repurchase of 20 million shares of our common stock for a total cost of $288 million, representing an average price of $14.42 per share including transaction costs. All shares were repurchased in the open market at prevailing market prices.

In addition, during 2006 our Board of Directors authorized share repurchases of up to 20 million outstanding shares of our common stock. As of February 13, 2009, we had not made any share repurchases under this specific authorization. There is no fixed termination date for the repurchase. The amount of repurchases we may make under this authorization are subject to certain of our debt covenants.

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**Expedia, Inc.**

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

***Accumulated Other Comprehensive Income (Loss)***

The following table presents the components of accumulated other comprehensive income (loss), net of tax:

| | December 31, | |
|---|---|---|
| | 2008 | 2007 |
| | (In thousands) | |
| Accumulated unrealized gains (losses) on derivatives | $ | $ 339 |
| Accumulated foreign currency translation adjustments | (4,662) | 31,426 |
| Total Accumulated Other Comprehensive Income (Loss) | $ (4,662) | $ 31,765 |

***Other Comprehensive Income (Loss)***

The following table presents the changes in the components of other comprehensive income (loss), net of tax:

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| | (In thousands) | | |
| Net Income (Loss) | $ (2,517,763) | $ 295,864 | $ 244,934 |
| Other Comprehensive Income (Loss) | | | |
| Currency translation adjustments | (36,088) | 16,768 | 14,696 |
| Unrealized gains (losses) on derivatives, net of taxes: | | | |
| Unrealized holding gains (losses), net of tax effect of $(2,058) in 2008, $2,078 in 2007 and $4,300 in 2006 | 3,614 | (5,545) | (7,832) |
| Less: reclassification adjustment for net (gains) losses recognized during the period, net of tax effect of $2,255 in 2008, $(3,210) in 2007 and $(3,691) in 2006 | (3,953) | 8,563 | 6,713 |
| Other comprehensive income (loss) | (36,427) | 19,786 | 13,577 |
| Total Comprehensive Income (Loss) | $ (2,554,190) | $ 315,650 | $ 258,511 |

**NOTE 12 Earnings Per Share**

***Basic Earnings Per Share***

Basic earnings per share was calculated for the years ended December 31, 2008, 2007 and 2006 using the weighted average number of common and Class B common shares outstanding during the period excluding restricted stock and stock held in escrow. As of December 31, 2008 and 2007, we had 751 shares of preferred stock outstanding, the impact of which on our earnings per share calculation is immaterial.

***Diluted Earnings Per Share***

For the years ended December 31, 2008, 2007 and 2006, we computed diluted earnings per share using (i) the number of shares of common stock and Class B common stock used in the basic earnings per share calculation as indicated above (ii) if dilutive, the incremental common stock that we would issue upon the assumed exercise of stock options and stock warrants and the vesting of restricted stock units using the treasury stock method, and (iii) the shares we were contractually obligated to issue associated with the Ask Jeeves Notes, if converted, and other stock-based commitments.

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**Expedia, Inc.**

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

The following table presents our basic and diluted net income (loss) per share:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| | (In thousands, except per share data) | | |
| **Net income (loss)** | $ (2,517,763) | $ 295,864 | $ 244,934 |
| **Net income (loss) per share available to common stockholders:** | | | |
| Basic | $ (8.80) | $ 1.00 | $ 0.72 |
| Diluted | (8.63) | 0.94 | 0.70 |
| **Weighted average number of shares outstanding:** | | | |
| Basic | 286,167 | 296,640 | 338,047 |
| Dilutive effect of: | | | |
| Options to purchase common stock | 904 | 7,384 | 7,744 |
| Warrants to purchase common stock | 3,698 | 7,574 | 3,600 |
| Other dilutive securities | 1,061 | 2,635 | 2,790 |
| Diluted | 291,830 | 314,233 | 352,181 |

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 13 Other Income (Expense)**

***Other, net***

The following table presents the components of Other, net:

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| | (In thousands) | | |
| Foreign exchange rate gains (losses), net | $ (47,129) | $ (22,047) | $ 10,367 |
| Equity gain (loss) of unconsolidated affiliates | (979) | (2,614) | 2,541 |
| Gain (loss) on derivative instruments assumed at Spin-Off | 4,600 | (5,748) | 8,137 |
| Federal excise tax refunds | | 12,058 | |
| Other | (670) | (256) | (2,275) |
| Total | $ (44,178) | $ (18,607) | $ 18,770 |

In 2008, in connection with the closing of an acquisition and the related holding of euros to economically hedge the purchase price, we recognized a net loss of $21 million, included in foreign exchange rate gains (losses), net.

In 2007, we recorded refunds based on notification from the IRS totaling $15 million related to Federal Excise Tax ( FET ) taxes remitted to the IRS but not collected from customers for airline ticket sales by one of our subsidiaries in the third quarter of 2001 through the third quarter of 2004, plus accrued interest thereon. We recorded $3 million to revenue as that amount relates to taxes remitted on airline ticket sales subsequent to our acquisition of the subsidiary. We recorded $12 million to Other, net for taxes remitted on airline ticket sales prior to the acquisition and total interest earned on all underlying tax remittances.

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**Expedia, Inc.**

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

## NOTE 14 Commitments and Contingencies

### *Letters of Credit, Purchase Obligations and Guarantees*

We have commitments and obligations that include purchase obligations, guarantees and LOCs, which could potentially require our payment in the event of demands by third parties or contingent events. The following table presents these commitments and obligations as of December 31, 2008:

| | | By Period | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 Year | 1 to 3 Years | 3 to 5 Years | More than 5 Years |
| | | | (In thousands) | | |
| Purchase obligations | $ 32,293 | $ 22,101 | $ 10,192 | $ | $ |
| Guarantees | 39,079 | 39,079 | | | |
| Letters of credit | 58,226 | 57,045 | 1,181 | | |
| | $ 129,598 | $ 118,225 | $ 11,373 | $ | $ |

Our purchase obligations represent the minimum obligations we have under agreements with certain of our vendors. These minimum obligations are less than our projected use for those periods. Payments may be more than the minimum obligations based on actual use.

