Expedia, Inc.
Form 10-Q
April 29, 2016
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2016

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: 001-37429

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 April 15, 2016 was:

Common stock, $0.0001 par value per share	136,303,595 shares
Class B common stock, $0.0001 par value per share	12,799,999 shares

Table of Contents

Expedia, Inc.

Form 10-Q

For the Quarter Ended March 31, 2016

Contents

Table of Contents

Part I. Item 1. Consolidated Financial Statements

EXPEDIA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except for per share data)

(Unaudited)

	Three months ended March 31, 2016	Three months ended March 31, 2015
Revenue	$ 1,903,961	$ 1,373,397
Costs and expenses:		
Cost of revenue [(1)]	402,841	$ 321,918
Selling and marketing [(1)]	1,040,607	763,381
Technology and content [(1)]	293,283	190,455
General and administrative [(1)]	147,809	116,397
Amortization of intangible assets	89,999	25,042
Legal reserves, occupancy tax and other	1,974	2,529
Restructuring and related reorganization charges [(1)]	29,803	4,676
Operating loss	(102,355)	(51,001)
Other income (expense):		
Interest income	3,567	5,545
Interest expense	(43,960)	(27,994)
Other, net	(28,195)	105,101
Total other income (expense), net	(68,588)	82,652
Income (loss) before income taxes	(170,943)	31,651
Provision for income taxes	49,139	910
Net income (loss)	(121,804)	32,561
Net (income) loss attributable to noncontrolling interests	(57)	11,582
Net income (loss) attributable to Expedia, Inc.	$ (121,861)	$ 44,143
Earnings (loss) per share attributable to Expedia, Inc. available to common stockholders:		
Basic	$ (0.81)	$ 0.35
Diluted	(0.81)	0.34
Shares used in computing earnings (loss) per share:		
Basic	151,052	127,563
Diluted	151,052	131,402

Dividends declared per common share	$	0.24	$	0.18

(1) Includes stock-based compensation as follows:

Cost of revenue	$	2,679	$	1,158
Selling and marketing		8,301		6,472
Technology and content		12,350		6,784
General and administrative		19,462		14,472
Restructuring and related reorganization charges		11,173		

See accompanying notes.

2

Table of Contents

EXPEDIA, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(Unaudited)

	Three months ended March 31, 2016	2015
Net income (loss)	$ (121,804)	$ 32,561
Other comprehensive income (loss), net of tax		
Currency translation adjustments, net of tax(1)	6,654	(133,851)
Unrealized gains (losses) on available for sale securities, net of tax(2)	474	475
Other comprehensive income (loss), net of tax	7,128	(133,376)
Comprehensive loss	(114,676)	(100,815)
Less: Comprehensive income (loss) attributable to noncontrolling interests	9,658	(44,252)
Comprehensive loss attributable to Expedia, Inc.	$ (124,334)	$ (56,563)

(1) Net of tax of $11 million for the three months ended March 31, 2016 associated with debt translation losses related to a net investment hedge.

(2) Net gains (losses) recognized and reclassified during the three months ended March 31, 2016 and 2015 were immaterial.

See accompanying notes.

Table of Contents

EXPEDIA, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	March 31, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,063,329	$ 1,676,299
Restricted cash and cash equivalents	42,804	11,324
Short-term investments	28,587	33,739
Accounts receivable, net of allowance of $29,457 and $27,035	1,363,321	1,082,406
Income taxes receivable	117,956	13,805
Prepaid expenses and other current assets	180,135	158,688
Total current assets	3,796,132	2,976,261
Property and equipment, net	1,174,324	1,064,259
Long-term investments and other assets	634,983	642,802
Deferred income taxes	19,292	15,458
Intangible assets, net	2,738,961	2,793,954
Goodwill	8,026,352	7,992,941
TOTAL ASSETS	$ 16,390,044	$ 15,485,675
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable, merchant	$ 1,372,340	$ 1,329,870
Accounts payable, other	633,369	485,557
Deferred merchant bookings	3,616,584	2,337,037
Deferred revenue	293,030	235,809
Income taxes payable	53,023	68,019
Accrued expenses and other current liabilities	989,614	1,469,725
Total current liabilities	6,957,960	5,926,017
Long-term debt	3,209,491	3,183,140
Deferred income taxes	526,406	473,841
Other long-term liabilities	328,994	314,432
Commitments and contingencies		
Redeemable noncontrolling interests	669,984	658,478
Stockholders equity:		
Common stock $.0001 par value	22	22
Authorized shares: 1,600,000		
Shares issued: 221,629 and 220,383		

Shares outstanding: 136,979 and 137,459		
Class B common stock $.0001 par value	1	1
Authorized shares: 400,000		
Shares issued and outstanding: 12,800 and 12,800		
Additional paid-in capital	8,787,676	8,696,508
Treasury stock - Common stock, at cost	(4,241,931)	(4,054,909)
Shares: 84,650 and 82,924		
Retained earnings	373,300	507,666
Accumulated other comprehensive income (loss)	(287,368)	(284,894)
Total Expedia, Inc. stockholders equity	4,631,700	4,864,394
Non-redeemable noncontrolling interests	65,509	65,373
Total stockholders equity	4,697,209	4,929,767
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 16,390,044	$ 15,485,675

See accompanying notes.

