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

FORM 10-Q

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

For the quarterly period ended March 31, 2017

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 ☒ No ☐

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

The number of shares outstanding of each of the registrant's classes of common stock as of April 14, 2017 was:

Common stock, $0.0001 par value per share	138,145,680	shares
Class B common stock, $0.0001 par value per share	12,799,999	shares

Expedia, Inc.

Form 10-Q

For the Quarter Ended March 31, 2017

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Part I. Item 1. Consolidated Financial Statements

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

	Three months ended March 31,	
	2017	**2016**
Revenue	$ 2,188,736	$ 1,903,961
Costs and expenses:		
Cost of revenue [1]	421,687	402,570
Selling and marketing [1]	1,270,060	1,039,348
Technology and content [1]	322,040	291,554
General and administrative [1]	158,153	146,011
Amortization of intangible assets	66,676	89,999
Legal reserves, occupancy tax and other	21,054	1,974
Restructuring and related reorganization charges [1]	1,899	29,803
Operating loss	(72,833)	(97,298)
Other income (expense):		
Interest income	6,259	3,567
Interest expense	(42,977)	(43,960)
Other, net	(21,704)	(28,195)
Total other expense, net	(58,422)	(68,588)
Loss before income taxes	(131,255)	(165,886)
Provision for income taxes	46,716	57,354
Net loss	(84,539)	(108,532)
Net income attributable to non-controlling interests	(1,583)	(57)
Net loss attributable to Expedia, Inc.	$ (86,122)	$ (108,589)
Loss per share attributable to Expedia, Inc. available to common stockholders:		
Basic	$ (0.57)	$ (0.72)
Diluted	(0.57)	(0.72)
Shares used in computing loss per share:		
Basic	150,531	151,052
Diluted	150,531	151,052
Dividends declared per common share	$ 0.28	$ 0.24

———

(1) Includes stock-based compensation as follows:

Cost of revenue	$ 2,839	$ 2,408
Selling and marketing	10,731	7,042
Technology and content	13,038	10,621
General and administrative	20,603	17,664
Restructuring and related reorganization charges	—	11,173

See accompanying notes.

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

	Three months ended March 31,	
	2017	2016
Net loss	$ (84,539)	$ (108,532)
Other comprehensive income, net of tax		
Currency translation adjustments, net of tax[1]	34,676	6,654
Unrealized gains (losses) on available for sale securities, net of tax[2]	4	474
Other comprehensive income, net of tax	34,680	7,128
Comprehensive loss	(49,859)	(101,404)
Less: Comprehensive income attributable to non-controlling interests	7,277	9,658
Comprehensive loss attributable to Expedia, Inc.	$ (57,136)	$ (111,062)

(1) Currency translation adjustments include a tax benefit of $4 million and $11 million associated with net investment hedges for the three months ended March 31, 2017 and 2016.
(2) Net gains (losses) recognized and reclassified during the three months ended March 31, 2017 and 2016 were immaterial.

See accompanying notes.

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

	March 31, 2017	December 31, 2016
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,503,230	$ 1,796,811
Restricted cash and cash equivalents	34,452	18,733
Short-term investments	851,415	72,313
Accounts receivable, net of allowance of $27,677 and $25,278	1,579,657	1,343,247
Income taxes receivable	127,704	19,402
Prepaid expenses and other current assets	231,955	199,745
Total current assets	5,328,413	3,450,251
Property and equipment, net	1,421,962	1,394,904
Long-term investments and other assets	528,237	520,058
Deferred income taxes	23,908	23,658
Intangible assets, net	2,386,504	2,446,652
Goodwill	7,979,882	7,942,023
TOTAL ASSETS	$ 17,668,906	$ 15,777,546
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, merchant	$ 1,423,701	$ 1,509,313
Accounts payable, other	686,559	577,012
Deferred merchant bookings	4,425,388	2,617,791
Deferred revenue	369,722	282,517
Income taxes payable	78,930	49,739
Accrued expenses and other current liabilities	1,035,271	1,090,826
Total current liabilities	8,019,571	6,127,198
Long-term debt	3,170,933	3,159,336
Deferred income taxes	496,202	484,970
Other long-term liabilities	323,142	312,939
Commitments and contingencies		
Stockholders' equity:		
Common stock $.0001 par value	23	22
Authorized shares: 1,600,000		
Shares issued: 225,629 and 224,310		
Shares outstanding: 138,165 and 137,232		
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	8,895,825	8,794,298
Treasury stock - Common stock, at cost	(4,555,830)	(4,510,655)
Shares: 87,464 and 87,077		
Retained earnings	666	129,034
Accumulated other comprehensive income (loss)	(251,413)	(280,399)
Total Expedia, Inc. stockholders' equity	4,089,272	4,132,301
Non-redeemable noncontrolling interests	1,569,786	1,560,802
Total stockholders' equity	5,659,058	5,693,103
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 17,668,906	$ 15,777,546

See accompanying notes.

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

	Three months ended March 31,	
	2017	**2016**
Operating activities:		
Net loss	$ (84,539)	$ (108,532)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation of property and equipment, including internal-use software and website development	141,548	105,255
Amortization of stock-based compensation	47,211	48,908
Amortization of intangible assets	66,676	89,999
Deferred income taxes	13,680	21,886
Foreign exchange (gain) loss on cash, cash equivalents and short-term investments, net	(10,295)	(33,707)
Realized (gain) loss on foreign currency forwards	7,167	2,102
Other	(8,446)	(3,613)
Changes in operating assets and liabilities, net of effects from acquisitions and disposals:		
Accounts receivable	(232,475)	(267,867)
Prepaid expenses and other assets	(51,746)	(37,399)
Accounts payable, merchant	(86,890)	42,422
Accounts payable, other, accrued expenses and other current liabilities	65,032	55,446
Tax payable/receivable, net	(86,139)	(118,990)
Deferred merchant bookings	1,806,798	1,256,439
Deferred revenue	85,861	55,974
Net cash provided by operating activities	1,673,443	1,108,323
Investing activities:		
Capital expenditures, including internal-use software and website development	(166,869)	(167,578)
Purchases of investments	(780,363)	—
Sales and maturities of investments	6,815	8,215
Net settlement of foreign currency forwards	(7,167)	(2,102)
Other, net	(2,000)	2,230
Net cash used in investing activities	(949,584)	(159,235)
Financing activities:		
Payment of HomeAway Convertible Notes	—	(400,443)
Purchases of treasury stock	(45,176)	(187,022)
Payment of dividends to stockholders	(42,247)	(36,174)
Proceeds from exercise of equity awards and employee stock purchase plan	57,778	25,680
Other, net	(18,475)	(14,992)
Net cash used in financing activities	(48,120)	(612,951)
Effect of exchange rate changes on cash and cash equivalents	30,680	50,893
Net increase in cash and cash equivalents	706,419	387,030
Cash and cash equivalents at beginning of period	1,796,811	1,676,299
Cash and cash equivalents at end of period	$ 2,503,230	$ 2,063,329
Supplemental cash flow information		
Cash paid for interest	$ 72,029	$ 52,982
Income tax payments, net	25,128	39,202

See accompanying notes.

Notes to Consolidated Financial Statements

March 31, 2017

(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®, trivago®, CarRentals.com™, Wotif Group, Orbitz Worldwide ("Orbitz"), and HomeAway®. In addition, many of these brands have related international points of sale, including those as part of AirAsia-Expedia. 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, 2016, 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; acquisition purchase price allocations; 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.

In March 2016, the Financial Accounting Standards Board ("FASB") issued new guidance related to accounting for share-based payments. We elected to early adopt the guidance in the second quarter of 2016, which required us to reflect adjustments as of January 1, 2016. As such, the prior year amounts reported herein reflect the adoption of the new guidance with a reduction of stock-based compensation expense of approximately $5 million and an increase in the tax benefit of approximately $8 million for the three months ended March 31, 2016.

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 winter 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 spring, summer and winter holiday travel. Additionally, trivago has historically earned a substantial portion of its operating profits in the fourth quarter. As a result on a consolidated basis, revenue and income are typically the lowest in the first quarter and highest in the third quarter. The continued growth of our international operations, advertising business or a change in our product mix, including the assimilation and growth of HomeAway, may influence the typical trend of the seasonality in the future. We expect that as HomeAway continues its shift to more of a transaction-based business model for vacation rental listings its seasonal trends will generally trend similar to our other traditional leisure businesses over time.

Note 2 – Summary of Significant Accounting Policies

Recent Accounting Policies Not Yet Adopted

In May 2014, the FASB issued an Accounting Standards Update ("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. In addition, the FASB has also issued several amendments to the standard which clarify certain aspects of the guidance, including principal versus agent considerations and identifying performance obligations. We have made significant progress toward completing our evaluation of potential changes from adopting the new standard on our core revenues and continue to evaluate the impact of the adoption of this new guidance on our consolidated financial statements. We expect to have our preliminary evaluation, including the selection of an adoption method, completed by the end of the first half of 2017. We are not planning on early adopting and currently expect to adopt the new revenue recognition guidance in the first quarter of 2018.

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 do not expect the adoption of this new guidance to have a material impact on our consolidated financial statements.

In February 2016, the FASB issued new guidance related to accounting and reporting guidelines for leasing arrangements. The new guidance requires entities 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 June 2016, the FASB issued new guidance on the measurement of credit losses for financial assets measured at amortized cost, which includes accounts receivable, and available-for-sale debt securities. The new guidance replaces the existing incurred loss impairment model with an expected loss methodology, which will result in more timely recognition of credit losses. This update is effective for annual periods beginning after December 15, 2019, including interim periods within those annual periods. Early adoption is permitted for annual periods beginning after December 15, 2018, including interim periods within those annual periods. We are in the process of evaluating the impact of adopting this new guidance on our consolidated financial statements.

In August and November 2016, the FASB issued new guidance related to the statement of cash flows which clarifies how companies present and classify certain cash receipts and cash payments as well as amends current guidance to address the classification and presentation of changes in restricted cash in the statement of cash flows. The new guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017 with early adoption permitted. We are in the process of evaluating the impact of adopting this new guidance on our consolidated financial statements.

In October 2016, the FASB issued new guidance amending the accounting for income taxes associated with intra-entity transfers of assets other than inventory. This accounting update, which is part of the FASB's simplification initiative, is intended to reduce diversity in practice and the complexity of tax accounting, particularly for those transfers involving intellectual property. This new guidance requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset

other than inventory when the transfer occurs. The new standard is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017 with early adoption permitted. We are in the process of evaluating the impact of adopting this new guidance on our consolidated financial statements.

In January 2017, the FASB issued new guidance clarifying the definition of a business for determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The new standard is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017 with early adoption permitted for transactions that occurred before the issuance date or effective date of the standard if the transactions were not reported in financial statements that have been issued or made available for issuance. The standard must be applied prospectively. Upon adoption, the standard will impact how we assess acquisitions (or disposals) of assets or businesses.

In January 2017, the FASB issued new guidance simplifying subsequent goodwill measurement by eliminating Step 2 from the goodwill impairment test. Under this update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The new standard is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2019 with early adoption permitted for annual goodwill impairment tests performed after January 1, 2017. The standard must be applied prospectively. Upon adoption, the standard will impact how we assess goodwill for impairment. We are currently considering our timing of adoption.