We have guarantees primarily related to a specific country aviation authority for the potential non-delivery, by us, of packaged travel sold in that country. The authority also requires that a portion of the total amount of packaged travel sold be bonded.

Our LOCs consist of stand-by LOCs, underwritten by a group of lenders, which we primarily issue to certain hotel properties to secure our payment for hotel room transactions. The contractual expiration dates of these LOCs are shown in the table above. There were no claims made against any stand-by LOCs during the years ended December 31, 2008, 2007 and 2006.

### *Lease Commitments*

We have contractual obligations in the form of operating leases for office space and related office equipment for which we record the related expense on a monthly basis. Certain leases contain periodic rent escalation adjustments and renewal options. Rent expense related to such leases is recorded on a straight-line basis. Operating lease obligations expire at various dates with the latest maturity in 2018. For the years ended December 31, 2008, 2007 and 2006, we recorded rental expense of $49 million, $33 million and $30 million.

The following table presents our estimated future minimum rental payments under operating leases with noncancelable lease terms that expire after December 31, 2008, in thousands:

| **Year Ending December 31,** | |
|---|---|
| 2009 | $ 39,097 |
| 2010 | 36,984 |
| 2011 | 35,205 |
| 2012 | 33,626 |
| 2013 | 27,539 |
| 2014 and thereafter | 93,404 |
| | $ 265,855 |

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**Expedia, Inc.**

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

***Legal Proceedings***

In the ordinary course of business, we are a party to various lawsuits. In the opinion of management, we do 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.

*Securities Related Class Action Litigations.* While we are not a party to the securities litigation filed against IAC, under the terms of our separation agreement with IAC, we have generally agreed to bear a portion of the costs and liabilities, if any, associated with any securities law litigation relating to conduct prior to the Spin-Off of the businesses or entities that comprise Expedia following the Spin-Off. This case arises out of IAC s August 4, 2004, announcement of its earnings for the second quarter of 2004.

Litigation relating to the IAC/hotels.com merger agreement announced April 10, 2003, is pending in Delaware. The principal claim in these actions is that the defendants breached their fiduciary duty to the plaintiffs by entering into or approving the merger agreement.

*Litigation Relating to Hotel Occupancy Taxes.* Lawsuits have been filed by forty-four cities and counties involving hotel occupancy taxes. In addition, there have been six consumer lawsuits filed relating to taxes and fees. The municipality and consumer lawsuits are in various stages ranging from responding to the complaint to discovery. We continue to defend these lawsuits vigorously. To date, fifteen of the municipality lawsuits have been dismissed. Most of these dismissals have been without prejudice and, generally, allow the municipality to seek administrative remedies prior to pursuing further litigation. Five dismissals (Pitt County, North Carolina; Findlay, Ohio; Columbus and Dayton, Ohio; City of Orange, Texas; and Louisville, Kentucky) were based on a finding that the defendants were not subject to the local hotel occupancy tax ordinance. As a result of this litigation and other attempts by certain jurisdictions to levy such taxes, we have established a reserve for the potential settlement of issues related to hotel occupancy taxes in the amount of $20 million and $19 million at December 31, 2008 and 2007, respectively. Our reserve is based on our best estimate and the ultimate resolution of these issues may be greater or less than the liabilities recorded.

In connection with various occupancy tax audits and assessments, certain jurisdictions require that tax payers 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. We have been assessed approximately $8.2 million in taxes, plus $9.5 million in penalties and interest by the city of Anaheim, which has a pay to play tax ordinance. To preserve our right to contest this assessment, it is possible that we may be required to make a payment to Anaheim, as well as to other California jurisdictions that make similar assessments. We are challenging the city s purported right to require us to pay the tax assessment prior to commencing litigation. Other jurisdictions may also attempt to require that we pay any assessed taxes prior to being allowed to contest or litigate the applicability of similar tax ordinances. Payment of these amounts is not an admission that we believe we are subject to such taxes and we intend to continue defending our position vigorously.

**NOTE 15 Related Party Transactions**

In connection with the Spin-Off, we entered into various agreements with IAC, a related party due to common ownership, to provide for an orderly transition and to govern our ongoing relationships with IAC. These agreements include, among others, a separation agreement, a tax sharing agreement, an employee matters agreement and a transition services agreement.

In addition, in conjunction with the Spin-Off, we entered into a joint ownership and cost sharing agreement with IAC, under which IAC transferred to us 50% ownership in an airplane, which is available for use by both companies. We share equally in capital costs; operating costs are pro-rated based on actual usage.

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**Expedia, Inc.**

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

In May 2006, the airplane was placed in service and is being depreciated over 10 years. As of December 31, 2008 and 2007, the net basis in our ownership interest was $18 million and $19 million recorded in Long-term investments and other assets. In 2008 and 2007, operating and maintenance costs paid directly to the jointly-owned subsidiary for the airplane were $400,000 for both periods.

On August 20, 2008, IAC completed its plan to separate into five publicly traded companies. With this separation, we expect our related party transactions with the newly constituted IAC to be immaterial on a go-forward basis. In 2008, we paid $4 million to IAC businesses. In 2007, we received $100,000 from IAC businesses, and paid $8 million to IAC businesses. In 2006, we received $2 million from IAC businesses, and paid $31 million to IAC businesses.

In the fourth quarter of 2006, eLong sold one of its businesses to a subsidiary of IAC for approximately $15 million.