Table of Contents

EXPEDIA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three months ended March 31, 2016	Three months ended March 31, 2015
Operating activities:		
Net income (loss)	$ (121,804)	$ 32,561
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	105,255	74,445
Amortization of stock-based compensation	53,965	28,886
Amortization of intangible assets	89,999	25,042
Deferred income taxes	21,886	3,478
Foreign exchange (gain) loss on cash, cash equivalents and short-term investments, net	(33,707)	39,665
Realized (gain) loss on foreign currency forwards	2,102	(16,907)
Noncontrolling interest basis adjustment		(79,476)
Other	(3,613)	4,849
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(267,867)	(215,036)
Prepaid expenses and other assets	(37,399)	(23,884)
Accounts payable, merchant	42,422	73,098
Accounts payable, other, accrued expenses and other current liabilities	55,446	14,477
Tax payable/receivable, net	(119,835)	(83,213)
Deferred merchant bookings	1,256,439	1,165,473
Deferred revenue	55,974	7,606
Net cash provided by operating activities	1,099,263	1,051,064
Investing activities:		
Capital expenditures, including internal-use software and website development	(167,578)	(102,650)
Purchases of investments		(346,043)
Sales and maturities of investments	8,215	129,019
Acquisitions, net of cash acquired		(326,088)
Net settlement of foreign currency forwards	(2,102)	16,907
Other, net	2,230	1,807
Net cash used in investing activities	(159,235)	(627,048)
Financing activities:		
Payment of HomeAway Convertible Notes	(400,443)	

Purchases of treasury stock	(187,022)	(44,923)
Payment of dividends to stockholders	(36,174)	(22,895)
Proceeds from exercise of equity awards and employee stock purchase plan	25,680	29,011
Excess tax benefit on equity awards	9,060	10,059
Withholding taxes for stock option exercises	(1,282)	
Other, net	(13,710)	2,084
Net cash used in financing activities	(603,891)	(26,664)
Effect of exchange rate changes on cash and cash equivalents	50,893	(64,769)
Net increase in cash and cash equivalents	387,030	332,583
Cash and cash equivalents at beginning of period	1,676,299	1,402,700
Cash and cash equivalents at end of period	$ 2,063,329	$ 1,735,283
Supplemental cash flow information		
Cash paid for interest	$ 52,982	$ 53,442
Income tax payments, net	39,202	68,461

See accompanying notes.

Table of Contents

Notes to Consolidated Financial Statements

March 31, 2016

(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 , Travelocity®, Expedia® Affiliate Network, Classic Vacations®, Expedia Local Expert®, Egencia®, Expedia® CruiseShipCenters®, Venere Net SpA (Venere), trivago GmbH (trivago), CarRentals.com , Wotif.com Holdings Limited (Wotif Group), Orbitz Worldwide, Inc. (Orbitz) acquired in September 2015, HomeAway, Inc. acquired in December 2015, and eLong , Inc. (eLong) through its sale on May 22, 2015. In addition, many of these brands have related international points of sale, including those as part of AirAsia-Expedia upon our acquisition of a controlling interest in March 2015. We refer to Expedia, Inc. and its subsidiaries collectively as Expedia, the Company, us, we and our in these consolidated financial statements.

Basis of Presentation

These accompanying financial statements present our results of operations, financial position and cash flows on a consolidated basis. The unaudited consolidated financial statements include Expedia, Inc., our wholly-owned subsidiaries, and entities we control, or in which we have a variable interest and are the primary beneficiary of 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, 2015, previously filed with the Securities and Exchange Commission.

Accounting Estimates

We use estimates and assumptions in the preparation of our interim unaudited consolidated financial statements in accordance with GAAP. Our estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of our interim unaudited consolidated financial statements. These estimates and assumptions also affect the reported amount of net income or loss 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 transactional taxes, such as potential settlements related to occupancy and excise taxes; loss contingencies; loyalty program liabilities; redeemable noncontrolling interests; acquisition purchase price allocations; stock-based compensation and accounting for derivative instruments.

Notes to Consolidated Financial Statements (Continued)

Reclassifications

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

Seasonality

We generally experience seasonal fluctuations in the demand for our travel products and services. For example, traditional leisure travel bookings are generally the highest in the first three quarters as travelers plan and book their spring, summer and holiday travel. The number of bookings typically decreases in the fourth quarter. Because revenue for most of our travel products, including merchant and agency hotel, is recognized when the travel takes place rather than when it is booked, revenue typically lags bookings by several weeks or longer. The seasonal revenue impact is exacerbated with respect to income by the nature of our variable cost of revenue and direct sales and marketing costs, which we typically realize in closer alignment to booking volumes, and the more stable nature of our fixed costs. Furthermore, operating profits for our primary advertising business, trivago, are experienced in the second half of the year as selling and marketing costs offset revenue in the first half of the year as we aggressively market during the busy booking period for summer travel. As a result, revenue and income are typically the lowest in the first quarter and highest in the third quarter. The continued growth of our international operations or a change in our product mix, including the assimilation, growth and shift to more of a transaction-based business model for the vacation rental listing business of HomeAway, may influence the typical trend of the seasonality in the future.