Note 3 – Fair Value Measurements

Financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2017 are classified using the fair value hierarchy in the table below:

	Total	Level 1	Level 2
		(In thousands)	
Assets			
Cash equivalents:			
Money market funds	$ 145,262	$ 145,262	$ —
Time deposits	318,505	—	318,505
Restricted cash:			
Time deposits	6,378	—	6,378
Investments:			
Time deposits	805,765	—	805,765
Corporate debt securities	57,338	—	57,338
Total assets	$ 1,333,248	$ 145,262	$ 1,187,986
Liabilities			
Derivatives:			
Foreign currency forward contracts	$ 1,671	$ —	$ 1,671

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

	Total	Level 1	Level 2
		(In thousands)	
Assets			
Cash equivalents:			
Money market funds	$ 113,955	$ 113,955	$ —
Time deposits	299,585	—	299,585
Investments:			
Time deposits	24,576	—	24,576
Corporate debt securities	64,227	—	64,227
Total assets	$ 502,343	$ 113,955	$ 388,388
Liabilities			
Derivatives:			
Foreign currency forward contracts	$ 4,402	$ —	$ 4,402

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, 2017 and December 31, 2016, 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, 2017, we had $46 million of short-term and $12 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, 2016, we had $48 million of short-term and $16 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. Additionally, we have time deposits classified as restricted cash for certain traveler deposits.

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, 2017, we were party to outstanding forward contracts hedging our liability and revenue exposures with a total net notional value of $1.9 billion. We had a net forward liability of $2 million and $4 million recorded in accrued expenses and other current liabilities as of March 31, 2017 and December 31, 2016. We recorded $4 million and $26 million in net losses from foreign currency forward contracts during the three months ended March 31, 2017 and 2016.

Note 4 – Debt

The following table sets forth our outstanding debt:

	March 31, 2017	December 31, 2016
	(In thousands)	
7.456% senior notes due 2018	$ 500,000	$ 500,000
5.95% senior notes due 2020	747,222	747,020
2.5% (€650 million) senior notes due 2022	688,484	677,503
4.5% senior notes due 2024	494,643	494,472
5.0% senior notes due 2026	740,584	740,341
Long-term debt[(1)]	$ 3,170,933	$ 3,159,336

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

Long-term Debt

Our $500 million in registered senior unsecured notes outstanding at March 31, 2017 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, 2017 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, 2017 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. 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 prior to March 3, 2022, we may redeem them at a specified "make-whole" premium. 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.

Our $500 million in registered senior unsecured notes outstanding at March 31, 2017 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 registered senior unsecured notes outstanding at March 31, 2017 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. 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.

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 11 – 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 $32 million and $63 million as of March 31, 2017 and December 31, 2016. 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, 2017	December 31, 2016
	(In thousands)	
7.456% senior notes due 2018	$ 536,000	$ 541,000
5.95% senior notes due 2020	825,000	823,000
2.5% (€650 million) senior notes due 2022 [1]	736,000	718,000
4.5% senior notes due 2024	526,000	511,000
5.0% senior notes due 2026	804,000	782,000

(1) Approximately 689 million Euro as of March 31, 2017 and 682 million Euro as of December 31, 2016.

Credit Facility

Expedia, Inc. maintains 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, 2017 and December 31, 2016, 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 137.5 basis points and the commitment fee on undrawn amounts at 17.5 basis points as of March 31, 2017. 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 both March 31, 2017 and December 31, 2016, there was $19 million of outstanding stand-by LOCs issued under the 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. As of March 31, 2017 and December 31, 2016, there were no borrowings outstanding.

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
February 7, 2017	$ 0.28	March 9, 2017	$ 42,247	March 30, 2017
February 8, 2016	0.24	March 10, 2016	36,174	March 30, 2016

In addition, in April 2017, the Executive Committee, acting on behalf of the Board of Directors, declared a quarterly cash dividend of $0.28 per share of outstanding common stock payable on June 15, 2017 to stockholders of record as of the close of business on May 25, 2017. Future declarations of dividends are subject to final determination by our Board of Directors.

Share Repurchases

In February 2015, the Executive Committee, acting on behalf of the Board of Directors, authorized a 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, 2017, we repurchased, through open market transactions, 0.3 million shares under this authorization for the total cost of $39 million, excluding transaction costs, representing an average repurchase price of $116.51 per share. As of March 31, 2017, 6.9 million shares remain authorized for repurchase under the 2015 authorization. Subsequent to March 31, 2017, we

repurchased an additional 0.1 million shares for a total cost of $14 million, excluding transaction costs, representing an average price of $127.90 per share.

Stock-based Awards

Stock-based compensation expense relates primarily to expense for stock options and restricted stock units ("RSUs"). As of March 31, 2017, we had stock-based awards outstanding representing approximately 23 million shares of our common stock, consisting of options to purchase approximately 20 million shares of our common stock with a weighted average exercise price of $90.01 and weighted average remaining life of 4.9 years and approximately 2 million RSUs.

Annual employee stock-based award grants typically occur during the first quarter of each year and generally vest over four years. In 2017, we introduced an equity choice program for annual awards that allows for the choice of stock options or RSUs with certain limitations. During the three months ended March 31, 2017, we granted approximately 3 million stock options and 1 million RSUs. The fair value of the stock options granted during the three months ended March 31, 2017 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, 2017 and December 31, 2016 is as follows:

	March 31, 2017	December 31, 2016
	(In thousands)	
Foreign currency translation adjustments, net of tax[(1)]	$ (251,444)	$ (280,426)
Net unrealized gain (loss) on available for sale securities, net of tax	31	27
Accumulated other comprehensive loss	$ (251,413)	$ (280,399)

(1) Foreign currency translation adjustments, net of tax, include foreign currency transaction gains at March 31, 2017 of $9 million ($14 million before tax) and at December 31, 2016 of $16 million ($25 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 4 – 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.

Note 6 – Earnings Per Share

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, 2017 and 2016, approximately 23 million of outstanding stock awards were excluded from the calculations of diluted earnings per share attributable to common stockholders because their effect would have been antidilutive.

Note 7 – 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 $2 million and $30 million in restructuring and related reorganization charges during the three months ended March 31, 2017 and 2016. Based on current plans, which are subject to change, we expect to incur approximately $15 million to $20 million in 2017 related to these integrations and estimates do not include any possible future acquisition integrations. Accrued restructure liabilities were $12 million and $18 million as of March 31, 2017 and December 31, 2016.

Note 8 – Income Taxes

We are subject to taxation in the United States and various other state and foreign jurisdictions. We are under examination by the Internal Revenue Service ("IRS") for our 2009 through 2013 tax years. Our 2014 and subsequent years remain open to examination by the IRS. We do not anticipate a significant impact to our gross unrecognized tax benefits within the next 12 months related to these years. During first quarter of 2017, the IRS issued proposed adjustments relating to transfer pricing with our foreign subsidiaries for our 2009 to 2010 audit cycle. The proposed adjustments would increase our U.S. taxable income by $105 million, which would result in federal tax expense of approximately $37 million, subject to interest. We do not agree with the position of the IRS and will formally protest the IRS position.

Note 9 – Commitments and Contingencies

Legal Proceedings

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

Litigation Relating to Occupancy Taxes. Ninety-five lawsuits have been filed by or against cities, counties and states involving hotel occupancy and other taxes. Eighteen 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, forty-one 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-seven 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 $90 million and $71 million as of March 31, 2017 and December 31, 2016. 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.

In addition, we have been audited by the state of Colorado. The state has issued assessments for claimed tax, interest and penalty in the approximate amount of $23 million for the periods December 1, 1999 through December 31, 2005 and January 1, 2009 through December 31, 2011. We do not agree with these assessments and have filed protests.

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.

Hawaii (General Excise Tax). During 2013, the Expedia companies were required to “pay-to-play” and paid a total of $171 million in advance of litigation relating to general excise taxes for merchant model hotel reservations in the State of Hawaii. In September 2015, following a ruling by the Hawaii Supreme Court, the State of Hawaii refunded the Expedia companies $132 million of the original “pay-to-play” amount. 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 for merchant model hotel reservations was $44 million. The parties reached a settlement relating to Orbitz merchant model hotel tax liabilities, and on October 5, 2016, the Expedia companies paid the State of Hawaii for the tax years 2012 through 2015. The Expedia companies and Orbitz have now resolved all assessments by the State of Hawaii for merchant model hotel taxes through 2015.

The Department of Taxation also issued final assessments for general excise taxes against the Expedia companies, including Orbitz, dated December 23, 2015 for the time period 2000 to 2014 for hotel and car rental revenue for “agency model” transactions. Those assessments are currently under review in the Hawaii tax courts.

Final assessments by the Hawaii Department of Taxation for general exercise taxes against the Expedia companies, including Orbitz, relating to merchant car rental transactions during the years 2000 to 2014 are also under review in the Hawaii tax courts. With respect to merchant model car rental transactions at issue for the tax years 2000 through 2013, the Hawaii tax court held on August 5, 2016 that general excise tax is due on the online travel companies' services to facilitate car rentals. The court further ruled that for merchant model car rentals in Hawaii, the online travel companies are required to pay general excise tax on the total amount paid by consumers, with no credit for tax amounts already remitted by car rental companies to the State of Hawaii for tax years 2000 through 2013, thus resulting in a double tax on the amount paid by consumers to car rental companies for the rental of the vehicle. The court, however, ruled that when car rentals are paid for as part of a vacation package, tax is only due once on the amount paid by consumers to the car rental company for the rental of the vehicle. In addition, the court ruled that the online travel companies are required to pay interest and certain penalties on the amounts due. On April 25, 2017, the court entered a final judgment. The Expedia companies intend to appeal, and will be expected to pay under protest the full amount claimed due, or approximately $16.7 million, as a condition of appeal. The Hawaii tax court's decision did not resolve "merchant model" car rental transactions for the tax year 2014, which also remain under review.

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. The California Court of Appeals has lifted the stay for this case and the appeal will proceed in light of the California Supreme Court's decision in the *San Diego* litigation.

Other Jurisdictions. We are also in various stages of inquiry or audit with domestic and foreign tax authorities, some of which, including in the United Kingdom regarding the application of value added tax ("VAT") to our European Union related transactions as discussed below, impose a pay-to-play requirement to challenge an adverse inquiry or audit result in court.

The ultimate resolution of these contingencies may be greater or less than the pay-to-play payments made and our estimates of additional assessments mentioned above.

Matters Relating to International VAT. We are 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.

Matters Relating to Competition Reviews and Legislation Relating to Parity Clauses. Over the last several years, the online travel industry has become the subject of investigations by various national competition authorities ("NCAs"), particularly in Europe. Expedia is or has been involved in investigations predominately related to whether certain parity clauses in contracts between Expedia entities and accommodation providers, sometimes also referred to as "most favored nation" or "MFN" provisions, are anti-competitive.

In Europe, investigations or inquiries into contractual parity provisions between hotels and online travel companies, including Expedia, were initiated in 2012, 2013 and 2014 by NCAs in Austria, Belgium, Czech Republic, Denmark, France, Germany, Greece, Hungary, Ireland, Italy, Poland, Sweden and Switzerland. While the ultimate outcome of some of these investigations or inquiries remains uncertain, and Expedia's circumstances are distinguishable from other online travel companies subject to similar investigations and inquiries, we note in this context that on April 21, 2015, the French, Italian and Swedish NCAs, working in close cooperation with the European Commission, announced that they had accepted formal commitments offered by Booking.com to resolve and close the investigations against Booking.com in France, Italy and Sweden by Booking.com removing and/or modifying certain rate, conditions and availability parity provisions in its contracts with accommodation providers in France, Italy and Sweden as of July 1, 2015, among other commitments. Booking.com voluntarily extended the geographic scope of these commitments to accommodation providers throughout Europe as of the same date.

