Expedia, Inc.
Form 10-Q
November 07, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from to

Commission File Number: 000-51447

EXPEDIA, INC.

(Exact name of registrant as specified in its charter)

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

333 108th Avenue NE

Bellevue, WA 98004

(Address of principal executive office) (Zip Code)

(425) 679-7200

(Registrant s telephone number, including area code)

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

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

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

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

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

The number of shares outstanding of each of the registrant s classes of common stock as of October 14, 2011 was:

Common stock, $0.001 par value per share	241,425,892 shares
Class B common stock, $0.001 par value per share	25,599,998 shares

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Expedia, Inc.

Form 10-Q

For the Quarter Ended September 30, 2011

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Part I. Item 1. Consolidated Financial Statements

EXPEDIA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except for per share data)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Revenue	$ 1,140,835	$ 987,860	$ 2,986,646	$ 2,539,739
Costs and expenses:				
Cost of revenue (1)	209,677	190,033	586,063	516,634
Selling and marketing (1)	408,102	344,019	1,143,229	921,687
Technology and content (1)	116,877	93,297	330,222	267,508
General and administrative (1)	103,745	75,581	271,283	225,744
Amortization of intangible assets	7,959	8,126	22,956	25,498
Spin-off costs	4,430		6,538	
Legal reserves and occupancy tax assessments	692		1,792	
Operating income	289,353	276,804	624,563	582,668
Other income (expense):				
Interest income	5,893	2,454	14,855	4,270
Interest expense	(32,049)	(26,993)	(94,532)	(68,405)
Other, net	7,988	(13,657)	(3,176)	(12,272)
Total other expense, net	(18,168)	(38,196)	(82,853)	(76,407)
Income before income taxes	271,185	238,608	541,710	506,261
Provision for income taxes	(60,779)	(60,584)	(138,205)	(152,285)
Net income	210,406	178,024	403,505	353,976
Net income attributable to noncontrolling interests	(872)	(1,474)	(1,539)	(3,769)
Net income attributable to Expedia, Inc.	$ 209,534	$ 176,550	$ 401,966	$ 350,207
Earnings per share attributable to Expedia, Inc. available to common stockholders:				
Basic	$ 0.77	$ 0.63	$ 1.47	$ 1.23
Diluted	0.75	0.62	1.44	1.21
Shares used in computing earnings per share:				
Basic	272,352	281,215	273,263	284,608
Diluted	279,368	286,284	278,541	289,893
Dividends declared per common share	$ 0.07	$ 0.07	$ 0.21	$ 0.21

(1) Includes stock-based compensation as follows:

Cost of revenue	$ 584	$ 549	$ 1,975	$ 1,825
Selling and marketing	2,991	3,027	10,173	10,462
Technology and content	3,732	3,210	11,812	10,840

General and administrative	7,752	6,235	21,852	23,437

See accompanying notes.

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EXPEDIA, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	September 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,453,508	$ 714,332
Restricted cash and cash equivalents	18,555	14,215
Short-term investments	552,411	515,627
Accounts receivable, net of allowance of $15,192 and $12,114	431,064	328,468
Prepaid expenses and other current assets	142,635	128,985
Total current assets	2,598,173	1,701,627
Property and equipment, net	340,972	277,061
Long-term investments and other assets	305,129	232,239
Intangible assets, net	779,248	797,707
Goodwill	3,653,161	3,642,360
TOTAL ASSETS	$ 7,676,683	$ 6,650,994
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable, merchant	$ 893,668	$ 700,730
Accounts payable, other	213,201	181,765
Deferred merchant bookings	1,051,226	654,632
Deferred revenue	36,477	29,466
Accrued expenses and other current liabilities	421,697	322,827
Total current liabilities	2,616,269	1,889,420
Long-term debt	1,645,414	1,644,894
Deferred income taxes, net	258,326	248,461
Other long-term liabilities	118,654	131,516
Commitments and contingencies		
Stockholders equity:		
Preferred stock $.001 par value		
Authorized shares: 100,000		
Series A shares issued and outstanding: 1 and 1		
Common stock $.001 par value	351	348
Authorized shares: 1,600,000		
Shares issued: 351,523 and 348,416		
Shares outstanding: 243,464 and 248,347		
Class B common stock $.001 par value	26	26
Authorized shares: 400,000		
Shares issued and outstanding: 25,600 and 25,600		
Additional paid-in capital	6,153,688	6,116,697
Treasury stock Common stock, at cost	(2,449,884)	(2,241,191)
Shares: 108,059 and 100,069		