Note 2 Summary of Significant Accounting Policies

Recently Adopted Accounting Policies

As of January 1, 2016, we adopted the Accounting Standard Update (ASU) requiring debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Upon adoption, we retroactively restated deferred issuance costs from current and long-term assets to the respective debt liability. The adoption of this guidance and prior fiscal year reclassifications did not have a material impact on our previously reported consolidated financial statements.

As of January 1, 2016, we prospectively adopted the ASU clarifying the accounting for fees paid by a customer in a cloud computing arrangement. This standard clarified whether a customer should account for a cloud computing arrangement as an acquisition of a software license or as a service arrangement by providing characteristics that a cloud computing arrangement must have in order to be accounted for as a software license acquisition. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If the arrangement does not include a software license, the customer should account for a cloud computing arrangement as a service contract. The adoption of this new guidance did not have a material impact on our consolidated financial statements.

Recent Accounting Policies Not Yet Adopted

In May 2014, the Financial Accounting Standards Board (FASB) issued an ASU amending revenue recognition guidance and requiring more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the

FASB issued an ASU deferring the effective date of the revenue standard so it would be effective for annual and interim reporting periods beginning after December 15, 2017, with early adoption prohibited before December 15, 2016. We are in the process of evaluating the impact of the adoption of this new guidance on our consolidated financial statements.

In January 2016, the FASB issued new guidance related to accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the FASB clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The new standard is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. We are in the process of evaluating the impact of adopting this new guidance on our consolidated financial statements.

Notes to Consolidated Financial Statements (Continued)

In February 2016, the FASB issued new guidance related to accounting and reporting guidelines for leasing arrangements. The new guidance requires organizations that lease assets to recognize assets and liabilities on the balance sheet related to the rights and obligations created by those leases regardless of whether they are classified as finance or operating leases. Consistent with current guidance, the recognition, measurement, and presentation of expenses and cash flows arising from a lease primarily will depend on its classification as a finance or operating lease. The guidance also requires new disclosures to help financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. This guidance is effective for annual and interim reporting periods beginning after December 15, 2018. Early adoption is permitted and should be applied using a modified retrospective approach. We are in the process of evaluating the impact of adopting this new guidance on our consolidated financial statements.

In March 2016, the FASB issued new guidance related to accounting for share-based payments. The updated guidance changes how companies account for certain aspects of share-based payments awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The guidance is effective for annual and interim reporting periods beginning after December 15, 2016, with early adoption permitted. We are in the process of evaluating the impact of adopting this new guidance on our consolidated financial statements.

Note 3 Acquisitions and Other Investments

The following summarizes the allocation of the purchase price for our first quarter of 2015 acquisitions, including Travelocity and a controlling interest in our former 50/50 joint venture with AirAsia Berhad, in thousands:

Goodwill	$ 190,190
Intangible assets with indefinite lives	163,400
Intangible assets with definite lives[(1)]	140,285
Net assets and non-controlling interests acquired[(2)]	(20,619)
Deferred tax liabilities	(7,910)
Total [(3)]	$ 465,346

(1) Acquired definite-lived intangible assets primarily consist of customer relationship, reacquired right and supplier relationship assets and have estimated useful lives of between 4 and 10 years with a weighted average life of 5.7 years.
(2) Includes cash acquired of $41 million.
(3) The total purchase price includes noncash consideration of $99 million related to an equity method investment, which was consolidated upon our acquisition of a controlling interest, with the remainder paid in cash during the period.

For our acquisitions of Orbitz in September 2015 and HomeAway in December 2015, the purchase price allocations remain preliminary and subject to revision while we accumulate all relevant information regarding the fair values of the net assets acquired. The final allocations may include changes to the acquisition date fair value of intangible assets, goodwill, deferred taxes, deferred revenue as well as operating assets and liabilities. During the first quarter of 2016, there were no adjustments made to the preliminary purchase price allocation that materially impacted the consolidated balance sheet or current period earnings.

Other Investments. On March 10, 2015, we announced that Expedia and Decolar.com, Inc. (Decolar), the Latin American online travel company that operates the Decolar.com and Despegar.com branded websites, have expanded our partnership to include deeper cooperation on hotel supply and a $270 million cost method investment by Expedia in Decolar, which is included within long-term investments and other assets on our consolidated balance sheet.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

Note 4 Fair Value Measurements

Financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2016 are classified using the fair value hierarchy in the table below:

	Total	Level 1 (In thousands)	Level 2
Assets			
Cash equivalents:			
Money market funds	$ 265,633	$ 265,633	$
Time deposits	94,901		94,901
Investments:			
Corporate debt securities	90,502		90,502
Total assets	$ 451,036	$ 265,633	$ 185,403
Liabilities			
Derivatives:			
Foreign currency forward contracts	$ 15,602	$	$ 15,602

Financial assets measured at fair value on a recurring basis as of December 31, 2015 are classified using the fair value hierarchy in the table below:

	Total	Level 1 (In thousands)	Level 2
Assets			
Cash equivalents:			
Money market funds	$ 218,340	$ 218,340	$
Time deposits	29,126		29,126
Derivatives:			
Foreign currency forward contracts	8,045		8,045
Investments:			
Corporate debt securities	98,403		98,403
Total assets	$ 353,914	$ 218,340	$ 135,574

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

As of March 31, 2016 and December 31, 2015, our cash and cash equivalents consisted primarily of prime institutional money market funds with maturities of three months or less, time deposits as well as bank account balances.