With effect from August 1, 2015, Expedia waived certain rate, conditions and availability parity clauses in its agreements with its European hotel partners for a period of five years. While Expedia maintains that its parity clauses have always been lawful and in compliance with competition law, these waivers were nevertheless implemented as a positive step towards facilitating the closure of the open investigations into such clauses on a harmonized pan-European basis. Following the implementation of Expedia's waivers, nearly all NCAs in Europe have announced either the closure of their investigation or inquiries involving Expedia or a decision not to open an investigation or inquiry involving Expedia. Below are descriptions of additional rate parity-related matters of note in Europe.

The German Federal Cartel Office ("FCO") has required another online travel company, Hotel Reservation Service ("HRS"), to remove certain clauses from its contracts with hotels. HRS' appeal of this decision was rejected by the Higher Regional Court Düsseldorf on January 9, 2015. On December 23, 2015, the FCO announced that it had also required Booking.com by way of an infringement decision to remove certain clauses from its contracts with German hotels. Booking.com has appealed the decision and the appeal was heard by the Higher Regional Court Düsseldorf on February 8, 2017.

The Italian competition authority's case closure decision against Booking.com and Expedia has subsequently been appealed by two Italian hotel trade associations, i.e. Federalberghi and AICA. These appeals remain at an early stage and no hearing date has been fixed.

On November 6, 2015, the Swiss competition authority announced that it had issued a final decision finding certain parity terms existing in previous versions of agreements between Swiss hotels and each of Expedia, Booking.com and HRS to be prohibited under Swiss law. The decision explicitly notes that Expedia's current contract terms with Swiss hotels are not subject to this prohibition. The Swiss competition authority imposed no fines or other sanctions against Expedia and did not find an abuse of a dominant market position by Expedia. The FCO's case against Expedia's contractual parity provisions with accommodation providers in Germany remains open but is still at a preliminary stage with no formal allegations of wrong-doing having been communicated to Expedia to date.

The Directorate General for Competition, Consumer Affairs and Repression of Fraud (the "DGCCRF"), a directorate of the French Ministry of Economy and Finance with authority over unfair trading practices, brought a lawsuit in France against Expedia entities objecting to certain parity clauses in contracts between Expedia entities and French hotels. In May 2015, the French court ruled that certain of the parity provisions in certain contracts that were the subject of the lawsuit were not in compliance with French commercial law, but imposed no fine and no injunction. The DGCCRF has appealed the decision.

Hotelverband Deutschland ("IHA") e.V. (a German hotel association) brought proceedings before the Cologne regional court against Expedia, Inc., Expedia.com GmbH and Expedia Lodging Partner Services Sàrl. IHA applied for a 'cease and desist' order against these companies in relation to the enforcement of certain rate and availability parity clauses contained in contracts with hotels in Germany. On or around February 16, 2017, the court dismissed IHA's action and declared the claimant liable for the Expedia defendants' statutory costs. IHA has appealed the decision.

A working group of 10 European NCAs (Belgium, Czech Republic, Denmark, France, Hungary, Ireland, Italy, Netherlands, Sweden and the United Kingdom) and the European Commission was established by the European Competition Network ("ECN") at the end of 2015 to monitor the functioning of the online hotel booking sector, following amendments made by a number of online travel companies (including Booking.com and Expedia) in relation to certain parity provisions in their contracts with hotels. The working group issued questionnaires to online travel agencies including Expedia, metasearch sites and hotels in 2016. On February 17, 2017, the heads of the EU competition authorities and the European Commission announced that in light of the results of the monitoring exercise, the sector should be allowed more time to make full use of the measures that have already been taken by certain market participants, including Expedia. The underlying results of the ECN monitoring exercise were published on April 6, 2017.

Legislative bodies in certain countries have also adopted, or are proposing to adopt, new domestic anti-parity clause legislation. On July 9, 2015, the French National Assembly adopted Article 133 of the Loi Macron ("Article 133") that seeks to define the nature of the relationship between online reservation platforms and French hotels. Article 133 became effective on August 8, 2015. Expedia considers that Article 133 was drafted ambiguously and can be interpreted in a way that violates both EU and French legal principles. Therefore Expedia has submitted a complaint to the European Commission relating to Article 133. However, following the effective date, Expedia has been in contact with its hotel partners in France regarding the impact of Article 133. Legislation banning certain parity provisions in contracts between online travel companies and Austrian accommodation providers became effective on December 31, 2016. Expedia believes this legislation violates both EU and Austrian legal principles and therefore, Expedia has submitted a complaint to the European Commission relating to this legislation.

A legislative proposal to prohibit narrow price parity clauses in hotel-OTA agreements in Italy is still pending in the Italian Senate and a motion requesting the Swiss government to take action on narrow price parity is currently under discussion in the Swiss parliament. The Company is unable to predict whether these proposals in their current form or in another form will ultimately be adopted and, if so, when this might be the case. It is not yet clear how any adopted domestic anti-parity clause legislations and/or any possible future legislation in this area may affect Expedia's business.

Outside of Europe, a number of NCAs have also opened investigations or inquired about contractual parity provisions in contracts between hotels and online travel companies in their respective territories, including Expedia. A Brazilian hotel sector association -- Forum de Operadores Hoteleiros do Brasil -- filed a complaint with the Brazilian Administrative Council for Economic Defence ("CADE") against a number of online travel companies, including Booking.com, Decolar.com and Expedia,

on July 27, 2016 with respect to parity provisions in contracts between hotels and online travel companies. On September 13, 2016, Expedia submitted its response to the complaint to CADE. Expedia recently addressed the concerns of the Australia and New Zealand NCAs based on implementation of the waivers substantially similar to those provided to accommodation providers in Europe on September 1, 2016 in Australia and on October 28, 2016 in New Zealand. The Australian NCA, however, recently indicated that it is reopening its investigation. Expedia is in ongoing discussions with a limited number of NCAs in other countries in relation to its contracts with hotels. Expedia is currently unable to predict the impact the implementation of the waivers both in Europe and elsewhere will have on Expedia's business, on investigations or inquiries by NCAs in other countries, or on industry practice more generally.

The Company is unable to predict how any pending appeals of administrative decisions and the remaining open investigations and inquiries by NCAs will ultimately be resolved, or whether further action in Europe will be taken as a result of the ECN's working group's assessment and findings (once published). Possible outcomes include requiring Expedia to amend or remove certain parity clauses from its contracts with accommodation providers in those jurisdictions and/or the imposition of fines.

It is not yet clear how any adopted domestic anti-parity clause legislations and/or any possible future legislation in this area may affect Expedia's business. Competition-related investigations, legislation or issues could also give rise to private litigation. For example, Expedia is involved in private litigation in Germany related to its current contractual parity provisions (see above). We are unable to predict how such litigation will be resolved, or whether it will impact Expedia's business in Germany.

Note 10 – Segment Information

We have four reportable segments: Core Online Travel Agencies ("Core OTA"), trivago, Egencia and HomeAway. Our Core OTA segment, which consists of the aggregation of operating segments, provides a full range of travel and advertising services to our worldwide customers through a variety of brands including: Expedia.com and Hotels.com in the United States and localized Expedia and Hotels.com websites throughout the world, Orbitz.com, Expedia Affiliate Network, Hotwire.com, Travelocity, Wotif Group, CarRentals.com, and Classic Vacations. Our trivago segment generates advertising revenue primarily from sending referrals to online travel companies and travel service providers from its hotel metasearch websites. Our Egencia segment provides managed travel services to corporate customers worldwide. Our HomeAway segment operates an online marketplace for the vacation rental industry.

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

Our segment disclosure includes intersegment revenues, which primarily consist of advertising and media services provided by our trivago segment to our Core OTA segment. These intersegment transactions are recorded by each segment at amounts that approximate fair value as if the transactions were between third parties, and therefore, impact segment performance. However, the revenue and corresponding expense are eliminated in consolidation. The elimination of such intersegment transactions is included within Corporate and Eliminations in the table below.

Corporate and Eliminations also includes unallocated corporate functions and expenses. In addition, we record amortization of intangible assets and any related impairment, as well as stock-based compensation expense, restructuring and related reorganization charges, legal reserves, occupancy tax and other, and other items excluded from segment operating performance in Corporate and Eliminations. Such amounts are detailed in our segment reconciliation below.

The following tables present our segment information for the three months ended March 31, 2017 and March 31, 2016. As a significant portion of our property and equipment is not allocated to our operating segments and depreciation is not included in our segment measure, we do not report the assets by segment as it would not be meaningful. We do not regularly provide such information to our chief operating decision makers.

	Three months ended March 31, 2017					
	Core OTA	trivago	Egencia	HomeAway	Corporate & Eliminations	Total
	(In thousands)					
Third-party revenue	$ 1,699,899	$ 181,162	$ 122,699	$ 184,976	$ —	$ 2,188,736
Intersegment revenue	—	104,389	—	—	(104,389)	—
Revenue	$ 1,699,899	$ 285,551	$ 122,699	$ 184,976	$ (104,389)	$ 2,188,736
Adjusted EBITDA	$ 306,030	$ 20,730	$ 27,009	$ 5,832	$ (151,368)	$ 208,233
Depreciation	(71,150)	(1,953)	(9,479)	(7,430)	(51,536)	(141,548)
Amortization of intangible assets	—	—	—	—	(66,676)	(66,676)
Stock-based compensation	—	—	—	—	(47,211)	(47,211)
Legal reserves, occupancy tax and other	—	—	—	—	(21,054)	(21,054)
Restructuring and related reorganization charges	—	—	—	—	(1,899)	(1,899)
Realized (gain) loss on revenue hedges	(2,678)	—	—	—	—	(2,678)
Operating income (loss)	$ 232,202	$ 18,777	$ 17,530	$ (1,598)	$ (339,744)	(72,833)
Other expense, net						(58,422)
Loss before income taxes						(131,255)
Provision for income taxes						46,716
Net loss						(84,539)
Net income attributable to non-controlling interests						(1,583)
Net loss attributable to Expedia, Inc.						$ (86,122)

	Three months ended March 31, 2016					
	Core OTA	trivago	Egencia	HomeAway	Corporate & Eliminations	Total
	(In thousands)					
Third-party revenue	$ 1,539,856	$ 112,062	$ 109,849	$ 142,194	$ —	$ 1,903,961
Intersegment revenue	—	64,108	—	—	(64,108)	—
Revenue	$ 1,539,856	$ 176,170	$ 109,849	$ 142,194	$ (64,108)	$ 1,903,961
Adjusted EBITDA	$ 292,356	$ 7,706	$ 15,361	$ 17,314	$ (156,185)	$ 176,552
Depreciation	(58,818)	(785)	(6,847)	(3,659)	(35,146)	(105,255)
Amortization of intangible assets	—	—	—	—	(89,999)	(89,999)
Stock-based compensation	—	—	—	—	(48,908)	(48,908)
Legal reserves, occupancy tax and other	—	—	—	—	(1,974)	(1,974)
Restructuring and related reorganization charges, excluding stock-based compensation	—	—	—	—	(18,630)	(18,630)
Realized (gain) loss on revenue hedges	(9,084)	—	—	—	—	(9,084)
Operating income (loss)	$ 224,454	$ 6,921	$ 8,514	$ 13,655	$ (350,842)	(97,298)
Other expense, net						(68,588)
Loss before income taxes						(165,886)
Provision for income taxes						57,354
Net loss						(108,532)
Net income attributable to non-controlling interests						(57)
Net loss attributable to Expedia, Inc.						$ (108,589)

Note 11 – 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, and joint and several with the exception of certain customary automatic subsidiary release provisions. In this financial information, the Parent and Guarantor Subsidiaries account for investments in their wholly-owned subsidiaries using the equity method.