**NOTE 16 Segment Information**

We have two reportable segments: North America and Europe. We determined our segments based on how our chief operating decision makers manage our business, make operating decisions and evaluate operating performance. Our primary operating metric for evaluating segment performance is Operating Income Before Amortization (OIBA as defined below), which includes allocations of certain expenses, primarily cost of revenue and facilities, to the segments. 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 partner services, product development, accounting, human resources and legal to our reportable segments. We include these expenses in Corporate and Other.

Our North America segment provides a full range of travel and/or advertising services to customers primarily located in the United States, Canada and Mexico. This segment operates through a variety of brands including Classic Vacations, Expedia.com, hotels.com, Hotwire.com and the TripAdvisor Media Network. Our Europe segment provides travel services primarily through localized Expedia websites in Austria, Belgium, Denmark, France, Germany, Ireland, Italy, the Netherlands, Norway, Spain, Sweden and the United Kingdom, as well as localized versions of hotels.com in various European countries. In addition, Venere is included within our Europe segment from its acquisition date in the third quarter of 2008 forward.

Corporate and Other includes Egencia, Expedia Asia Pacific and unallocated corporate functions and expenses. Egencia provides travel products and services to corporate customers in North America, Europe and the Asia Pacific region. Expedia Asia Pacific provides online travel information and reservation services primarily through eLong in China, localized Expedia websites in Australia, India, Japan and New Zealand, as well as localized versions of hotels.com in various Asian countries. In addition, we record amortization of intangible assets, any impairment charges and stock-based compensation expense in Corporate and Other.

We are in the process of reorganizing our business around our global brands. Our chief operating decision makers are assessing our new structure to determine how we will manage our business and report our financial results. Beginning in the first quarter of 2009, we expect our reportable segments to change as we will no longer manage the business on a geographical basis.

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**Expedia, Inc.**

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

The following table presents our segment information for the years ended December 31, 2008, 2007 and 2006. As a significant portion of our property and equipment is not allocated to our operating segments, we do not report the assets or related depreciation expense as it would not be meaningful, nor do we regularly provide such information to our chief operating decision makers.

| | Year Ended December 31, 2008 | | | |
|---|---|---|---|---|
| | North America | Europe | Corporate and Other | Total |
| | (In thousands) | | | |
| Revenue | $ 2,047,807 | $ 689,978 | $ 199,228 | $ 2,937,013 |
| Operating Income Before Amortization (Unaudited) | $ 898,949 | $ 215,772 | $ (416,947) | $ 697,774 |
| Amortization of intangible assets | | | (69,436) | (69,436) |
| Impairment of goodwill | | | (2,762,100) | (2,762,100) |
| Impairment of intangible and other long-lived assets | | | (233,900) | (233,900) |
| Stock-based compensation | | | (61,291) | (61,291) |
| Operating income (loss) | $ 898,949 | $ 215,772 | $ (3,543,674) | $ (2,428,953) |

| | Year Ended December 31, 2007 | | | |
|---|---|---|---|---|
| | North America | Europe | Corporate and Other | Total |
| | (In thousands) | | | |
| Revenue | $ 1,897,995 | $ 606,997 | $ 160,340 | $ 2,665,332 |
| Operating Income Before Amortization (Unaudited) | $ 821,144 | $ 207,747 | $ (359,404) | $ 669,487 |
| Amortization of intangible assets | | | (77,569) | (77,569) |
| Stock-based compensation | | | (62,849) | (62,849) |
| Operating income (loss) | $ 821,144 | $ 207,747 | $ (499,822) | $ 529,069 |

| | Year Ended December 31, 2006 |
|---|---|

| | North America | Europe | Corporate and Other | Total |
|---|---|---|---|---|
| | (In thousands) | | | |
| Revenue | $ 1,666,804 | $ 452,012 | $ 118,770 | $ 2,237,586 |
| Operating Income Before Amortization (Unaudited) | $ 735,458 | $ 157,945 | $ (294,385) | $ 599,018 |
| Amortization of intangible assets | | | (110,766) | (110,766) |
| Impairment of intangible and other long-lived assets | | | (47,000) | (47,000) |
| Stock-based compensation | | | (80,285) | (80,285) |
| Amortization of non-cash distribution and marketing | (9,638) | | | (9,638) |
| Operating income (loss) | $ 725,820 | $ 157,945 | $ (532,436) | $ 351,329 |

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**Expedia, Inc.**

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

***Definition of Operating Income Before Amortization***

We provide OIBA as a supplemental measure to GAAP operating income (loss) and net income (loss). We define OIBA as operating income (loss) plus: (1) stock-based compensation expense, (2) amortization of intangible assets and goodwill and intangible asset impairment, if applicable, (3) amortization of non-cash distribution and marketing expense and (4) certain one-time items, if applicable.

OIBA is the primary operating metric used by which management evaluates the performance of our business, on which internal budgets are based, and by which management is compensated. Management believes that investors should have access to the same set of tools that management uses to analyze our results. This non-GAAP measure should be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for, or superior to, GAAP. We endeavor to compensate for the limitation of the non-GAAP measure presented by also providing the comparable GAAP measure, GAAP financial statements, and descriptions of the reconciling items and adjustments, to derive the non-GAAP measure. We present a reconciliation of this non-GAAP financial measure to GAAP below.

OIBA represents the combined operating results of Expedia, Inc. s businesses, taking into account depreciation of property and equipment (including internal-use software and website development), which we believe is an ongoing cost of doing business, but excluding the effects of other non-cash expenses that may not be indicative of our core business operations. We believe this performance measure is useful to investors for the following reasons:

- It corresponds more closely to the cash operating income generated from our core operations by excluding significant non-cash operating expenses; and

- It provides greater insight into management decision making at Expedia, as OIBA is our primary internal metric for evaluating the performance of our business.

OIBA has certain limitations in that it does not take into account the impact of certain expenses to our consolidated statements of operations, including stock-based compensation, non-cash payments to partners, acquisition-related accounting and certain one-time items, if applicable.