We invest in investment grade corporate debt securities, all of which are classified as available for sale. As of March 31, 2016, we had $29 million of short-term and $62 million of long-term available for sale investments and the amortized cost basis of the investments approximated their fair value with gross unrealized gains and gross unrealized losses both of less than $1 million. As of December 31, 2015, we had $34 million of short-term and $65 million of long-term available for sale investments and the amortized cost basis of the investments approximated their fair value with both gross unrealized gains 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 three months are classified as cash equivalents and those with remaining maturities of less than one year are classified within short-term investments.

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, foreign denominated liabilities related to certain of our loyalty programs and our other foreign currency-denominated operating liabilities. Our goal in managing our foreign exchange risk is to reduce, to the extent practicable, our potential exposure to the changes that exchange rates might have on our earnings, cash flows and financial position. Our foreign currency forward contracts are typically short-term and, as they do not qualify for hedge accounting treatment, we classify the changes in their fair value in other, net. As of March 31, 2016, we were party to outstanding forward contracts hedging our liability and revenue exposures with a total net notional value of $2.3 billion. We had a net forward liability of $16 million as of March 31, 2016 recorded in accrued expenses and other current liabilities and a net forward asset of $8 million as of December 31, 2015 recorded in prepaid expenses and other current assets. We recorded $26 million in net losses and $19 million in net gains from foreign currency forward contracts during the three months ended March 31, 2016 and 2015.

Note 5 Debt

The following table sets forth our outstanding debt:

	March 31, 2016	December 31, 2015
	(In thousands)	
7.456% senior notes due 2018	$ 500,000	$ 500,000
5.95% senior notes due 2020	746,416	746,216
2.5% (650 million) senior notes due 2022	729,285	703,254
4.5% senior notes due 2024	493,964	493,797
5.0% senior notes due 2026	739,826	739,873
Long-term debt(1)	$ 3,209,491	$ 3,183,140

(1) Net of applicable discounts and debt issuance costs.

Long-term Debt

Our $500 million in registered senior unsecured notes outstanding at March 31, 2016 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. At any time Expedia may redeem the 7.456% Notes at a redemption price of 100% of the principal plus accrued interest, plus a make-whole premium, in whole or in part.

Our $750 million in registered senior unsecured notes outstanding at March 31, 2016 are due in August 2020 and bear interest at 5.95% (the 5.95% Notes). The 5.95% Notes were issued at 99.893% of par resulting in a discount, which is being amortized over their life. Interest is payable semi-annually in February and August of each year. We may redeem the 5.95% Notes at a redemption price of 100% of the principal plus accrued interest, plus a make-whole premium, in whole or in part.

Our Euro 650 million in registered senior unsecured notes outstanding at March 31, 2016 are due in June 2022 and bear interest at 2.5% (the 2.5% Notes). The 2.5% Notes were issued at 99.525% of par resulting in a discount, which is being amortized over their life. Interest is payable annually in arrears in June of each year, beginning June 3, 2016. We may redeem the 2.5% Notes at our option, at whole or in part, at any time or from time to time. If we elect to redeem the 2.5% Notes on or after March 3, 2022, we may redeem them at a redemption price of 100% of the principal plus accrued and unpaid interest. Subject to certain limited exceptions, all payments of interest and principal for the 2.5% Notes will be made in Euros.

The aggregate principal value of the 2.5% Notes is designated as a hedge of our net investment in certain Euro functional currency subsidiaries. The notes are measured at Euro to U.S. Dollar exchange rates at each balance sheet date and transaction gains or losses due to changes in rates are recorded in accumulated other comprehensive income (loss) (OCI). The Euro-denominated net assets of these subsidiaries are translated into U.S. Dollars at each balance sheet date, with effects of foreign currency changes also reported in accumulated OCI. Since the notional amount of the recorded Euro-denominated debt is less than the notional amount of our net investment, we do not expect to incur any ineffectiveness on this hedge.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

Our $500 million in registered senior unsecured notes outstanding at March 31, 2016 are due in August 2024 and bear interest at 4.5% (the 4.5% Notes). The 4.5% Notes were issued at 99.444% of par resulting in a discount, which is being amortized over their life. Interest is payable semi-annually in February and August of each year. We may redeem the 4.5% Notes at our option at any time in whole or from time to time in part. If we elect to redeem the 4.5% Notes prior to May 15, 2024, we may redeem them at a redemption price of 100% of the principal plus accrued interest, plus a make-whole premium. If we elect to redeem the 4.5% Notes on or after May 15, 2024, we may redeem them at a redemption price of 100% of the principal plus accrued interest.