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
Three months ended March 31, 2017

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(In thousands)		
Revenue	$ —	$ 1,701,060	$ 593,162	$ (105,486)	$ 2,188,736
Costs and expenses:					
Cost of revenue	—	335,254	90,173	(3,740)	421,687
Selling and marketing	—	909,622	462,191	(101,753)	1,270,060
Technology and content	—	236,755	85,293	(8)	322,040
General and administrative	—	106,051	52,087	15	158,153
Amortization of intangible assets	—	45,484	21,192	—	66,676
Legal reserves, occupancy tax and other	—	21,054	—	—	21,054
Restructuring and related reorganization charges	—	1,260	639	—	1,899
Intercompany (income) expense, net	—	166,262	(166,262)	—	—
Operating income (loss)	—	(120,682)	47,849	—	(72,833)
Other income (expense):					
Equity in pre-tax earnings of consolidated subsidiaries	(60,213)	52,335	—	7,878	—
Other, net	(41,093)	(32,406)	15,077	—	(58,422)
Total other income (expense), net	(101,306)	19,929	15,077	7,878	(58,422)
Income (loss) before income taxes	(101,306)	(100,753)	62,926	7,878	(131,255)
Provision for income taxes	15,184	44,118	(12,586)	—	46,716
Net income (loss)	(86,122)	(56,635)	50,340	7,878	(84,539)
Net income attributable to non-controlling interests	—	—	(1,583)	—	(1,583)
Net income (loss) attributable to Expedia, Inc.	$ (86,122)	$ (56,635)	$ 48,757	$ 7,878	$ (86,122)
Comprehensive income (loss) attributable to Expedia, Inc.	$ (57,136)	$ (20,905)	$ 84,481	$ (63,576)	$ (57,136)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
Three months ended March 31, 2016

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(In thousands)		
Revenue	$ —	$ 1,473,883	$ 492,308	$ (62,230)	$ 1,903,961
Costs and expenses:					
Cost of revenue	—	318,148	87,525	(3,103)	402,570
Selling and marketing	—	728,087	370,473	(59,212)	1,039,348
Technology and content	—	218,175	73,308	71	291,554
General and administrative	—	93,967	52,030	14	146,011
Amortization of intangible assets	—	55,829	34,170	—	89,999
Legal reserves, occupancy tax and other	—	1,974	—	—	1,974
Restructuring and related reorganization charges	—	20,259	9,544	—	29,803
Intercompany (income) expense, net	—	175,689	(175,689)	—	—
Operating income (loss)	—	(138,245)	40,947	—	(97,298)
Other income (expense):					
Equity in pre-tax earnings (losses) of consolidated subsidiaries	(82,603)	46,279	—	36,324	—
Other, net	(41,216)	(41,268)	13,896	—	(68,588)
Total other income (loss), net	(123,819)	5,011	13,896	36,324	(68,588)
Income (loss) before income taxes	(123,819)	(133,234)	54,843	36,324	(165,886)
Provision for income taxes	15,230	53,093	(10,969)	—	57,354
Net income (loss)	(108,589)	(80,141)	43,874	36,324	(108,532)
Net income attributable to non-controlling interests	—	—	(57)	—	(57)
Net income (loss) attributable to Expedia, Inc.	$ (108,589)	$ (80,141)	$ 43,817	$ 36,324	$ (108,589)
Comprehensive income (loss) attributable to Expedia, Inc.	$ (111,062)	$ (66,381)	$ 56,698	$ 9,683	$ (111,062)

CONDENSED CONSOLIDATING BALANCE SHEET
March 31, 2017

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(In thousands)		
ASSETS					
Total current assets	$ 308,943	$ 4,245,253	$ 2,093,846	$ (1,319,629)	$ 5,328,413
Investment in subsidiaries	9,522,269	3,507,327	—	(13,029,596)	—
Intangible assets, net	—	1,876,104	510,400	—	2,386,504
Goodwill	—	6,404,707	1,575,175	—	7,979,882
Other assets, net	4,107	1,625,159	357,656	(12,815)	1,974,107
TOTAL ASSETS	$ 9,835,319	$ 17,658,550	$ 4,537,077	$ (14,362,040)	$ 17,668,906
LIABILITIES AND STOCKHOLDERS' EQUITY					
Total current liabilities	$ 1,005,328	$ 7,513,671	$ 820,201	$ (1,319,629)	$ 8,019,571
Long-term debt	3,170,933	—	—	—	3,170,933
Other liabilities	—	652,321	179,838	(12,815)	819,344
Stockholders' equity	5,659,058	9,492,558	3,537,038	(13,029,596)	5,659,058
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 9,835,319	$ 17,658,550	$ 4,537,077	$ (14,362,040)	$ 17,668,906

CONDENSED CONSOLIDATING BALANCE SHEET
December 31, 2016

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(In thousands)		
ASSETS					
Total current assets	$ 293,759	$ 2,535,711	$ 1,829,191	$ (1,208,410)	$ 3,450,251
Investment in subsidiaries	9,536,273	3,410,687	—	(12,946,960)	—
Intangible assets, net	—	1,921,519	525,133	—	2,446,652
Goodwill	—	6,392,479	1,549,544	—	7,942,023
Other assets, net	4,107	1,608,218	331,818	(5,523)	1,938,620
TOTAL ASSETS	$ 9,834,139	$ 15,868,614	$ 4,235,686	$ (14,160,893)	$ 15,777,546
LIABILITIES AND STOCKHOLDERS' EQUITY					
Total current liabilities	$ 981,700	$ 5,733,755	$ 620,153	$ (1,208,410)	$ 6,127,198
Long-term debt	3,159,336	—	—	—	3,159,336
Other liabilities	—	629,634	173,798	(5,523)	797,909
Stockholders' equity	5,693,103	9,505,225	3,441,735	(12,946,960)	5,693,103
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 9,834,139	$ 15,868,614	$ 4,235,686	$ (14,160,893)	$ 15,777,546

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Three months ended March 31, 2017

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
		(In thousands)		
Operating activities:				
Net cash provided by operating activities	$ —	$ 1,585,792	$ 87,651	$ 1,673,443
Investing activities:				
Capital expenditures, including internal-use software and website development	—	(136,927)	(29,942)	(166,869)
Purchases of investments	—	(679,160)	(101,203)	(780,363)
Sales and maturities of investments	—	6,815	—	6,815
Other, net	—	(9,628)	461	(9,167)
Net cash used in investing activities	—	(818,900)	(130,684)	(949,584)
Financing activities:				
Purchases of treasury stock	(45,176)	—	—	(45,176)
Transfers (to) from related parties	35,043	(135,043)	100,000	—
Other, net	10,133	(8,836)	(4,241)	(2,944)
Net provided by (cash used) in financing activities	—	(143,879)	95,759	(48,120)
Effect of exchange rate changes on cash and cash equivalents	—	8,003	22,677	30,680
Net increase in cash and cash equivalents	—	631,016	75,403	706,419
Cash and cash equivalents at beginning of the period	—	425,471	1,371,340	1,796,811
Cash and cash equivalents at end of the period	$ —	$ 1,056,487	$ 1,446,743	$ 2,503,230

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Three months ended March 31, 2016

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
		(In thousands)		
Operating activities:				
Net cash provided by operating activities	$ —	$ 893,775	$ 214,548	$ 1,108,323
Investing activities:				
Capital expenditures, including internal-use software and website development	—	(146,189)	(21,389)	(167,578)
Transfers (to) from related parties	—	(99,919)	99,919	—
Sales and maturities of investments	—	8,215	—	8,215
Other, net	—	(2,102)	2,230	128
Net cash provided by (used in) investing activities	—	(239,995)	80,760	(159,235)
Financing activities:				
Payment of HomeAway Convertible Notes	—	(400,443)	—	(400,443)
Purchases of treasury stock	(187,022)	—	—	(187,022)
Transfers (to) from related parties	200,725	(55,851)	(144,874)	—
Other, net	(13,703)	(11,783)	—	(25,486)
Net cash provided by financing activities	—	(468,077)	(144,874)	(612,951)
Effect of exchange rate changes on cash and cash equivalents	—	28,539	22,354	50,893
Net increase in cash and cash equivalents	—	214,242	172,788	387,030
Cash and cash equivalents at beginning of period	—	841,696	834,603	1,676,299
Cash and cash equivalents at end of period	$ —	$ 1,055,938	$ 1,007,391	$ 2,063,329

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

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect the views of our management regarding current expectations and projections about future events and are based on currently available information. Actual results could differ materially from those contained in these forward-looking statements for a variety of reasons, including, but not limited to, those discussed in our Annual Report on Form 10-K for the year ended December 31, 2015, Part I, Item 1A, "Risk Factors," as well as those discussed elsewhere in this report. Other unknown or unpredictable factors also could have a material adverse effect on our business, financial condition and results of operations. Accordingly, readers should not place undue reliance on these forward-looking statements. The use of words such as "anticipates," "estimates," "expects," "intends," "plans" and "believes," among others, generally identify forward-looking statements; however, these words are not the exclusive means of identifying such statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. These forward-looking statements are inherently subject to uncertainties, risks and changes in circumstances that are difficult to predict. We are not under any obligation to, and do not intend to, publicly update or review any of these forward-looking statements, whether as a result of new information, future events or otherwise, even if experience or future events make it clear that any expected results expressed or implied by those forward-looking statements will not be realized. Please carefully review and consider the various disclosures made in this report and in our other reports filed with the Securities and Exchange Commission ("SEC") that attempt to advise interested parties of the risks and factors that may affect our business, prospects and results of operations.

The information included in this management's discussion and analysis of financial condition and results of operations should be read in conjunction with our consolidated financial statements and the notes included in this Quarterly Report, and the audited consolidated financial statements and notes and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2016.

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, vacation rental property owners and managers, and other travel product and service companies. We also offer travel and non-travel advertisers access to a potential source of incremental traffic and transactions through our various media and advertising offerings on our transaction-based websites.

Our portfolio of brands includes Expedia.com®, Hotels.com®, Orbitz Worldwide, Expedia® Affiliate Network ("EAN"), trivago, HomeAway, Egencia®, Travelocity®, Hotwire.com™, Wotif Group, Classic Vacations®, CarRentals.com™, Expedia Local Expert™ and Expedia® CruiseShipCenters®. In addition, many of these brands have related international points of sale, including those as part of AirAsia Expedia™. For additional information about our portfolio of brands, see "Portfolio of Brands" in Part I, Item 1, "Business," in our Annual Report on Form 10-K for the year ended December 31, 2016.

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

Trends

The travel industry, including offline agencies, online agencies and other suppliers of travel products and services, has historically been characterized by intense competition, as well as rapid and significant change. Generally, 2015 and 2016 represented years of continuing improvement for the travel industry. However, political instability, geopolitical conflicts, acts of terrorism, significant fluctuations in currency values, sovereign debt issues and macroeconomic concerns are examples of events that contribute to a somewhat uncertain environment, which could have a negative impact on the travel industry in the future.