***Reconciliation of OIBA to Operating Income (Loss) and Net Income (Loss)***

The following table presents a reconciliation of OIBA to operating income (loss) and net income (loss) for the years ended December 31, 2008, 2007 and 2006:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| | (In thousands) | | |
| OIBA (Unaudited) | $ 697,774 | $ 669,487 | $ 599,018 |
| Amortization of intangible assets | (69,436) | (77,569) | (110,766) |
| Impairment of goodwill | (2,762,100) | | |

| | | | |
|---|---|---|---|
| Impairment of intangible and other long-lived assets | (233,900) | | (47,000) |
| Stock-based compensation | (61,291) | (62,849) | (80,285) |
| Amortization of non-cash distribution and marketing | | | (9,638) |
| Operating income (loss) | (2,428,953) | 529,069 | 351,329 |
| Interest income (expense), net | (41,573) | (13,478) | 14,799 |
| Other, net | (44,178) | (18,607) | 18,770 |
| Provision for income taxes | (5,966) | (203,114) | (139,451) |
| Minority interest in (income) loss of consolidated subsidiaries, net | 2,907 | 1,994 | (513) |
| Net income (loss) | $ (2,517,763) | $ 295,864 | $ 244,934 |

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**Expedia, Inc.**

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

***Geographic Information***

The following table presents revenue by geographic area, the United States and all other countries, for the years ended December 31, 2008, 2007 and 2006:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| | (In thousands) | | |
| **Revenue** | | | |
| United States | $ 1,923,452 | $ 1,806,479 | $ 1,610,018 |
| All other countries | 1,013,561 | 858,853 | 627,568 |
| | $ 2,937,013 | $ 2,665,332 | $ 2,237,586 |

The following table presents property and equipment, net for the United States and all other countries, as of December 31, 2008 and 2007:

| | As of December 31, | |
|---|---|---|
| | 2008 | 2007 |
| | (In thousands) | |
| **Property and equipment, net** | | |
| United States | $ 219,543 | $ 158,574 |
| All other countries | 28,411 | 20,916 |
| | $ 247,954 | $ 179,490 |

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**Expedia, Inc.**

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

**NOTE 17 Valuation and Qualifying Accounts**

The following table presents the changes in our valuation and qualifying accounts.

| Description | Balance of Beginning of Period | Charges to Earnings | Charges to Other Accounts (In thousands) | Deductions | Balance at End of Period |
|---|---|---|---|---|---|
| **2008** | | | | | |
| Allowance for doubtful accounts | $ 6,081 | $ 6,121 | $ 1,974 | $ (1,592) | $ 12,584 |
| Other reserves | 6,300 | | | | 5,842 |
| **2007** | | | | | |
| Allowance for doubtful accounts | $ 4,874 | $ 4,289 | $ 395 | $ (3,477) | $ 6,081 |
| Other reserves | 6,046 | | | | 6,300 |
| **2006** | | | | | |
| Allowance for doubtful accounts | $ 3,914 | $ 2,747 | $ 200 | $ (1,987) | $ 4,874 |
| Other reserves | 5,125 | | | | 6,046 |

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**Expedia, Inc.**

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

**NOTE 18 Quarterly Financial Information (Unaudited)**

| | Three Months Ended | | | |
|---|---|---|---|---|
| | March 31 | June 30 | September 30 | December 31 |
| | (In thousands, except per share data) | | | |
| **Year ended December 31, 2008** | | | | |
| Revenue | $ 687,817 | $ 795,048 | $ 833,337 | $ 620,811 |
| Gross profit | 535,874 | 626,174 | 656,336 | 483,885 |
| Operating income (loss)(1) | 89,998 | 170,541 | 199,586 | (2,889,078) |
| Net income (loss)(1) | 51,306 | 96,089 | 94,824 | (2,759,982) |
| Basic earnings per share(2) | $ 0.18 | $ 0.34 | $ 0.33 | $ (9.62) |
| Diluted earnings per share(2) | 0.17 | 0.33 | 0.33 | (9.60) |
| **Year ended December 31, 2007** | | | | |
| Revenue | $ 550,511 | $ 689,923 | $ 759,596 | $ 665,302 |
| Gross profit | 429,213 | 546,277 | 608,543 | 518,898 |
| Operating income | 67,334 | 153,625 | 179,772 | 128,338 |
| Net income | 34,776 | 96,136 | 99,595 | 65,357 |
| Basic earnings per share(2) | $ 0.11 | $ 0.32 | $ 0.34 | $ 0.23 |
| Diluted earnings per share(2) | 0.11 | 0.30 | 0.32 | 0.22 |

(1) Included as part of operating loss and net loss for the fourth quarter of 2008 is an approximately $3 billion impairment charge related to goodwill, intangible and other long-lived assets. In addition, the fourth quarter of 2008 was impacted by a $7 million adjustment related to intangible amortization which should have been included in prior quarterly periods of 2008.

(2) Earnings per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share may not equal the total computed for the year.

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**Expedia, Inc.**

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

**NOTE 19 Guarantor and Non-Guarantor Supplemental Financial Information**

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

During the second quarter of 2008, we reclassified amounts related to borrowings under our revolving credit facility in our condensed consolidating statements of operations, balance sheets and statements of cash flow from Parent to Guarantor Subsidiaries. There was no impact to consolidated totals. Prior periods have been restated to conform to current period presentation.