Our $750 million in privately placed senior unsecured notes outstanding at March 31, 2016 are due in February 2026 and bear interest at 5.0% (the 5.0% Notes). The 5.0% Notes were issued at 99.535% of par resulting in a discount, which is being amortized over their life. Interest is payable semi-annually in arrears in February and August of each year, beginning August 15, 2016. We may redeem the 5.0% Notes at our option at any time in whole or from time to time in part. If we elect to redeem the 5.0% Notes prior to November 12, 2025, we may redeem them at a redemption price of 100% of the principal plus accrued interest, plus a make-whole premium. If we elect to redeem the 5.0% Notes on or after November 12, 2025, we may redeem them at a redemption price of 100% of the principal plus accrued interest. We have also entered into a registrations rights agreement with respect to the 5.0% Notes, under which we have agreed to use commercially reasonable best efforts to file a registration statement to permit the exchange of the 5.0% Notes for registered notes having the same financial terms and covenants as 5.0% Notes, cause such registration statement to become effective and complete the related exchange offer by no later than December 7, 2016. If we fail to satisfy certain of its obligations under the registration rights agreement, we will be required to pay additional interest of 0.25% per annum to the holders of the 5.0% Notes until such registrations right default is cured.

The 7.456%, 5.95%, 4.5%, 2.5% and 5.0% Notes (collectively the Notes) are senior unsecured obligations issued by Expedia and guaranteed by certain domestic Expedia subsidiaries. The Notes rank equally in right of payment with all of our existing and future unsecured and unsubordinated obligations of Expedia and the guarantor subsidiaries. For further information, see Note 15 Guarantor and Non-Guarantor Supplemental Financial Information. In addition, the Notes include covenants that limit our ability to (i) create certain liens, (ii) enter into sale/leaseback transactions and (iii) merge or consolidate with or into another entity or transfer substantially all of our assets. Accrued interest related to the Notes was $40 million and $52 million as of March 31, 2016 and December 31, 2015. The 5.95%, 4.5%, 2.5% and 5.0% Notes are redeemable in whole or in part, at the option of the holders thereof, upon the occurrence of certain change of control triggering events at a purchase price in cash equal to 101% of the principal plus accrued and unpaid interest.

The following table sets forth the approximate fair value of our outstanding debt, which is based on quoted market prices in less active markets (Level 2 inputs):

	March 31, 2016	December 31, 2015
	(In thousands)	
7.456% senior notes due 2018	$ 554,000	$ 555,000
5.95% senior notes due 2020	829,000	827,000
2.5% (650 million) senior notes due 2022[(1)]	735,000	705,000

4.5% senior notes due 2024	515,000	487,000
5.0% senior notes due 2026	752,000	750,000

(1) Approximately 648 million Euro as of March 31, 2016 and 644 million Euro as of December 31, 2015.

Notes to Consolidated Financial Statements (Continued)

Credit Facility

As of March 31, 2016, Expedia, Inc. maintained a $1.5 billion unsecured revolving credit facility with a group of lenders, which is unconditionally guaranteed by certain domestic Expedia subsidiaries that are the same as under the Notes and expires in February 2021. As of March 31, 2016, we had no revolving credit facility borrowings outstanding. The amount of stand-by letters of credit (LOCs) issued under the facility reduces the credit amount available. The facility bears interest based on the Company s credit ratings, with drawn amounts bearing interest at LIBOR plus 137.5 basis points and the commitment fee on undrawn amounts at 17.5 basis points as of March 31, 2016. The facility contains covenants including maximum leverage and minimum interest coverage ratios.

The amount of stand-by letters of credit (LOC) issued under the facility reduces the credit amount available. As of March 31, 2016, there was $25 million of outstanding stand-by LOCs issued under the facility.

The current facility was entered into in February 2016 and replaced our prior $1 billion unsecured revolving credit that expired in September 2019. As of December 31, 2015, we had no revolving credit facility borrowings outstanding under the prior facility and $29 million of outstanding stand-by LOCs issued under that facility.

In addition, one of our international subsidiaries maintains a Euro 50 million uncommitted credit facility, which is guaranteed by Expedia, Inc., that may be terminated at any time by the lender. We had Euro 20 million in borrowings outstanding included in accrued expenses and other current liabilities on the consolidated balance sheet as of both March 31, 2016 and December 31, 2015. Another of our international subsidiaries maintains a $5.6 million uncommitted credit facility, which is guaranteed by Expedia, Inc., that may be terminated at any time by the lender. We had approximately $5 million in borrowings outstanding included in accrued expenses and other current liabilities on the consolidated balance sheet as of both March 31, 2016 and December 31, 2015.