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 2016, over 50% of U.S. and European leisure, unmanaged and corporate travel expenditures occurred online. Online penetration rates in the emerging markets, such as Asia Pacific and Latin American regions, are lagging behind that of the United States and Europe, and are estimated to be in the range of 30% to 35%. These penetration rates have increased over the past few years, and are expected to

continue growing, which has attracted many competitors to online travel. This competition 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. Competitive entrants such as "metasearch" companies, including Kayak.com (owned by The Priceline Group), trivago (in which Expedia owns a majority interest) as well as TripAdvisor, introduced differentiated features, pricing and content compared with the legacy online travel agency companies, as well as various forms of direct or assisted booking tools, the impact of which is currently uncertain. In addition, the increasing popularity of the "sharing economy," accelerated by online penetration, has had a direct impact on the travel and lodging industry. Players such as Airbnb and HomeAway (which Expedia acquired in December 2015) have emerged as the leaders, bringing incremental alternative accommodation and vacation rental inventory to the market. Many other competitors, including vacation rental metasearch players, continue to emerge in this space, which is estimated to account for approximately $100 billion of annual travel spend and expected to continue to grow as a percentage of the global accommodation market. Furthermore, we have seen increased interest in the online travel industry from search engine companies as evidenced by recent innovations including direct booking functionality, as well as licensing deals and proposed and actual acquisitions by companies such as Google. Finally, traditional consumer e-commerce and group buying websites have been expanding their local offerings into the travel market by adding hotel offers to their sites.

The online travel industry has also seen the development of alternative business models and variations in the timing of payment by travelers and to suppliers, which in some cases place pressure on historical business models. In particular, the agency hotel model saw rapid adoption in Europe. Expedia has both merchant (Expedia Collect) and agency (Hotel Collect) hotel offerings for our hotel supply partners and we expect our use of these models to continue to evolve, including through the continued expansion of our ETP program, which offers travelers the choice of whether to pay Expedia at the time of booking or pay the hotel at the time of stay.

Intense competition also historically led to aggressive marketing efforts by the travel suppliers and intermediaries, and a meaningful unfavorable impact on our overall marketing efficiencies and operating margins. We manage our selling and marketing spending on a brand basis at the local or regional level, making decisions in each market that we think are appropriate based on the relative growth opportunity, the expected returns and the competitive environment. In certain cases, particularly in emerging markets, we are pursuing and expect to continue to pursue long-term growth opportunities for which our marketing efficiency is less favorable than that for our consolidated business, but for which we still believe the opportunity to be attractive. The crowded online travel environment is now driving certain secondary and tertiary online travel companies to establish marketing agreements with global players in order to leverage distribution and technology capabilities while focusing resources on capturing consumer mind share.

In May 2015, Expedia sold its 62.4% equity stake in eLong for approximately $671 million to several purchasers including Ctrip.com International, Ltd ("Ctrip"). Expedia and Ctrip also reached agreement on cooperation for certain travel products in specified geographic markets. The transaction closed on May 22, 2015. Unless otherwise noted, all discussion in the "Trends" and "Growth Strategy" sections refers to results for Expedia, Inc. excluding eLong.

Lodging

Lodging includes hotel accommodations as well as alternative accommodations primarily made available through HomeAway. As a percentage of our total worldwide revenue in the first quarter of 2017, lodging accounted for 64%. Our room night growth has been healthy, with room nights excluding eLong growing 36% in 2015, 32% in 2016, and 12% for the first quarter of 2017. ADRs for rooms booked on Expedia and HomeAway sites excluding eLong declined 5% in 2015, increased 11% in 2016 due to the acquisition of HomeAway, and increased 2% for the first quarter of 2017.

Hotel. We generate the majority of our revenue through the facilitation of hotel reservations (stand-alone and package bookings). Although our relationships with our hotel supply partners have remained broadly stable in the past few years, as part of the global rollout of ETP, we reduced negotiated economics in certain instances to compensate for hotel supply partners absorbing expenses such as credit card fees and customer service costs, which has negatively impacted the margin of revenue we earn per booking. In addition, as we continue to expand the breadth and depth of our global hotel offering, in some cases we have reduced and expect to continue to reduce our economics in various geographies based on local market conditions. These impacts are due to specific initiatives intended to drive greater global size and scale through faster overall room night growth. Additionally, increased promotional activities such as growing loyalty programs contribute to declines in revenue per room night. Lastly, currency exchange rate fluctuations have had a negative effect on unit economics due to unfavorable book-to-stay as well as translation impacts.

Since our hotel supplier agreements are generally negotiated on a percentage basis, any increase or decrease in ADRs has an impact on the revenue we earn per room night. Over the course of the last several years, occupancies and ADRs in the lodging industry have generally increased on a currency-neutral basis in a gradually improving overall travel environment. However, U.S. dollar-denominated ADRs declined in 2015, 2016, and the first quarter of 2017 due to the currency translation

impact. Current occupancy rates remain at record highs; however, U.S. hotel supply growth has been accelerating, which may put additional pressure on ADRs. In international markets, hotel supply is being added at a faster rate as hotel owners and operators try to take advantage of opportunities in faster growing regions such as China and India, among others. Companies like Airbnb have also added incremental global supply in the alternative accommodations space. In addition, while the global lodging industry remains very fragmented, there has been consolidation in the hotel space among chains as well as ownership groups. In the meantime, certain hotel chains have been focusing on driving direct bookings on their own websites and mobile applications by advertising lower rates than those available on third-party websites as well as incentives such as loyalty points, increased or exclusive product availability and complimentary Wi-Fi. We have had success adding supply to our marketplace with nearly 385,000 properties on our global websites as of March 31, 2017, including certain HomeAway vacation rental properties now available on Expedia.com.

Alternative Accommodations. With our acquisition of HomeAway and all of its brands in December 2015, we have expanded into the fast growing $100 billion alternative accommodations market. HomeAway is a leader in this market and represents an attractive growth opportunity for Expedia. HomeAway has been undergoing a transition from a listings-based classified advertising model to an online transactional model that optimizes for both travelers and homeowner and property manager partners, with a goal of increasing monetization and driving growth through investments in marketing as well as in product and technology. In addition, HomeAway rolled out a traveler service fee in the United States and Europe during the first half of 2016, consistent with market practice. The fee is expected to continue to contribute to HomeAway’s revenue growth and help fund marketing investment, programs to better protect travelers and future growth initiatives. Furthermore, HomeAway moved to a single subscription option globally in July 2016. In the first quarter of 2017, HomeAway began integrating Expedia vacation rental properties onto its sites. Combined with HomeAway's existing inventory, there are now nearly 1.4 million online bookable listings available on HomeAway.

Air

Significant airline sector consolidation in the United States in recent years has generally resulted in lower overall capacity and higher fares, which combined with the significant declines in fuel prices led to record levels of profitability for the U.S. air carriers, further strengthening their position. However, in 2015 and 2016 and for the first quarter of 2017, there has been evidence of discounting by the U.S. carriers while currency headwinds and weaker macroeconomic trends put pressure on international results. Ticket prices on Expedia sites excluding eLong declined 11% in 2015, 6% in 2016, and 3% in the first quarter of 2017 as short-haul traffic and low cost carriers grew alongside increasingly competitive airline pricing. We continue to encounter pressure on air remuneration as air carriers combine and as certain supply agreements renew.

Air ticket volumes excluding eLong increased 35% in 2015 and 32% in 2016, primarily due to the acquisition of Orbitz, and 8% in the first quarter of 2017. As a percentage of our total worldwide revenue in the first quarter of 2017, air accounted for 10%.

Advertising & Media

Our advertising and media business is principally driven by revenue generated by trivago, a leading hotel metasearch site, in addition to Expedia Media Solutions, which is responsible for generating advertising revenue on our global online travel brands. In the first quarter of 2017, we generated a total of $257 million of advertising and media revenue representing 12% of our total worldwide revenue, up from $174 million in the first quarter of 2016.

Growth Strategy

Product Innovation. Each of our leading brands was a pioneer in online travel and has been responsible for driving key innovations in the space for more than two decades. Each Expedia technology platform is operated by a dedicated technology team, which drives innovations that make researching and shopping for travel increasingly easier and help customers find and book the best possible travel options. In the past several years, we made key investments in technology, including significant development of our technical platforms that makes it possible for us to deliver innovations at a faster pace. For example, we launched new global platforms for Hotels.com and Brand Expedia, enabling us to significantly increase the innovation cycle, thereby improving conversion and driving faster growth rates for those brands. In 2013, Expedia signed an agreement to power the technology, supply and customer service platforms for Travelocity-branded sites in the United States and Canada, enabling Expedia to leverage its investments in each of these key areas. The shift of Travelocity-branded sites to the Expedia technology platform was successfully completed over the course of 2014. In November 2014, Expedia completed the acquisition of Wotif Group and subsequently converted the Wotif.com site to the Expedia platform. In January 2015, we acquired the Travelocity brand and other associated assets from Sabre. The strategic marketing and other related agreements previously entered into were terminated. In September 2015, Expedia completed the acquisition of Orbitz Worldwide, including all of its brands. The migration of the Orbitz.com, CheapTickets.com and ebookers sites to the Expedia technology platform was completed in the first half of 2016, and Orbitz for Business customers were migrated to the Egencia technology platform as of July 2016. In

December 2015, Expedia completed the acquisition of HomeAway, Inc., including all of its brands. We intend to continue leveraging these investments when launching additional points of sale in new countries, introducing new website features, adding supplier products and services including new business model offerings, as well as proprietary and user-generated content for travelers. In addition, while we aim to drive the top-line growth in our global brands, we are managing our regional brands, such as Travelocity, Orbitz.com, Wotif.com, ebookers and CheapTickets.com, with a greater focus on profitability.

Global Expansion. Our Expedia, Hotels.com, Egencia, and EAN brands operate both domestically and through international points of sale, including in Europe, Asia Pacific, Canada and Latin America. In addition, ebookers offers multi-product online travel reservations in Europe and Wotif Group has a leading portfolio of travel brands, including Wotif.com, Wotif.co.nz, lastminute.com.au, lastminute.com.nz and travel.com.au. Egencia, our corporate travel business, operates in over 65 countries around the world and continues to expand. The HomeAway portfolio has over 50 vacation rental sites all around the world. We own a majority share of trivago, a leading hotel metasearch company. Officially launched in 2005, trivago is one of the best known travel brands in Europe and North America. trivago continues to operate independently and rapidly grow revenue through global expansion, including aggressive expansion in new countries. In December 2016, trivago successfully completed its IPO and trades on the Nasdaq Global Select Market under the symbol "TRVG." In addition, we have commercial agreements in place with Ctrip and eLong in China, as well as Decolar.com, Inc. in Latin America. In the first quarter of 2017, approximately 36% of our worldwide gross bookings and 43% of worldwide revenue were through international points of sale compared to just 21% for both worldwide gross bookings and revenue in 2005. We have a goal of generating more than two-thirds of our revenue through businesses and points of sale outside of the United States.

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. Our scale of operations enhances the value of technology innovations we introduce on behalf of our travelers and suppliers. We believe that our size and scale afford the company the ability to negotiate competitive rates with our supply partners, provide breadth of choice and travel deals to our traveling customers through an expanding supply portfolio and create opportunities for new value added offers for our customers such as our loyalty programs. The size of Expedia’s worldwide traveler base makes our sites an increasingly appealing channel for travel suppliers to reach customers. In addition, the sheer size of our user base and search query volume allows us to test new technologies very quickly in order to determine which innovations are most likely to improve the travel research and booking process, and then roll those features out to our worldwide audience in order to drive improvements in conversion.

New Channel Penetration. Technological innovations and developments continue to create new opportunities for travel bookings made through mobile devices, in addition to more traditional methods like desktop and laptop computers. In the past few years, each of our brands made significant progress creating new mobile websites and mobile applications that are receiving strong reviews and solid download trends, and some of our brands now see more traffic via mobile devices than via traditional desktops. Mobile bookings via smartphones continue to present an opportunity for incremental growth as they are often completed within one or two days of the travel or stay, which is a much shorter booking window than we had historically experienced via more traditional online booking methods. In addition, we are seeing increasing cross-device usage among our customers, who connect to our websites and apps across multiple devices and platforms throughout their travel planning process. We also believe mobile represents an efficient marketing channel given the opportunity for direct traffic acquisition, increase in share of wallet and in repeat customers, particularly through mobile applications. During the first quarter of 2017, nearly one in three Expedia, Inc. transactions were booked globally on a mobile device.