Retained earnings (deficit)	(792,567)	(1,194,533)
Accumulated other comprehensive income (loss)	(13,819)	(8,803)
Total Expedia, Inc. stockholders equity	2,897,795	2,672,544
Noncontrolling interest	140,225	64,159
Total stockholders equity	3,038,020	2,736,703
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 7,676,683	$ 6,650,994

See accompanying notes.

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EXPEDIA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Operating activities:		
Net income	$ 403,505	$ 353,976
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property and equipment, including internal-use software and website development	110,873	86,605
Amortization of stock-based compensation	45,812	46,564
Amortization of intangible assets	22,956	25,498
Deferred income taxes	7,202	8,975
Foreign exchange loss on cash, cash equivalents and short-term investments, net	18,478	8,180
Realized (gain) loss on foreign currency forwards	8,117	(7,170)
Other	10,694	8,300
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(103,402)	(113,742)
Prepaid expenses and other current assets	(33,369)	(33,734)
Accounts payable, merchant	193,010	171,300
Accounts payable, other, accrued expenses and other current liabilities	138,158	36,176
Deferred merchant bookings	396,480	334,776
Deferred revenue	6,976	12,013
Net cash provided by operating activities	1,225,490	937,717
Investing activities:		
Capital expenditures, including internal-use software and website development	(173,895)	(113,324)
Purchases of investments	(1,179,555)	(803,575)
Sales and maturities of investments	1,066,751	93,412
Acquisitions, net of cash acquired	(15,970)	(36,353)
Net settlement of foreign currency forwards	(8,117)	7,170
Other, net	1,039	3,458
Net cash used in investing activities	(309,747)	(849,212)
Financing activities:		
Proceeds from issuance of long-term debt, net of issuance costs		742,994
Treasury stock activity	(208,693)	(394,403)
Payment of dividends to stockholders	(57,732)	(59,825)
Proceeds from exercise of equity awards	23,127	38,941
Sales (purchases) of interest in controlled subsidiaries, net	70,626	(77,859)
Excess tax benefit on equity awards	6,892	6,475
Changes in restricted cash and cash equivalents	(4,011)	(971)
Other, net	6,503	(14,360)
Net cash provided by (used in) financing activities	(163,288)	240,992
Effect of exchange rate changes on cash and cash equivalents	(13,279)	(21,170)

Net increase in cash and cash equivalents	739,176	308,327
Cash and cash equivalents at beginning of period	714,332	642,544
Cash and cash equivalents at end of period	$ 1,453,508	$ 950,871
Supplemental cash flow information		
Cash paid for interest	$ 120,907	$ 75,379
Income tax payments, net	47,674	130,343

See accompanying notes.

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Notes to Consolidated Financial Statements

September 30, 2011

(Unaudited)

Note 1 Basis of Presentation

Description of Business

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

Spin-off

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

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

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

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

Basis of Presentation

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

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

Accounting Estimates

We use estimates and assumptions in the preparation of our interim unaudited consolidated financial statements in accordance with GAAP. Our estimates and assumptions affect the reported amounts of assets and liabilities and disclosure

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Notes to Consolidated Financial Statements (Continued)

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

Reclassifications

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

Seasonality

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

Note 2 Summary of Significant Accounting Policies

Recently Adopted Accounting Pronouncements

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

In September 2011, the FASB issued updated guidance on the periodic testing of goodwill for impairment. This guidance allows companies to assess qualitative factors to determine if it is more-likely-than-not that goodwill might be impaired and whether it is necessary to perform the two-step goodwill impairment test required under current accounting standards. This guidance is applicable for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 with early adoption permitted. On October 1, 2011, we early adopted this guidance and our adoption did not materially impact our consolidated financial statements.