HomeAway Debt Repayment

On December 15, 2015, we completed our acquisition of HomeAway, Inc., including all of its brands. In connection with the acquisition, we assumed approximately $402.5 million of 0.125% Convertible Senior Notes due 2019 (the Convertible Notes). However, following the consummation of the HomeAway acquisition, we subsequently delivered a notice to holders of the Convertible Notes, as required per the terms of the Convertible Notes indenture, to which each holder of the Convertible Notes had the right to (i) require the Company to repurchase its Convertible Notes for cash at a price equal to 100% of the principal amount of such notes plus accrued and unpaid interest or (ii) convert its Convertible Notes, at a specified conversion rate into HomeAway common stock (which, following consummation of the HomeAway acquisition, represented the right to receive the transaction consideration) or (iii) allow the Convertible Notes to remain outstanding for the remaining term. As a result, the majority of the Convertible Notes, or $401 million, were repurchased during the first quarter of 2016. As of December 31, 2015, the Convertible Notes outstanding were included in accrued expenses and other current liabilities, and as of March 31, 2016, we have reclassified the remaining $1 million outstanding to other long-term liabilities.

Note 6 Redeemable Noncontrolling Interests

We have noncontrolling interests in majority owned entities, which are carried at fair value as the noncontrolling interests contain certain rights, whereby we may acquire and the minority shareholders may sell to us additional shares of the companies.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

A reconciliation of redeemable noncontrolling interest is as follows:

	Three months ended March 31, 2016
Balance, beginning of the period	$ 658,478
Net loss attributable to noncontrolling interests	(11)
Fair value adjustments	(22,483)
Currency translation adjustments and other	34,000
Balance, end of period	$ 669,984

The fair value of the redeemable noncontrolling interest was determined based on a blended analysis of the present value of future discounted cash flows and market value approach (Level 3 on the fair value hierarchy). Our significant estimates in the discounted cash flow model include our weighted average cost of capital as well as long-term growth and profitability of the business. Our significant estimates in the market value approach include identifying similar companies with comparable business factors and assessing comparable revenue and operating multiples in estimating the fair value of the business.

In connection with the acquisition of our majority ownership interest in trivago, we entered into a shareholders agreement with the minority shareholders that contains certain put/call rights whereby we may cause the minority shareholders to sell to us and the minority shareholders of trivago may cause us to acquire from them up to 50% and 100% of the shares of the company held by them at fair value during two windows, the first of which is currently open and we are in active conversations with the trivago minority shareholders. As of April 28, 2016, neither party has exercised its respective rights with respect to the current open window and we expect that the current discussions are likely to continue through June 2016. The second window opens in 2018. Our redeemable noncontrolling interest balance related to trivago was $665 million and $654 million as of March 31, 2016 and December 31, 2015, which represents our best estimate of fair value. As we are currently in the first put/call window, it is important to note that based on the final negotiations, the negotiated fair market value and therefore the final redemption amount could materially differ from this estimate.

Note 7 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

February 8, 2016	$	0.24	March 10, 2016	$ 36,174	March 30, 2016
February 4, 2015	$	0.18	March 10, 2015	$ 22,895	March 26, 2015

In addition, in April 2016, the Executive Committee, acting on behalf of the Board of Directors, declared a quarterly cash dividend of $0.24 per share of outstanding common stock payable on June 16, 2016 to stockholders of record as of the close of business on May 26, 2016. Future declarations of dividends are subject to final determination by our Board of Directors.

Share Repurchases

In April 2012, the Executive Committee, acting on behalf of the Board of Directors, authorized a repurchase of up to 20 million outstanding shares of our common stock. In February 2015, the Executive Committee, acting on behalf of the Board of Directors, authorized an additional repurchase of up to 10 million shares of our common stock. There is no fixed termination date for the repurchases. During the three months ended March 31, 2016, we repurchased, through open market transactions, 1.7 million shares under this authorization for a total cost of $183 million, excluding transaction costs, representing an average repurchase price of $108.34 per share. As of March 31, 2016, 9.6 million shares remain authorized for repurchase under the 2015 authorization. Subsequent to the end of the first quarter of 2016, we repurchased an additional 1.2 million shares for a total cost of $129 million, excluding transaction costs, representing an average purchase price of $106.32 per share.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

Stock-based Awards

Stock-based compensation expense relates primarily to expense for stock options and restricted stock units (RSUs). As of March 31, 2016, we had stock-based awards outstanding representing approximately 23 million shares of our common stock, consisting of options to purchase approximately 21 million shares of our common stock with a weighted average exercise price of $80.49 and weighted average remaining life of 5.3 years and 1 million RSUs.

Annual employee stock-based award grants typically occur during the first quarter of each year. During the three months ended March 31, 2016, we granted approximately 5 million stock options. The fair value of the stock options granted during the three months ended March 31, 2016 was estimated at the date of grant using appropriate valuation techniques, including the Black-Scholes and Monte Carlo option-pricing models.

Accumulated Other Comprehensive Income (Loss)

The balance for each class of accumulated other comprehensive loss as of March 31, 2016 and December 31, 2015 is as follows:

	March 31, 2016	**December 31, 2015**
	(In thousands)	
Foreign currency translation adjustments, net of tax (1)	$ (287,715)	$ (284,767)
Net unrealized gain (loss) on available for sale securities, net of tax	347	(127)
Accumulated other comprehensive loss	$ (287,368)	$ (284,894)

(1) Foreign currency translation adjustments, net of tax, includes foreign currency transaction losses at March 31, 2016 of $17 million ($28 million before tax) and December 31, 2015 of $1 million ($2 million before tax) associated with our 2.5% Notes. The 2.5% Notes are Euro-denominated debt designated as hedges of certain of our Euro-denominated net assets. See Note 5 Debt for more information. The remaining balance in currency translation adjustments excludes income taxes as a result of our current intention to indefinitely reinvest the earnings of our international subsidiaries outside of the United States.