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 winter 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 spring, summer and winter holiday travel. Additionally, trivago has historically earned a substantial portion of its operating profits in the fourth quarter. As a result on a consolidated basis, revenue and income are typically the lowest in the first quarter and highest in the third quarter. The continued growth of our international operations, advertising business or a change in our product mix, including the assimilation and growth of HomeAway, may influence the typical trend of the seasonality in the future. We expect that as HomeAway continues its shift to more of a transaction-based business model for vacation rental listings its seasonal trends will generally trend similar to our other traditional leisure businesses over time.

Critical Accounting Policies and Estimates

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

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

- It requires us to make an assumption because information was not available at the time or it included matters that were highly uncertain at the time we were making the estimate; and
- Changes in the estimate or different estimates that we could have selected may have had a material impact on our financial condition or results of operations.

For additional information about our critical accounting policies and estimates, see the disclosure included in our Annual Report on Form 10-K for the year ended December 31, 2016.

Occupancy and Other Taxes

Legal Proceedings. We are currently involved in eighteen lawsuits brought by or against states, cities and counties over issues involving the payment of hotel occupancy and other taxes. We continue to defend these lawsuits vigorously. With respect to the principal claims in these matters, we believe that the statutes and 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 statutes and ordinances at issue generally impose occupancy and other taxes on entities that own, operate or control hotels (or similar businesses) or furnish or provide hotel rooms or similar accommodations.

Recent developments include:

- *City of Chicago Litigation.* On April 25, 2017, the parties reached a settlement in principle.
- *Nassau County, New York Litigation.* On March 22, 2017, the court granted the defendant online travel companies' motion for summary judgment against intervening plaintiffs Chautauqua, Erie, Orange, Oswego, Rensselaer, Saratoga, Steuben and Westchester Counties and the City of Saratoga Springs.
- *State of Louisiana/City of New Orleans Litigation.* On March 6, 2017, the court denied the defendant online travel companies' motion for judgment on the pleadings with respect to plaintiffs' non-tax claims. On April 5, 2017, defendants filed an application for supervisory writ to the Louisiana Court of Appeals seeking to reverse the trial court's denial of the motion.
- *Portland, Oregon HomeAway Litigation.* On March 10, 2017, the federal district court granted in part and denied in part HomeAway's motion to dismiss the City of Portland's amended complaint. On March 20, 2017, the court granted in part and denied in part HomeAway's motion for a preliminary injunction.
- *Indiana State Sales Tax and County Innkeeper Tax Assessments.* On March 7, 2017, the Tax Court entered orders dismissing the cases against Travelscape, Hotels.com and Hotwire, thereby ending the matter.
- *Denver, Colorado Litigation.* On April 24, 2017, the Colorado Supreme Court, in a 3-1-3 split opinion, reversed the Court of Appeals and found that Denver's tax applied to the online travel companies and their compensation. The case has been remanded for further proceedings.
- *State of Maine Litigation.* The online travel companies reached a final settlement with the State of Maine and the parties have filed stipulations of dismissal, thereby ending the case.

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

We have established a reserve for the potential settlement of issues related to hotel occupancy tax litigation, consistent with applicable accounting principles and in light of all current facts and circumstances, in the amount of $90 million as of March 31, 2017, and $71 million as of December 31, 2016.

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.

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. However, any significant pay-to-play payment or litigation loss could negatively impact our liquidity. For additional information, including significant pay-to-play payments made by Expedia companies, see Note 9 – Commitments and Contingencies - Legal Proceedings - Pay-to-Play in the notes to the consolidated financial statements.

Legislation. Certain jurisdictions, including the states of New York, North Carolina, Minnesota, Oregon, Rhode Island, and Maryland, the city of New York, and the District of Columbia, have enacted legislation seeking to tax online travel company services as part of sales taxes for hotel occupancy. We are currently remitting taxes to a number of jurisdictions, including to the states of New York, South Carolina, North Carolina, Minnesota, Georgia, Wyoming, Oregon, Rhode Island, Montana, Maryland and Kentucky, the District of Columbia and the city of New York, as well as certain other county and local jurisdictions.

Segments

We have four reportable segments: Core Online Travel Agencies (“Core OTA”), trivago, Egencia and HomeAway. Our Core OTA segment provides a full range of travel and advertising services to our worldwide customers through a variety of brands including: Expedia.com and Hotels.com in the United States and localized Expedia and Hotels.com websites throughout the world, Orbitz.com, EAN, Hotwire.com, Travelocity, Wotif Group, CarRentals.com, and Classic Vacations. Our trivago segment generates advertising revenue primarily from sending referrals to online travel companies and travel service providers from its hotel metasearch websites. Our Egencia segment provides managed travel services to corporate customers worldwide. Our HomeAway segment operates an online marketplace for the vacation rental industry.

Operating Metrics

Our operating results are affected by certain metrics, such as gross bookings and revenue margin, which we believe are necessary for understanding and evaluating us. Gross bookings generally represent the total retail value of transactions booked for agency, merchant and HomeAway transactions, recorded at the time of booking reflecting the total price due for travel by travelers, including taxes, fees and other charges, and are reduced for cancellations and refunds. As travelers have increased their use of the internet to book travel arrangements, we have generally seen our gross bookings increase, reflecting the growth in the online travel industry, our organic market share gains and our business acquisitions. Revenue margin is defined as revenue as a percentage of gross bookings.

Gross Bookings and Revenue Margin

	Three months ended March 31,		
	2017	2016	% Change
	($ in millions)		
Gross Bookings			
Core OTA	$ 19,109	$ 17,226	11%
trivago[1]	—	—	N/A
Egencia	1,804	1,656	9%
HomeAway[2]	2,697	1,817	48%
Total gross bookings	$ 23,610	$ 20,699	14%
Revenue Margin			
Core OTA	8.9%	8.9%	
trivago[1]	N/A	N/A	
Egencia	6.8%	6.6%	
HomeAway[2]	6.9%	7.8%	
Total revenue margin	9.3%	9.2%	

(1) trivago, which is comprised of a hotel metasearch business that differs from our transaction-based websites, does not have associated gross bookings or revenue margin. However, third-party revenue from trivago is included in revenue used to calculate total revenue margin.

(2) In the first quarter of 2017, we began reporting HomeAway gross bookings along with the historical comparable information. HomeAway gross bookings include on-platform transactions from all HomeAway brands, with the exception of BedandBreakfast.com and TopRural (which, if included would collectively add less then an estimated 2% to gross bookings). On-platform gross bookings for Stayz, Bookabach and Travelmob (which collectively represent less than 10% of total on-platform transactions) represent our best estimates.

The increase in worldwide gross bookings for the three months ended March 31, 2017, as compared to the same period in 2016, was primarily driven by growth in the Core OTA segment, including growth at Brand Expedia, Hotels.com and EAN, as well as HomeAway.

The increase in revenue margin for the three months ended March 31, 2017, as compared to the same period in 2016, was primarily due to the growth in advertising and media revenue, partially offset by lower HomeAway revenue margins.

Results of Operations

Revenue

	Three months ended March 31,		
	2017	2016	% Change
	($ in millions)		
Revenue by Segment			
Core OTA	$ 1,700	$ 1,540	10%
trivago (Third-party revenue)	181	112	62%
Egencia	123	110	12%
HomeAway	185	142	30%
Total revenue	$ 2,189	$ 1,904	15%

Revenue increased for the three months ended March 31, 2017, compared to the same period in 2016, primarily driven by growth in the Core OTA segment, including growth at Brand Expedia, Hotels.com and EAN, as well as growth at trivago.

Lodging revenue, which includes hotel and HomeAway revenue, increased 12% for the three months ended March 31, 2017, compared to the same period in 2016. The increase was primarily due to a 12% increase in room nights stayed driven by growth at Brand Expedia, Hotels.com, EAN and HomeAway.

Worldwide air revenue increased 4% for the three months ended March 31, 2017, compared to the same period in 2016, due to an 8% increase in air tickets sold, partially offset by a 4% decline in revenue per ticket.

The remaining worldwide revenue, other than lodging and air discussed above, which includes advertising and media, car rental, destination services and fee revenue related to our corporate travel business, increased by 27% for the three months ended March 31, 2017, compared to the same period in 2016, primarily due to strong growth in advertising and media revenue as well as growth in our travel insurance and car rental products.

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

	Three months ended March 31,		
	2017	2016	% Change
	($ in millions)		
Revenue by Business Model			
Merchant	$ 1,176	$ 1,065	10%
Agency	571	523	9%
Advertising and media[(1)]	257	174	47%
HomeAway	185	142	30%
Total revenue	$ 2,189	$ 1,904	15%

(1) Includes third-party revenue from trivago as well as our transaction-based websites.

Merchant revenue increased for the three months ended March 31, 2017, compared to the same period in 2016, primarily due to the increase in merchant hotel revenue driven by an increase in room nights stayed.

Agency revenue increased for the three months ended March 31, 2017, compared to the same period in 2016, primarily due to the growth in agency hotel and agency air.

Advertising and media revenue increased for the three months ended March 31, 2017, compared to the same period in 2016, primarily due to continued growth in revenue at trivago and Expedia Media Solutions.

HomeAway revenue increased for the three months ended March 31, 2017, compared to the same period in 2016, primarily due to growth in transactional revenue of 171% driven by a benefit from the traveler service fee, partially offset by lower subscription revenue of 25%.

Cost of Revenue

	Three months ended March 31,		
	2017	2016	% Change
	($ in millions)		
Customer operations	$ 185	$ 180	3 %
Credit card processing	127	134	(5)%
Data center, cloud and other	110	89	24 %
Total cost of revenue	$ 422	$ 403	5 %
% of revenue	19.3%	21.1%	

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

During the three months ended March 31, 2017, the increase in cost of revenue expense as compared to the same period in 2016 was driven by $21 million of higher data center, cloud and other costs, including $9 million of cloud expenses and $8 million related to an increase in data center related depreciation expense.

Selling and Marketing

	Three months ended March 31,		
	2017	2016	% Change
	($ in millions)		
Direct costs	$ 1,053	$ 841	25%
Indirect costs	217	199	9%
Total selling and marketing	$ 1,270	$ 1,039	22%
% of revenue	58.0%	54.6%	

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

Selling and marketing expenses increased $231 million during the three months ended March 31, 2017, compared to the same period in 2016, driven by increases of $212 million of direct costs, including online and offline marketing expenses. trivago, Brand Expedia, Hotels.com and HomeAway accounted for the majority of the total direct cost increases. In addition, higher indirect costs of $18 million also contributed to the increase and were driven by growth in personnel.

Technology and Content

	Three months ended March 31,		
	2017	2016	% Change
	($ in millions)		
Personnel and overhead	$ 157	$ 156	1%
Depreciation and amortization of technology assets	103	80	29%
Other	62	56	11%
Total technology and content	$ 322	$ 292	10%
% of revenue	14.7%	15.3%	

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

Technology and content expense increased $30 million during the three months ended March 31, 2017, compared to the same period in 2016, primarily due to increased depreciation and amortization of technology assets of $23 million.