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**
**Year Ended December 31, 2008**

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Revenue | $ | $ 2,618,064 | $ 740,027 | $ (421,078) | $ 2,937,013 |
| Cost of revenue | | 530,365 | 108,928 | (4,549) | 634,744 |
| Gross profit | | 2,087,699 | 631,099 | (416,529) | 2,302,269 |
| Operating expenses: | | | | | |
| Selling and marketing | | 1,076,662 | 441,189 | (416,448) | 1,101,403 |
| General and administrative | | 261,645 | 94,083 | (297) | 355,431 |
| Technology and content | | 155,633 | 53,103 | 216 | 208,952 |
| Amortization of intangible assets | | 52,928 | 16,508 | | 69,436 |
| Impairment of goodwill | | 2,592,672 | 169,428 | | 2,762,100 |
| Impairment of intangbile and other long-lived assets | | 198,541 | 35,359 | | 233,900 |
| Operating loss | | (2,250,382) | (178,571) | | (2,428,953) |
| Other income (expense): | | | | | |
| Equity in pre-tax earnings of consolidated subsidiaries | (2,490,324) | (138,939) | | 2,629,263 | |
| Other, net | (50,648) | (13,719) | (21,384) | | (85,751) |
| | (2,540,972) | (152,658) | (21,384) | 2,629,263 | (85,751) |

| | | | | | |
|---|---|---|---|---|---|
| Total other income (expense), net | | | | | |
| Loss before income taxes and minority interest | (2,540,972) | (2,403,040) | (199,955) | 2,629,263 | (2,514,704) |
| Provision for income taxes | 23,209 | (83,849) | 54,674 | | (5,966) |
| Minority interest in loss of consolidated subsidiaries, net | | | 2,907 | | 2,907 |
| **Net loss** | $ (2,517,763) | $ (2,486,889) | $ (142,374) | $ 2,629,263 | $ (2,517,763) |

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**Expedia, Inc.**

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

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**
**Year Ended December 31, 2007**

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Revenue | $ | $ 2,439,218 | $ 598,594 | $ (372,480) | $ 2,665,332 |
| Cost of revenue | | 471,845 | 95,449 | (4,893) | 562,401 |
| Gross profit | | 1,967,373 | 503,145 | (367,587) | 2,102,931 |
| Operating expenses: | | | | | |
| Selling and marketing | | 996,114 | 364,213 | (367,767) | 992,560 |
| General and administrative | | 242,818 | 78,232 | 200 | 321,250 |
| Technology and content | | 142,141 | 40,362 | (20) | 182,483 |
| Amortization of intangible assets | | 69,828 | 7,741 | | 77,569 |
| Operating income | | 516,472 | 12,597 | | 529,069 |
| Other income (expense): | | | | | |
| Equity in pre-tax earnings of consolidated subsidiaries | 326,003 | 8,230 | | (334,233) | |
| Other, net | (44,080) | 12,448 | (462) | 9 | (32,085) |
| Total other income (expense), net | 281,923 | 20,678 | (462) | (334,224) | (32,085) |
| Income before income taxes and minority interest | 281,923 | 537,150 | 12,135 | (334,224) | 496,984 |
| Provision for income taxes | 13,941 | (207,877) | (9,178) | | (203,114) |
| Minority interest in loss of consolidated subsidiaries, net | | | 1,994 | | 1,994 |
| **Net income** | $ 295,864 | $ 329,273 | $ 4,951 | $ (334,224) | $ 295,864 |

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**Expedia, Inc.**

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

**CONDENSED COMBINING STATEMENT OF OPERATIONS**
**Year Ended December 31, 2006**

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Revenue | $ | $ 2,080,327 | $ 423,608 | $ (266,349) | $ 2,237,586 |
| Cost of revenue | | 428,656 | 77,831 | (3,849) | 502,638 |
| Gross profit | | 1,651,671 | 345,777 | (262,500) | 1,734,948 |
| Operating expenses: | | | | | |
| Selling and marketing | | 790,991 | 257,781 | (262,577) | 786,195 |
| General and administrative | | 234,937 | 54,631 | 81 | 289,649 |
| Technology and content | | 109,805 | 30,570 | (4) | 140,371 |
| Amortization of intangible assets | | 103,720 | 7,046 | | 110,766 |
| Impairment of long-lived assets | | 47,000 | | | 47,000 |
| Amortization of non-cash distribution and marketing | | 9,638 | | | 9,638 |
| Operating income (loss) | | 355,580 | (4,251) | | 351,329 |
| Other income (expense): | | | | | |
| Equity in pre-tax earnings (losses) of consolidated subsidiaries | 245,464 | (1,080) | | (244,384) | |
| Other, net | (5,451) | 37,675 | 1,345 | | 33,569 |
| Total other income, net | 240,013 | 36,595 | 1,345 | (244,384) | 33,569 |
| Income (loss) before income taxes and minority interest | 240,013 | 392,175 | (2,906) | (244,384) | 384,898 |
| Provision for income taxes | 4,921 | (143,689) | (683) | | (139,451) |
| Minority interest in (income) loss of consolidated subsidiaries, net | | (677) | 164 | | (513) |
| **Net income (loss)** | $ 244,934 | $ 247,809 | $ (3,425) | $ (244,384) | $ 244,934 |

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**Expedia, Inc.**

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

**CONDENSED CONSOLIDATING BALANCE SHEET**
**December 31, 2008**

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| | | **ASSETS** | | | |
| Total current assets | $ 42,084 | $ 1,784,614 | $ 348,496 | $ (976,480) | $ 1,198,714 |
| Investment in subsidiaries | 3,747,416 | 548,970 | | (4,296,386) | |
| Intangible assets, net | | 685,692 | 147,727 | | 833,419 |
| Goodwill | | 3,015,958 | 522,611 | | 3,538,569 |
| Other assets, net | 4,063 | 214,663 | 104,821 | | 323,547 |
| **TOTAL ASSETS** | $ 3,793,563 | $ 6,249,897 | $ 1,123,655 | $ (5,272,866) | $ 5,894,249 |
| | | **LIABILITIES AND STOCKHOLDERS EQUITY** | | | |
| Total current liabilities | $ 570,621 | $ 1,433,356 | $ 538,671 | $ (976,480) | $ 1,566,168 |
| Long-term debt | 894,548 | | | | 894,548 |
| Credit facility | | 650,000 | | | 650,000 |
| Other liabilities and minority interest | | 409,606 | 45,533 | | 455,139 |
| Stockholders equity | 2,328,394 | 3,756,935 | 539,451 | (4,296,386) | 2,328,394 |
| **TOTAL LIABILITIES AND STOCKHOLDERS EQUITY** | $ 3,793,563 | $ 6,249,897 | $ 1,123,655 | $ (5,272,866) | $ 5,894,249 |