14

Table of Contents

Notes to Consolidated Financial Statements (Continued)

Note 8 Earnings Per Share

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

	Three months ended March 31, 2016	Three months ended March 31, 2015
	(In thousands, except per share data)	
Net income (loss) attributable to Expedia, Inc.	$ (121,861)	$ 44,143
Earnings (loss) per share attributable to Expedia, Inc. available to common stockholders:		
Basic	$ (0.81)	$ 0.35
Diluted	(0.81)	0.34
Weighted average number of shares outstanding:		
Basic	151,052	127,563
Dilutive effect of:		
Options to purchase common stock		3,727
Other dilutive securities		112
Diluted	151,052	131,402

Basic earnings per share is calculated using our weighted-average outstanding common shares. 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.

Diluted earnings per share is calculated using our weighted-average outstanding common shares including the dilutive effect of stock awards as determined under the treasury stock method. In periods when we recognize a net loss, we exclude the impact of outstanding stock awards from the diluted loss per share calculation as their inclusion would have an antidilutive effect. For the three months ended March 31, 2016 and March 31, 2015, approximately 23 million and 11 million of outstanding stock awards have been excluded from the calculations of diluted earnings (loss) per share attributable to common stockholders because their effect would have been antidilutive.

Note 9 Restructuring and Related Reorganization Charges

In connection with the migration of technology platforms and centralization of technology, supply and other operations, primarily related to previously disclosed acquisitions, we recognized $30 million and $5 million in restructuring and related reorganization charges during the three months ended March 31, 2016 and 2015. Based on current plans, which are subject to change, we expect approximately $25 million of restructuring charges for the remainder of 2016 (for total 2016 charges of up to $55 million), but these could be higher should we make additional decisions throughout the year and estimates do not include any possible future acquisition integrations.

Notes to Consolidated Financial Statements (Continued)

The following table summarizes the restructuring and related reorganization activity for the three months ended March 31, 2016:

	Employee Severance and Benefits	Stock-based Compensation	Other	Total
		(In thousands)		
Accrued liability as of January 1, 2016	$ 45,889	$	$ 1,123	$ 47,012
Charges	15,783	11,173	2,847	29,803
Payments	(26,097)		(1,434)	(27,531)
Non-cash items	375	(11,173)		(10,798)
Accrued liability as of March 31, 2016	$ 35,950	$	$ 2,536	$ 38,486

Note 10 Other, net

The following table presents the components of other, net:

	For the Three Months Ended March 31, 2016	2015
	(In thousands)	
Foreign exchange rate gains (losses), net	$ (18,835)	$ 14,155
Noncontrolling investment basis adjustment		79,476
Other	(9,360)	11,470
Total	$ (28,195)	$ 105,101

During the first quarter of 2015, in conjunction with the acquisition of controlling interest of AAE Travel Pte. Ltd., the joint venture formed between Expedia and AirAsia Berhad in 2011, we remeasured our previously held equity interest to fair value, and recognized a gain of $79 million in other, net during the period.

Note 11 Income Taxes

We determine our provision for income taxes for interim periods using an estimate of our annual effective tax rate. We record any changes affecting the estimated annual tax rate in the interim period in which the change occurs, including discrete tax items. Our effective tax rate for the three months ended March 31, 2016 was 28.7% and was measured against a pretax loss. The effective tax rate was driven by earnings in foreign jurisdictions, as well as the release of a valuation allowance for net operating losses. Our effective tax rate of (2.9%) measured against our year-to-date pre-tax income for the three months ended March 31, 2015 was lower than the 35% federal statutory rate primarily due to income earned in foreign jurisdictions where the statutory income tax rate is lower, offset by certain foreign losses for which Expedia does not recognize a benefit as well as revaluation of deferred tax balances due to New York corporate tax reform enacted during the period.

Note 12 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, excise tax, sales tax, transient occupancy or accommodation tax and similar matters. We do not believe that the aggregate amount of liability that could be reasonably possible with respect to these matters would have a material adverse effect on our financial results; however, litigation is inherently uncertain and the actual losses incurred in the event that our legal proceedings were to result in unfavorable outcomes could have a material adverse effect on our business and financial performance.