General and Administrative

	Three months ended March 31,		
	2017	2016	% Change
	($ in millions)		
Personnel and overhead	$ 100	$ 98	3%
Professional fees and other	58	48	19%
Total general and administrative	$ 158	$ 146	8%
% of revenue	7.2%	7.7%	

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

General and administrative expense increased $12 million during the three months ended March 31, 2017, compared to the same period in 2016, due primarily to higher professional fees and other.

Amortization of Intangible Assets

	Three months ended March 31,		
	2017	2016	% Change
	($ in millions)		
Amortization of intangible assets	$ 67	$ 90	(26)%
% of revenue	3.0%	4.7%	

Amortization of intangible assets decreased $23 million during the three months ended March 31, 2017, compared to the same period in 2016, primarily due to the completion of amortization of certain intangible assets.

Legal Reserves, Occupancy Tax and Other

Legal reserves, occupancy tax and other consists of changes in our reserves for court decisions and the potential and final settlement of issues related to hotel occupancy taxes, expenses recognized related to monies paid in advance of occupancy and other tax proceedings (“pay-to-play”) as well as certain other legal reserves.

Legal reserves, occupancy tax and other were $21 million and $2 million for the three months ended March 31, 2017 and 2016.

Restructuring and Related Reorganization Charges

	Three months ended March 31,		
	2017	2016	% Change
	($ in millions)		
Restructuring and related reorganization charges	$ 2	$ 30	(94)%
% of revenue	0.1%	1.6%	

In connection with the migration of technology platforms and centralization of technology, supply and other operations, primarily related to previously disclosed acquisitions, we recognized $2 million in restructuring and related reorganization charges during the three months ended March 31, 2017 compared to $30 million during the three months ended March 31, 2016. Based on current plans, which are subject to change, we expect to incur approximately $15 million to $20 million in 2017 related to these integrations and estimates do not include any possible future acquisition integrations.

Operating Loss

	Three months ended March 31,		
	2017	2016	% Change
	($ in millions)		
Operating loss	$ (73)	$ (97)	25%
% of revenue	(3.3)%	(5.1)%	

Operating loss decreased for the three months ended March 31, 2017, compared to the same period in 2016, primarily due to the growth in revenue, lower restructuring and related reorganization charges as well as lower amortization of intangible assets in the current period, partially offset by growth in selling and marketing expense in excess of revenue growth.

Interest Income and Expense

	Three months ended March 31,		
	2017	2016	% Change
	($ in millions)		
Interest income	$ 6	$ 4	75 %
Interest expense	(43)	(44)	(2)%

Interest income increased for the three months ended March 31, 2017, compared to the same period in 2016, primarily due to higher average cash balances and to a lesser extent higher rates of return. Interest expense was consistent period over period.

Other, Net

Other, net is comprised of the following:

	Three months ended March 31,	
	2017	2016
	($ in millions)	
Foreign exchange rate losses, net	$ (20)	$ (19)
Other	(2)	(9)
Total other, net	$ (22)	$ (28)

Provision for Income Taxes

	Three months ended March 31,		
	2017	2016	% Change
	($ in millions)		
Provision for income taxes	$ (47)	$ (57)	(19)%
Effective tax rate	35.6%	34.6%	

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.

For the three months ended March 31, 2017 and 2016, we recorded a 35.6% and 34.6% tax rate benefit on pre-tax losses, which was relatively consistent between periods.

We are subject to taxation in the United States and various other state and foreign jurisdictions. We are under examination by the Internal Revenue Service ("IRS") for our 2009 through 2013 tax years. Our 2014 and subsequent years remain open to examination by the IRS. We do not anticipate a significant impact to our gross unrecognized tax benefits within the next 12 months related to these years. During first quarter of 2017, the IRS issued proposed adjustments relating to transfer pricing with our foreign subsidiaries for our 2009 to 2010 audit cycle. The proposed adjustments would increase our U.S. taxable income by $105 million, which would result in federal tax expense of approximately $37 million, subject to interest. We do not agree with the position of the IRS and will formally protest the IRS position.

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 $3.4 billion and $1.9 billion at March 31, 2017 and December 31, 2016, including $1.3 billion and $1.1 billion of cash and short-term investment balances held in wholly-owned foreign subsidiaries, (which includes $927 million and $737 million related to earnings indefinitely invested outside the United States) as well as $310 million and $313 million held in majority-owned subsidiaries, which is also indefinitely invested outside the United States; and our $1.5 billion revolving credit facility, which is essentially untapped and expires in February 2021. The revolving credit facility bears interest based on the Company’s credit ratings with the applicable interest rate on drawn amounts at LIBOR plus 137.5 basis points and the commitment fee on undrawn amounts at 17.5 basis points as of March 31, 2017.

Our credit ratings are periodically reviewed by rating agencies. As of March 31, 2017, Moody's rating was Ba1 with an outlook of "stable," S&P's rating was BBB- with an outlook of "stable" and Fitch's rating was BBB- with an outlook of "stable." Changes in our operating results, cash flows, financial position, capital structure, financial policy or capital allocations to share repurchase, dividends, investments and acquisitions could impact the ratings assigned by the various rating agencies. Should our credit ratings be adjusted downward, we may incur higher costs to borrow and/or limited access to capital markets, which could have a material impact on our financial condition and results of operations.

As of March 31, 2017, we were in compliance with the covenants and conditions in our revolving credit facility and outstanding debt, which was comprised of $500 million in registered senior unsecured notes due in August 2018 that bear interest at 7.456%, $750 million in registered senior unsecured notes due in August 2020 that bear interest at 5.95%, $500 million in registered senior unsecured notes due in August 2024 that bear interest at 4.5%, Euro 650 million of registered senior unsecured notes due in June 2022 that bear interest at 2.5% and $750 million of senior unsecured notes due in February 2026 that bear interest at 5.0%.

Under the merchant model, we receive cash from travelers at the time of booking and we record these amounts on our consolidated balance sheets as deferred merchant bookings. We pay our airline suppliers related to these merchant model bookings generally within a few weeks after completing the transaction, but we are liable for the full value of such transactions until the flights are completed. For most other merchant bookings, which is primarily our merchant hotel business, we generally pay after the travelers' use and, in some cases, 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 related to merchant hotel transactions will positively impact operating cash flows. However, we are using both the merchant model and the agency model in many of our markets. If the merchant hotel model declines relative to our other business models that generally consume working capital such as agency hotel, managed corporate travel, advertising or certain Expedia Affiliate Network relationships, or if there are changes to the merchant model, supplier payment terms, or booking patterns that compress the time period between our receipt of cash from travelers and our payment to suppliers, such as with mobile bookings via smartphones, our overall working capital benefits could be reduced, eliminated or even reversed. Our future working capital benefits could also be impacted by HomeAway's continued shift to more of a transactional model from a subscription model.

As our ETP program continues to expand, and depending on relative traveler and supplier adoption rates and customer payment preferences, among other things, the scaling up of ETP has and will continue to negatively impact near term working capital cash balances, cash flow, relative liquidity during the transition, and hotel revenue margins.

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

As of March 31, 2017, we had a deficit in our working capital of $2.7 billion, which is consistent with the deficit of $2.7 billion as of December 31, 2016.

We continue to invest in the development and expansion of our operations. Ongoing investments include but are not limited to improvements in infrastructure, which include our servers, networking equipment and software, release improvements to our software code, platform migrations and consolidation and search engine marketing and optimization efforts. In addition, in 2016, we began our expansion into the cloud computing environment. While we expect our cloud computing expenses to increase significantly over the next few years they are expected to result in lower overall capital expenditures related to our data centers over time. Our future capital requirements may include capital needs for acquisitions (including purchases of non-controlling interest), share repurchases, dividend payments or expenditures in support of our business strategy; thus reducing our cash balance and/or increasing our debt. Excluding capital expenditures associated with the build out of our new corporate headquarters, we expect total capital expenditures for full year 2017 to decline slightly over 2016 spending levels. Our current estimates for the new headquarters total approximately $650 million, of which approximately $30 million was spent in 2016 and less than $100 million will be spent in 2017. The remainder will be split roughly evenly between 2018 and 2019.

Our cash flows are as follows:

	Three months ended March 31,		
	2017	2016	$ Change
	(In millions)		
Cash provided by (used in):			
Operating activities	$ 1,673	$ 1,108	$ 565
Investing activities	(950)	(159)	(791)
Financing activities	(48)	(613)	565
Effect of foreign exchange rate changes on cash and cash equivalents	31	51	(20)

For the three months ended March 31, 2017, net cash provided by operating activities increased by $565 million primarily due to an increased benefits from working capital changes driven mostly from a change in deferred merchant bookings.

For the three months ended March 31, 2017, cash used in investing activities increased by $791 million primarily due to higher net purchases of investments of $782 million.

For the three months ended March 31, 2017, cash used in financing activities primarily included cash paid to acquire shares of $45 million, including the repurchased shares under the authorizations discussed below, and a $42 million cash dividend payment, partially offset by $58 million of proceeds from the exercise of options and employee stock purchase plans. For the three months ended March 31, 2016, cash used in financing activities primarily included the repayment of $400 million of HomeAway Convertible Notes, cash paid to acquire shares of $187 million and a $36 million cash dividend payment, partially offset by $26 million of proceeds from the exercise of options and employee stock purchase plans.

In February 2015, the Executive Committee, acting on behalf of the Board of Directors, authorized a repurchase of up to 10 million shares of our common stock. During the three months ended March 31, 2017 and 2016, we repurchased, through open market transactions, 0.3 million and 1.7 million shares under these authorization for a total cost of $39 million and $183 million, excluding transaction costs. As of March 31, 2017, 6.9 million shares remain authorized for repurchase under this authorization with no fixed termination date for the repurchases. Subsequent to March 31, 2017, we repurchased an additional 0.1 million shares for a total cost of $14 million, excluding transaction costs, representing an average price of $127.90 per share.

During the three months ended March 31, 2017 and 2016, the Executive Committee, acting on behalf of the Board of Directors, declared and we paid the following dividends:

Declaration Date	Dividend Per Share	Record Date	Total Amount (in thousands)	Payment Date
February 7, 2017	$ 0.28	March 9, 2017	$ 42,247	March 30, 2017
February 8, 2016	0.24	March 10, 2016	36,174	March 30, 2016

In addition, in April 2017, the Executive Committee, acting on behalf of the Board of Directors, declared a quarterly cash dividend of $0.28 per share of outstanding common stock payable on June 15, 2017 to stockholders of record as of the close of business on May 25, 2017. Future declarations of dividends are subject to final determination by our Board of Directors.

The effect of foreign exchange on our cash balances denominated in foreign currency for the three months ended March 31, 2017, compared to the same period in 2016, showed a net change of $(20) million reflecting lower appreciations in foreign currencies in the current year period compared to the prior year period.

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

Contractual Obligations, Commercial Commitments and Off-balance Sheet Arrangements

There have been no material changes outside the normal course of business to our contractual obligations and commercial commitments since December 31, 2016. Other than our contractual obligations and commercial commitments, we did not have any off-balance sheet arrangements as of March 31, 2017 or December 31, 2016.

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

Market Risk Management

There has been no material changes in our market risk during the three months ended March 31, 2017. For additional information, see Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in Part II of our Annual Report on Form 10-K for the year ended December 31, 2016.

Part I. Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures.

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), our management, including our Chairman and Senior Executive, Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act). Based upon that evaluation, our Chairman and Senior Executive, Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

Changes in internal control over financial reporting.