New Accounting Pronouncements

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

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Notes to Consolidated Financial Statements (Continued)

Note 3 Fair Value Measurements

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

	Total	Level 1 (In thousands)	Level 2
Assets			
Cash equivalents:			
Money market funds	$ 619,662	$ 619,662	$
Time deposits	173,305		173,305
Derivatives:			
Foreign currency forward contracts	4,505		4,505
Investments:			
Time deposits	483,041		483,041
Corporate debt securities	288,860		288,860
Total assets	$ 1,569,373	$ 619,662	$ 949,711

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

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

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

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

We invest in investment grade corporate debt securities, all of which are classified as available for sale. As of September 30, 2011, we had $69 million of short-term and $220 million of long-term available for sale investments and the amortized cost basis of the investments approximated their fair value with gross unrealized gains of $2 million and gross unrealized losses of $1 million. As of December 31, 2010, we had $81 million of short-term and $163 million of long-term available for sale investments and the amortized cost basis of these investments approximated their fair value with gross unrealized gains of $1 million and gross unrealized losses of less than $1 million.

We also hold time deposit investments with financial institutions. Time deposits with original maturities of less than 90 days are classified as cash equivalents and those with remaining maturities of less than one year are classified within short-term investments. Of the total time deposit investments, $85 million and $88 million as of September 30, 2011 and December 31, 2010 related to balances held by our majority-owned subsidiaries.

Notes to Consolidated Financial Statements (Continued)

Derivative instruments are carried at fair value on our consolidated balance sheets. We use foreign currency forward contracts to economically hedge certain merchant revenue exposures and in lieu of holding certain foreign currency cash for the purpose of economically hedging our foreign currency-denominated operating liabilities. Our goal in managing our foreign exchange risk is to reduce, to the extent practicable, our potential exposure to the changes that exchange rates might have on our earnings, cash flows and financial position. Our foreign currency forward contracts are typically short-term and, as they do not qualify for hedge accounting treatment, we classify the changes in their fair value in other, net. As of September 30, 2011, we were party to outstanding forward contracts hedging our liability and revenue exposures with a total net notional value of $149 million. We had a net forward asset of $5 million as of September 30, 2011 recorded in prepaid expenses and other current assets and a net forward liability of $1 million as of December 31, 2010 recorded in accrued expenses and other current liabilities. We recorded $5 million and $4 million in net gains from foreign currency forward contracts during each of the three months ended September 30, 2011 and 2010, and less than $1 million in net losses and $5 million in net gains for the nine months ended September 30, 2011 and 2010.

Note 4 Debt

The following table sets forth our outstanding debt:

	September 30, 2011	December 31, 2010
	(In thousands)	
8.5% senior notes due 2016, net of discount	$ 396,149	$ 395,673
7.456% senior notes due 2018	500,000	500,000
5.95% senior notes due 2020, net of discount	749,265	749,221
Long-term debt	$ 1,645,414	$ 1,644,894

Long-term Debt

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

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

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Notes to Consolidated Financial Statements (Continued)

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

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

	September 30, 2011	December 31, 2010
	(In millions)	
8.5% senior notes	$ 431	$ 438
7.456% senior notes	563	561
5.95% senior notes	777	743

The 7.456%, 8.5% and 5.95% Notes (collectively the Notes) are senior unsecured obligations guaranteed by certain domestic Expedia subsidiaries and rank equally in right of payment with all of our existing and future unsecured and unsubordinated obligations. For further information, see Note 9 Guarantor and Non-Guarantor Supplemental Financial Information. Accrued interest related to the Notes was $19 million and $49 million as of September 30, 2011 and December 31, 2010.

Credit Facility

Expedia, Inc. maintains a $750 million unsecured revolving credit facility with a group of lenders. In August 2011, we amended the revolving credit facility to, among other things, extend the maturity date of the revolving credit facility to August 2016, reduce the interest rate spread on drawn amounts thereunder and reduce the commitment fee on undrawn amounts thereunder. The facility is unconditionally guaranteed by certain domestic Expedia subsidiaries that are the same as under the Notes. As of September 30, 2011 and December 31, 2010, we had no revolving credit facility borrowings outstanding. The facility bears interest based on the Company s credit ratings, with drawn amounts bearing interest at LIBOR plus 150 basis points and the commitment fee on undrawn amounts at 22.5 basis points as of September 30, 2011. The facility contains financial covenants including leverage and minimum interest coverage ratios.