**CONDENSED CONSOLIDATING BALANCE SHEET**
**December 31, 2007**

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| | | **ASSETS** | | | |
| Total current assets | $ 18,864 | $ 1,763,796 | $ 147,639 | $ (884,644) | $ 1,045,655 |
| Investment in subsidiaries | 6,196,736 | 480,038 | | (6,676,774) | |
| Intangible assets, net | | 926,023 | 44,734 | | 970,757 |
| Goodwill | | 5,611,454 | 394,884 | | 6,006,338 |
| Other assets, net | 3,158 | 176,977 | 92,537 | | 272,672 |

| | | | | | |
|---|---|---|---|---|---|
| **TOTAL ASSETS** | $ 6,218,758 | $ 8,958,288 | $ 679,794 | $ (7,561,418) | $ 8,295,422 |
| | | | | | |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | | | | |
| Total current liabilities | $ 900,677 | $ 1,631,601 | $ 126,718 | $ (884,644) | $ 1,774,352 |
| Long-term debt | 500,000 | | | | 500,000 |
| Credit facility | | 585,000 | | | 585,000 |
| Other liabilities and minority interest | | 538,962 | 79,027 | | 617,989 |
| Stockholders equity | 4,818,081 | 6,202,725 | 474,049 | (6,676,774) | 4,818,081 |
| **TOTAL LIABILITIES AND STOCKHOLDERS EQUITY** | $ 6,218,758 | $ 8,958,288 | $ 679,794 | $ (7,561,418) | $ 8,295,422 |

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**Expedia, Inc.**

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

**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**

**Year Ended December 31, 2008**

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidated |
|---|---|---|---|---|
| | | (In thousands) | | |
| **Operating activities:** | | | | |
| Net cash provided by operating activities | $ | $ 241,282 | $ 279,406 | $ 520,688 |
| **Investing activities:** | | | | |
| Capital expenditures, including internal-use software and website development | | (133,842) | (25,985) | (159,827) |
| Acquisitions, net of cash acquired | | | (538,439) | (538,439) |
| Reclassification of Reserve Primary Fund holdings | | (80,360) | | (80,360) |
| Distribution from Reserve Primary Fund | | 64,387 | | 64,387 |
| Net settlement of foreign currency forwards | | (55,175) | | (55,175) |
| Purchase of short-term investments | | | (92,923) | (92,923) |
| Other, net | | (157) | 2,936 | 2,779 |
| Net cash used in investing activities | | (205,147) | (654,411) | (859,558) |
| **Financing activities:** | | | | |
| Credit facility borrowings | | 740,000 | | 740,000 |
| Credit facility repayments | | (675,000) | | (675,000) |
| Proceeds from issuance of long-term debt, net of issuance costs | 392,348 | | | 392,348 |
| Transfers (to) from related parties | (386,108) | 115,955 | 270,153 | |
| Other, net | (6,240) | 12,035 | 1,658 | 7,453 |
| Net cash provided by financing activities | | 192,990 | 271,811 | 464,801 |
| Effect of exchange rate changes on cash and cash equivalents | | (69,983) | (7,922) | (77,905) |
| **Net increase (decrease) in cash and cash equivalents** | | 159,142 | (111,116) | 48,026 |
| Cash and cash equivalents at beginning of year | | 379,199 | 238,187 | 617,386 |
| **Cash and cash equivalents at end of year** | $ | $ 538,341 | $ 127,071 | $ 665,412 |

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**Expedia, Inc.**

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

**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**

**Year Ended December 31, 2007**

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidated |
|---|---|---|---|---|
| | | (In thousands) | | |
| **Operating activities:** | | | | |
| Net cash provided by operating activities | $ | $ 610,105 | $ 101,964 | $ 712,069 |
| **Investing activities:** | | | | |
| Capital expenditures, including internal-use software and website development | | (72,263) | (14,395) | (86,658) |
| Other, net | | (39,695) | (53,153) | (92,848) |
| Net cash used in investing activities | | (111,958) | (67,548) | (179,506) |
| **Financing activities:** | | | | |
| Credit facility borrowings | | 755,000 | | 755,000 |
| Credit facility repayments | | (170,000) | | (170,000) |
| Treasury stock activity | (1,397,173) | | | (1,397,173) |
| Transfers (to) from related parties | 1,399,386 | (1,399,386) | | |
| Excess tax benefit on equity awards | 95,702 | | | 95,702 |
| Withholding taxes for stock option exercises | (121,208) | | | (121,208) |
| Other, net | 23,293 | 14,798 | 9,609 | 47,700 |
| Net cash provided by (used in) financing activities | | (799,588) | 9,609 | (789,979) |
| Effect of exchange rate changes on cash and cash equivalents | | 22,100 | (572) | 21,528 |
| **Net increase (decrease) in cash and cash equivalents** | | (279,341) | 43,453 | (235,888) |
| Cash and cash equivalents at beginning of year | | 658,540 | 194,734 | 853,274 |
| **Cash and cash equivalents at end of year** | $ | $ 379,199 | $ 238,187 | $ 617,386 |