Notes to Consolidated Financial Statements (Continued)

Litigation Relating to Occupancy Taxes. Ninety-four lawsuits have been filed by cities, counties and states involving hotel occupancy and other taxes. Twenty-two lawsuits are currently active. These lawsuits are in various stages and we continue to defend against the claims made in them vigorously. With respect to the principal claims in these matters, we believe that the statutes or ordinances at issue do not apply to the services we provide and, therefore, that we do not owe the taxes that are claimed to be owed. We believe that the statutes or 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, thirty-nine 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. Twenty-five dismissals were based on a finding that we and the other defendants were not subject to the local hotel occupancy tax ordinance or that the local government lacked standing to pursue their claims. As a result of this litigation and other attempts by certain jurisdictions to levy such taxes, we have established a reserve for the potential settlement of issues related to hotel occupancy taxes, consistent with applicable accounting principles and in light of all current facts and circumstances, in the amount of $45 million and $43 million as of March 31, 2016 and December 31, 2015. Our settlement reserve is based on our best estimate of probable losses and the ultimate resolution of these contingencies may be greater or less than the liabilities recorded. An estimate for a reasonably possible loss or range of loss in excess of the amount reserved cannot be made. Changes to the settlement reserve are included within legal reserves, occupancy tax and other in the consolidated statements of operations.

Pay-to-Play. Certain jurisdictions may assert that we are required to pay any assessed taxes prior to being allowed to contest or litigate the applicability of the ordinances. This prepayment of contested taxes is referred to as pay-to-play. Payment of these amounts is not an admission that we believe we are subject to such taxes and, even when such payments are made, we continue to defend our position vigorously. If we prevail in the litigation, for which a pay-to-play payment was made, the jurisdiction collecting the payment will be required to repay such amounts and also may be required to pay interest.

We are also in various stages of inquiry or audit in multiple European Union jurisdictions, including in the United Kingdom, regarding the application of VAT to our European Union related transactions. While we believe we comply with applicable VAT laws, rules and regulations in the relevant jurisdictions, the tax authorities may determine that we owe additional taxes. In certain jurisdictions, including the United Kingdom, we may be required to pay-to-play any VAT assessment prior to contesting its validity. While we believe that we will be successful based on the merits of our positions with regard to the United Kingdom and other VAT audits in pay-to-play jurisdictions, it is nevertheless reasonably possible that we could be required to pay any assessed amounts in order to contest or litigate the applicability of any assessments and an estimate for a reasonably possible amount of any such payments cannot be made.

The following are significant pay-to-play payments made by Expedia companies:

Hawaii (General Excise Tax). During 2013, Expedia companies were required to pay-to-play and paid a total of $171 million in advance of litigation relating general excise taxes in the State of Hawaii. In September 2015, following a ruling by the Hawaii Supreme Court, the State of Hawaii refunded Expedia companies $132 million of the original pay-to-play amount. As we had previously expensed the pay-to-play payments in prior periods, we recognized a gain in legal reserves, occupancy tax and other during 2015 related to this matter. Orbitz also received a similar refund of $22 million from the State of Hawaii in September 2015. The amount paid, net of refunds, by the Expedia companies and Orbitz to the State of Hawaii in satisfaction of past general excise taxes on their services was $44 million. In addition, the following final assessments by the Hawaii Department of Taxation for general excise taxes against the Expedia companies, including Orbitz, are currently under review in Hawaii tax courts:

A total $26 million relating to non-commissioned hotel reservations for the 2012 tax year, which includes $6 million for Orbitz;

A total of $39 million relating to non-commissioned travel agency services relating to rental cars for the tax years 2000 through 2012 totaling, which includes $10 million for Orbitz and a duplicative assessment for Expedia and Hotels.com totaling $9.3 million and thus are overstated;

Table of Contents

Notes to Consolidated Financial Statements (Continued)

A total of $34 million relating to non-commissioned travel agency services relating to hotel reservations and car rental for the 2013 tax year, which includes $5 million for Orbitz; and

A total of $12 million relating to hotel and car rental revenue for agency model transactions for the time period 2000 to 2014 and hotel and car rental revenue for merchant model transactions for the 2014 tax year.

San Francisco (Occupancy Tax). During 2009, Expedia companies were required to pay-to-play and paid $48 million in advance of litigation relating to occupancy tax proceedings with the city of San Francisco and in May 2014, the Expedia companies paid an additional $25.5 million under protest in order to contest additional assessments for later time periods. In addition, Orbitz in total has paid $4.6 million to the city of San Francisco to contest similar assessments issued against it by the city. On August 6, 2014, the California Court of Appeals stayed this case pending review and decision by the California Supreme Court of the *City of San Diego, California Litigation.*

Matters Relating to Hotel Booking Practices. On July 31, 2012, the United Kingdom Office of Fair Trading (OFT) issued a Statement of Objections alleging that Expedia, Booking.com B.V. and InterContinental Hotels Group PLC (IHG) have infringed European Union and United Kingdom competition law in relation to the online supply of hotel room accommodations. The Statement of Objections alleged that Expedia and Booking.com entered into separate agreements with IHG that restricted each online travel company s ability to discount the price of IHG hotel rooms. The parties proposed to address the OFT s concerns by offering commitments, and on January 31, 2014, the OFT announced that it had formally accepted the commitments offered by the parties, with no finding of fault or liability. The commitments were intended to be binding on the parties through January 31, 2016. On April 2, 2014, Skyscanner Limited filed an appeal challenging the OFT s January 31, 2014 decision to accept the parties commitments. On September 26, 2014, the United Kingdom s Competition Appeal Tribunal (CAT) granted Skyscanner Limited s appeal. This judgment required the Competition & Markets Authority (&#1