The amount of stand-by letters of credit (LOC) issued under the facility reduces the amount available under the credit facility. As of September 30, 2011, and December 31, 2010, there was $20 million and $27 million of outstanding stand-by LOCs issued under the facility.

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Notes to Consolidated Financial Statements (Continued)

Note 5 Stockholders Equity

Dividends on our Common Stock

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

Declaration Date	Dividend Per Share	Record Date	Total Amount (in thousands)	Payment Date
Nine months ended September 30, 2011:				
February 9, 2011	$ 0.07	March 11, 2011	$ 19,352	March 31, 2011
April 27, 2011	0.07	May 27, 2011	19,232	June 17, 2011
July 26, 2011	0.07	August 26, 2011	19,148	September 16, 2011
Nine months ended September 30, 2010:				
February 10, 2010	$ 0.07	March 11, 2010	$ 20,220	March 31, 2010
April 27, 2010	0.07	May 27, 2010	19,902	June 17, 2010
July 26, 2010	0.07	August 26, 2010	19,703	September 16, 2010

In addition, on October 26, 2011, the Executive Committee, acting on behalf of the Board of Directors, declared a quarterly cash dividend of $0.07 per share of outstanding common stock to stockholders of record as of the close of business on November 18, 2011. Future declarations of dividends are subject to final determination of our Board of Directors.

Share Repurchases

In October 2010, the Executive Committee, acting on behalf of the Board of Directors, authorized a repurchase of up to 20 million outstanding shares of our common stock. During the first nine months of 2011, we repurchased, through open market transactions, 7.6 million shares under this authorization for a total cost of $199 million, excluding transaction costs, representing an average repurchase price of $26.39 per share. As of September 30, 2011, 11.8 million shares remain authorized for repurchase under the authorization with no fixed termination date for the repurchases. Subsequent to the end of the third quarter of 2011, we repurchased an additional 2.4 million shares for a total cost of $65 million, excluding transaction costs, representing an average repurchase price of $26.74 per share.

Comprehensive Income

Comprehensive income was $173 million and $219 million for the three months ended September 30, 2011 and 2010, and $397 million and $344 million for the nine months ended September 30, 2011 and 2010. The primary difference between net income attributable to Expedia, Inc. as reported and comprehensive income was foreign currency translation adjustments.

Noncontrolling Interest

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

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Notes to Consolidated Financial Statements (Continued)

Note 6 Earnings Per Share

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

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
	(In thousands, except per share data)			
Net income attributable to Expedia, Inc.	$ 209,534	$ 176,550	$ 401,966	$ 350,207
Earnings per share attributable to Expedia, Inc. available to common stockholders:				
Basic	$ 0.77	$ 0.63	$ 1.47	$ 1.23
Diluted	0.75	0.62	1.44	1.21
Weighted average number of shares outstanding:				
Basic	272,352	281,215	273,263	284,608
Dilutive effect of:				
Options to purchase common stock	4,161	4,002	3,527	4,171
Other dilutive securities	2,855	1,067	1,751	1,114
Diluted	279,368	286,284	278,541	289,893

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 7 Commitments and Contingencies

Legal Proceedings

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

Litigation Relating to Hotel Occupancy Taxes. Seventy-seven lawsuits have been filed by cities, counties and states involving hotel occupancy taxes. These lawsuits are in various stages and we continue to defend against the claims made in them vigorously. With respect to the principal claims in these matters, we believe that the ordinances at issue do not apply to the services we provide, namely the facilitation of hotel reservations, and, therefore, that we do not owe the taxes that are claimed to be owed. We believe that the ordinances at issue generally impose occupancy and other taxes on entities that own, operate or control hotels (or similar businesses) or furnish or provide hotel rooms or similar accommodations. To date, twenty-four of these lawsuits have been dismissed. Some of these dismissals have been without prejudice and, generally, allow the governmental entity or entities to seek administrative remedies prior to pursuing further litigation. Twelve dismissals were based on a finding that we and the other defendants were not subject to the local hotel occupancy tax ordinance or that the local government lacked standing to pursue their claims. As a result of this litigation and other attempts by certain jurisdictions to levy such taxes, we have established a reserve for the potential settlement of issues related to hotel occupancy taxes, consistent with