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**Expedia, Inc.**

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

**CONDENSED COMBINING STATEMENT OF CASH FLOWS**

**Year Ended December 31, 2006**

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidated |
|---|---|---|---|---|
| | | (In thousands) | | |
| **Operating activities:** | | | | |
| Net cash provided by operating activities | $ 50 | $ 578,387 | $ 39,003 | $ 617,440 |
| **Investing activities:** | | | | |
| Capital expenditures, including internal-use software and website development | (34) | (83,308) | (9,289) | (92,631) |
| Other, net | (16) | (30,957) | 10,104 | (20,869) |
| Net cash provided by (used in) investing activities | (50) | (114,265) | 815 | (113,500) |
| **Financing activities:** | | | | |
| Credit facility repayments | | (230,000) | | (230,000) |
| Proceeds from issuance of long-term debt, net of issuance costs | 495,346 | | | 495,346 |
| Treasury stock activity | (295,691) | | | (295,691) |
| Other, net | (199,655) | 230,449 | 9,323 | 40,117 |
| Net cash provided by financing activities | | 449 | 9,323 | 9,772 |
| Effect of exchange rate changes on cash and cash equivalents | | 42,446 | (300) | 42,146 |
| **Net increase in cash and cash equivalents** | | 507,017 | 48,841 | 555,858 |
| Cash and cash equivalents at beginning of year | | 151,523 | 145,893 | 297,416 |
| **Cash and cash equivalents at end of year** | $ | $ 658,540 | $ 194,734 | $ 853,274 |

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## Index to Exhibits

| Exhibit No. | Exhibit Description | Filed Herewith | Incorporated by Reference | | | |
|---|---|---|---|---|---|---|
| | | | Form | SEC File No. | Exhibit | Filing Date |
| 2.1 | Separation Agreement by and between Expedia, Inc. and IAC/InterActiveCorp, dated as of August 9, 2005 | | 10-Q | 000-51447 | 2.1 | 11/14/2005 |
| 3.1 | Amended and Restated Certificate of Incorporation of Expedia, Inc. | | 8-K | 000-51447 | 3.1 | 08/15/2005 |
| 3.2 | Certificate of Designations of Expedia, Inc. Series A Cumulative Convertible Preferred Stock | | 8-K | 000-51447 | 3.2 | 08/15/2005 |
| 3.3 | Amended and Restated Bylaws of Expedia, Inc. | | 8-K | 000-51447 | 3.3 | 08/15/2005 |
| 4.1 | Equity Warrant Agreement for Warrants to Purchase up to 14,590,514 Shares of Common Stock expiring February 4, 2009, between Expedia, Inc. and The Bank of New York, as Equity Warrant Agent, dated as of August 9, 2005 | | 8-A/A | 000-51447 | 4.2 | 08/22/2005 |
| 4.2 | Stockholder Equity Warrant Agreement for Warrants to Purchase up to 11,450,182 Shares of Common Stock, between Expedia, Inc. and Mellon Investor Services LLC, as Equity Warrant Agent, dated as of August 9, 2005 | | 8-A/A | 000-51447 | 4.3 | 08/22/2005 |
| 4.3 | Optionholder Equity Warrant Agreement for Warrants to Purchase up to 1,558,651 Shares of Common Stock, between Expedia, Inc. and Mellon Investor Services LLC, as Equity Warrant Agent, dated as of August 9, 2005 | | 8-A/A | 000-51447 | 4.4 | 08/22/2005 |
| 4.4 | Indenture, dated as of August 21, 2006, among Expedia, Inc., as Issuer, the Subsidiary Guarantors from time to time parties thereto, and The Bank of New York Trust Company, N.A., as Trustee, relating to Expedia, Inc. s 7.456% Senior Notes due 2018 | | 10-Q | 000-51447 | 4.1 | 11/14/2006 |
| 4.5 | First Supplemental Indenture, dated as of January 19, 2007, among Expedia, | | S-4 | 333-140195 | 4.2 | 01/25/2007 |

| | | | | | |
|---|---|---|---|---|---|
| | Inc., the Subsidiary Guarantors party thereto and The Bank of New York Trust Company, N.A., as Trustee | | | | |
| 10.1 | Governance Agreement, by and among Expedia, Inc., Liberty Media Corporation and Barry Diller, dated as of August 9, 2005 | 10-Q | 000-51447 | 10.6 | 11/14/2005 |
| 10.2 | First Amendment to Governance Agreement, dated as of June 19, 2007, among Expedia, Inc., Liberty Media Corporation and Barry Diller | 8-K | 000-51447 | 10.1 | 06/19/2007 |
| 10.3 | Stockholders Agreement, by and between Liberty Media Corporation and Barry Diller, dated as of August 9, 2005 | 8-K | 000-51447 | 10.7 | 11/14/2005 |

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| Exhibit No. | Exhibit Description | Filed Herewith | Incorporated by Reference | | | |
|---|---|---|---|---|---|---|
| | | | Form | SEC File No. | Exhibit | Filing Date |
| 10.4 | Tax Sharing Agreement by and between Expedia, Inc. and IAC/InterActiveCorp, dated as of August 9, 2005 | | 10-Q | 000-51447 | 10.10 | 11/14/2005 |
| 10.5 | Employee Matters Agreement by and between Expedia, Inc. and IAC/InterActiveCorp, dated as of August 9, 2005 | | 10-Q | 000-51447 | 10.11 | 11/14/2005 |
| 10.6 | Transition Services Agreement by and between Expedia, Inc. and IAC/InterActiveCorp, dated as of August 9, 2005 | | 10-Q | 000-51447 | 10.12 | 11/14/2005 |
| 10.7 | Credit Agreement dated as of July 8, 2005, among Expedia, Inc., a Delaware corporation, Expedia, Inc., a Washington corporation, Travelscape, Inc., a Nevada corporation, hotels.com, a Delaware corporation and Hotwire, Inc., a Delaware corporation, as Borrowers; the Lenders party thereto; Bank of America, N.A., as Syndication Agent; Wachovia Bank, N.A. and The Royal Bank of Scotland PLC, as Co-Documentation Agents; JPMorgan Chase Bank, N.A., as Administrative Agent; and J.P. Morgan Europe Limited, as London Agent ( Credit Agreement ) | | 8-K | 333-124303-01 | 10.1 | 07/14/2005 |
| 10.8 | First Amendment to Credit Agreement, dated as of December 7, 2006 | | SC TO | 005-80935 | (b)(2) | 12/11/2006 |
| 10.9 | Second Amendment to Credit Agreement, dated as of December 18, 2006 | | SC TO/A | 005-80935 | (b)(3) | 12/22/2006 |
| 10.10 | Third Amendment to Credit Agreement, dated as of August 7, 2007 | | 8-K | 000-51447 | 10.1 | 08/08/2007 |
| 10.11 | Office Building Lease by and between Tower 333 LLC, a Delaware limited liability company, and Expedia, Inc., a Washington corporation, dated June 25, 2007 | | 10-Q | 000-51447 | 10.1 | 08/03/2007 |
| 10.12* | | X | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| | Amended and Restated Expedia, Inc. 2005 Stock and Annual Incentive Plan, effective as of January 1, 2009 | | | | | |
| 10.13* | Amended and Restated Expedia, Inc. Non-Employee Director Deferred Compensation Plan, effective as of January 1, 2009 | X | | | | |
| 10.14* | Form of Restricted Stock Unit Agreement (domestic employees) | | 10-Q | 000-51447 | 10.24 | 11/14/2006 |
| 10.15* | Form of Restricted Stock Unit Agreement (directors) | | 10-Q | 000-51447 | 10.9 | 11/14/2005 |
| 10.16* | Summary of Expedia, Inc. Non-Employee Director Compensation Arrangements | | 10-Q | 000-51447 | 10.1 | 05/09/2007 |
| 10.17* | Amended and Restated Expedia, Inc. Executive Deferred Compensation Plan, effective as of January 1, 2009 | X | | | | |

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| Exhibit No. | Exhibit Description | Filed Herewith | Incorporated by Reference Form | SEC File No. | Exhibit | Filing Date |
|---|---|---|---|---|---|---|
| 10.18* | Expedia Restricted Stock Unit Agreement between Dara Khosrowshahi and Expedia, Inc., dated March 7, 2006 | | 10-K | 000-51447 | 10.16 | 03/31/2006 |
| 10.19* | Amendment Agreement between Dara Khosrowshahi and Expedia, Inc., dated December 31, 2008 | X | | | | |
| 10.20* | Employment Agreement between Michael B. Adler and Expedia, Inc., effective as of May 16, 2006 | | 10-Q | 000-51447 | 10.19 | 11/14/2006 |
| 10.21* | Expedia, Inc. Restricted Stock Unit Agreement between Expedia, Inc. and Michael B. Adler, effective as of May 16, 2006 | | 10-Q | 000-51447 | 10.20 | 11/14/2006 |
| 10.22* | Amendment to Employment Agreement and Restricted Stock Unit Agreements between Expedia, Inc. and Michael B. Adler, dated December 31, 2008 | X | | | | |
| 10.23* | Employment Agreement by and between Burke Norton and Expedia, Inc., effective October 25, 2006 | | 10-Q | 000-51447 | 10.21 | 11/14/2006 |
| 10.24* | Expedia, Inc. Restricted Stock Unit Agreement (First Agreement) between Expedia, Inc. and Burke Norton, dated as of October 25, 2006 | | 10-Q | 000-51447 | 10.22 | 11/14/2006 |
| 10.25* | Expedia, Inc. Restricted Stock Unit Agreement (Second Agreement) between Expedia, Inc. and Burke Norton, dated as of October 25, 2006 | | 10-Q | 000-51447 | 10.23 | 11/14/2006 |
| 10.26* | Amendment to Employment Agreement and Restricted Stock Unit Agreements between Expedia, Inc. and Burke Norton, dated December 31, 2008 | X | | | | |
| 10.27* | Separation Agreement between Paul Onnen and Expedia, Inc., dated August 30, 2007 | | 10-Q | 000-51447 | 10.1 | 11/08/2007 |
| 10.28* | Stock Option Agreement between IAC/InterActiveCorp and Barry Diller, dated as of June 7, 2005 | | 10-Q** | 000-20570 | 10.8 | 11/09/2005 |
| 10.29* | IAC/InterActiveCorp 2005 Stock and Annual Incentive Plan | | S-4/A** | 333-124303 | Annex J | 06/17/2005 |
| 10.30* | Employment Agreement by and between Pierre Samec and Expedia, | | 10-K | 000-51447 | 10.29 | 02/22/2008 |

| | | |
|---|---|---|
| | Inc., effective August 7, 2007 | |
| 10.31* | First Amendment to Employment Agreement between Pierre V. Samec and Expedia, Inc., dated October 27, 2008 | X |
| 21 | Subsidiaries of the Registrant | X |
| 23.1 | Consent of Independent Registered Public Accounting Firm | X |
| 31.1 | Certifications of the Chairman and Senior Executive Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | X |

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| Exhibit No. | Exhibit Description | Filed Herewith | Incorporated by Reference Form | SEC File No. | Exhibit | Filing Date |
|---|---|---|---|---|---|---|
| 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 | | | | |

* Indicates a management contract or compensatory plan or arrangement.

** Indicates reference to filing of IAC/InterActiveCorp

*Certain instruments defining the rights of certain holders of long-term debt securities of Expedia, Inc. are omitted pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K. Expedia, Inc. hereby agrees to furnish copies of these instruments to the Securities Exchange Commission upon request.*