There were no changes to our internal control over financial reporting that occurred during the quarter ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Item 1. Legal Proceedings

In the ordinary course of business, Expedia and its subsidiaries are parties to legal proceedings and claims involving property, personal injury, contract, alleged infringement of third party intellectual property rights and other claims. A discussion of certain legal proceedings can be found in the section titled "Legal Proceedings," of our Annual Report on Form 10-K for the year ended December 31, 2016. The following are developments regarding such legal proceedings:

Litigation Relating to Occupancy and Other Taxes

Actions Filed by Individual States, Cities and Counties

City of Chicago Litigation. On April 25, 2017, the parties reached a settlement in principle.

City of San Antonio, Texas Litigation. On February 16, 2017, the district court referred the plaintiffs' request for attorneys' fees and costs to a magistrate judge for review and recommendation. On April 10, 2017, the defendant online travel companies filed a motion to stay further proceedings pending resolution of their substantive appeal to the United States Fifth Circuit Court of Appeals. On April 17, 2017, the magistrate judge issued a report and recommendation as to attorneys' fees. On April 20, 2017, the district court stayed further proceedings on plaintiff's fee petition pending resolution of the parties' appeal to the Fifth Circuit Court of Appeals.

Nassau County, New York Litigation. On March 22, 2017, the court granted the defendant online travel companies' motion for summary judgment against intervening plaintiffs Chautauqua, Erie, Orange, Oswego, Rensselaer, Saratoga, Steuben and Westchester Counties and the City of Saratoga Springs.

State of Louisiana/City of New Orleans Litigation. On March 6, 2017, the court denied the defendant online travel companies' motion for judgment on the pleadings with respect to plaintiffs' non-tax claims. On April 5, 2017, defendants filed an application for supervisory writ to the Louisiana Court of Appeals seeking to reverse the trial court's denial of the motion.

Portland, Oregon Litigation. On March 10, 2017, the federal district court granted in part and denied in part HomeAway's motion to dismiss the City of Portland's amended complaint. On March 20, 2017, the court granted in part and denied in part HomeAway's motion for a preliminary injunction.

Actions Filed by Expedia

Indiana State Sales Tax and County Innkeeper Tax Assessments. On March 7, 2017, the Tax Court entered orders dismissing the cases against Travelscape, Hotels.com and Hotwire, thereby ending the matter.

Denver, Colorado Litigation. On April 24, 2017, the Colorado Supreme Court, in a 3-1-3 split opinion, reversed the Court of Appeals and found that Denver's tax applied to the online travel companies and their compensation. The case has been remanded for further proceedings.

State of Maine Litigation. The online travel companies reached a final settlement with the State of Maine, and the parties have filed stipulations of dismissal, thereby ending the case.

Non-Tax Litigation and Other Legal Proceedings

Putative Class Action Litigation

Buckeye Tree Lodge and 2020 O Street Corporation Lawsuits. On March 7, 2017, a related putative class action was filed in the same court as the *Buckeye Tree Lodge* lawsuit, *2020 O Street Corporation, Inc. v. Expedia, Inc., et al.*, Case No. 3:17-cv-01186-JSC, asserting Lanham Act claims, and claims for unfair competition, unjust enrichment and restitution. The court determined that the case was related to the earlier filed *Buckeye Tree Lodge* case, and therefore assigned the matter to the same judge.

Israeli Putative Class Action Lawsuit. On March 15, 2017, Hotels.com filed an application with the court challenging service of process.

Cases Against HomeAway.com, Inc. On March 10, 2017, HomeAway filed a motion to dismiss the complaint in the *Arnold* case.

Other Legal Proceedings

HRC of San Francisco, California Litigation. Oral argument on HRC's appeal to the California Court of Appeals has been set for April 27, 2017.

Part II. Item 1. Legal Proceedings

Santa Monica, California Litigation. The city passed an amended ordinance that took effect on February 23, 2017. The city has agreed to stay enforcement of the amended ordinance pending the disposition of the *HRC of San Francisco, California Litigation*.

Ryanair Lawsuit. On or about February 15, 2017, Ryanair D.A.C. filed a lawsuit against Expedia, Inc. in the Irish High Court. The case involves claims over alleged selling of flights using data from Ryanair's website. *Ryanair D.A.C. v. Expedia, Inc.* (Case No. 2017/11 IA).

Competition Reviews, Litigation and Legislation Regarding Parity Clauses

For a discussion of certain matters related to competition review and legislation regarding parity clauses, see Note 9 – Commitments and Contingencies - Legal Proceedings - Matters Relating to Competition Reviews and Legislation Relating to Parity Clauses in the notes to consolidated financial statements.

Part II. Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A, “Risk Factors,” in our Annual Report on Form 10-K for the year ended December 31, 2016, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

Share Repurchases

During 2015, the Executive Committee, acting on behalf of the Board of Directors, authorized a repurchase of up to 10 million shares of our common stock. A summary of the repurchase activity for the first quarter of 2017 is as follows:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under Plans or Programs
		(In thousands, expect per share data)		
January 1-31, 2017	263	$ 113.42	263	6,998
February 1-28, 2017	—	—	—	6,998
March 1-31, 2017	73	127.67	73	6,925
Total	336		336	

Part II. Item 6. Exhibits

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

Exhibit No.	Exhibit Description	Filed Herewith	Incorporated by Reference			
			Form	SEC File No.	Exhibit	Filing Date
10.1	Third Amendment, dated as of April 25, 2017, to the Amended and Restated Credit Agreement dated as of September 5, 2014 among Expedia, Inc., a Delaware corporation, Expedia, Inc., a Washington corporation, Travelscape, LLC, a Nevada limited liability company, Hotwire, Inc., a Delaware corporation, the other Borrowing Subsidiaries from time to time party thereto, the Lenders from time to time party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, and J.P. Morgan Europe Limited, as London Agent	X				
31.1	Certification of the Chairman and Senior Executive pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
31.2	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
31.3	Certification of the Chief Financial Officer pursuant Section 302 of the Sarbanes-Oxley Act of 2002	X				
32.1	Certification of the Chairman and Senior Executive pursuant Section 906 of the Sarbanes-Oxley Act of 2002	X				
32.2	Certification of the Chief Executive Officer pursuant Section 906 of the Sarbanes-Oxley Act of 2002	X				
32.3	Certification of the Chief Financial Officer pursuant Section 906 of the Sarbanes-Oxley Act of 2002	X				
101	The following financial statements from the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, formatted in XBRL: (i) Consolidated Statements of Operations, (ii) Consolidated Statements of Comprehensive Income (Loss), (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements.	X				

Signature

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

April 27, 2017

Expedia, Inc.

By: /s/ MARK D. OKERSTROM

Mark D. Okerstrom

Chief Financial Officer

THIRD AMENDMENT dated as of April 25, 2017 (this "Amendment"), to the AMENDED AND RESTATED CREDIT AGREEMENT dated as of September 5, 2014 (as heretofore amended, supplemented or otherwise modified, the "Credit Agreement"), among EXPEDIA, INC., a Delaware corporation, EXPEDIA, INC., a Washington corporation, TRAVELSCAPE, LLC, a Nevada limited liability company, HOTWIRE, INC., a Delaware corporation, the other BORROWING SUBSIDIARIES from time to time party thereto, the LENDERS from time to time party thereto, JPMORGAN CHASE BANK, N.A., as Administrative Agent, and J.P. MORGAN EUROPE LIMITED, as London Agent.

WHEREAS, the Lenders have agreed to extend credit to the Borrowers under the Credit Agreement on the terms and subject to the conditions set forth therein;

WHEREAS, the Company has requested that the Lenders agree to effect certain amendments to the Credit Agreement as set forth herein; and

WHEREAS, the parties hereto, which include Lenders constituting the Required Lenders as of the Third Amendment Effective Date (as defined below), are willing to amend the Credit Agreement on the terms and subject to the conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual agreements herein contained and other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, the parties hereto hereby agree as follows:

SECTION 1. Defined Terms. Capitalized terms used but not otherwise defined herein (including in the preamble and the recitals hereto) have the meanings assigned to them in the Credit Agreement (as amended hereby).

SECTION 2. Amendment of Credit Agreement. Effective as of the Third Amendment Effective Date:

(b) Section 1.01 of the Credit Agreement is hereby amended by amending and restating the definition of "Designated Subsidiary" in its entirety as follows:

"Designated Subsidiary" means each Subsidiary that is (a) a Borrowing Subsidiary, (b) a Material Subsidiary or (c) an obligor (including pursuant to a Guarantee) under any Material Indebtedness of the Company or any other Domestic Subsidiary (other than a Specified Foreign Subsidiary), in each case other than (i) except with respect to clause (c) above, any Specified Foreign Subsidiary or any CFC Holdco, (ii) the New Headquarters SPV and the New Headquarters Parent SPV, (iii) except with respect to clause (a) or (c) above, any Subsidiary if, and for so long as, such Subsidiary is not a Wholly Owned Subsidiary and (iv) except with respect to clause (c) above, Classic Vacations, LLC, a Nevada limited liability company.

(c) Section 1.01 of the Credit Agreement is hereby amended by amending and restating the definition of "Liens" in its entirety as follows:

"Lien" means, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge or security interest in, on or of such asset and (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset.

(d) Section 1.01 of the Credit Agreement is hereby amended by adding the following new defined terms in appropriate alphabetical order:

"Third Amendment" means the Third Amendment, dated as of April 25, 2017, to this Agreement.

"Third Amendment Effective Date" has the meaning assigned to such term in the Third Amendment.

(e) Section 9.14(a) of the Credit Agreement is hereby amended and restated in its entirety as follows:

If the Company shall request the release of the Guarantee of any Subsidiary Loan Party either (i) upon the consummation of any transaction permitted by this Agreement (for the avoidance of doubt, as in effect from time to time) as a result of which such Subsidiary Loan Party ceases to be a Subsidiary or (ii) at such time as such Subsidiary Loan Party, immediately prior to giving effect to such release (but giving effect to any substantially concurrent repayment (in whole or in part) or release of any obligation under any Indebtedness), is not a Designated Subsidiary (but, in the case of this clause (ii), with respect to any Subsidiary Loan Party that is not a Designated Subsidiary in reliance solely on clause (iii) of the definition of such term, only if the Company and the other Subsidiaries do not own in the aggregate more than 85% of the Equity Interests in such Subsidiary Loan Party) and, in each case, the Company shall deliver to the Administrative Agent a certificate of a Financial Officer or other executive officer of the Company to the effect that (I) in the case of clause (ii) above, no Event of Default shall have occurred and be continuing immediately prior to, and immediately after giving effect to, such release and (II) in the case of clause (ii) above and after giving effect to any substantially concurrent repayment (in whole or in part) or release of any obligation under any Indebtedness, the applicable Subsidiary Loan Party is not a Designated Subsidiary and, if applicable, the condition set forth in the parenthetical in such clause is satisfied, then the Administrative Agent shall execute and deliver to the Company, at the Company's expense, all documents that the Company shall reasonably request to evidence such release.

SECTION 3. Certain Guarantee Release. Effective as of the Third Amendment Effective Date, notwithstanding anything to the contrary in the Credit Agreement or the Guarantee Agreement, the Guarantees of EXP Global Holdings, Inc., a Delaware corporation, and Classic Vacations, LLC, a Nevada limited liability company, created under the Guarantee Agreement are hereby released, and EXP Global Holdings, Inc. and Classic Vacations, LLC are discharged from all of their respective obligations under the Guarantee Agreement.

SECTION 4. Representations and Warranties. The Company and each Borrowing Subsidiary represents and warrants to the Lenders that:

(b) This Amendment has been duly executed and delivered by the Company and (assuming due execution by the parties hereto other than the Company) constitutes a legal, valid and binding obligation of the Company, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

(c) Before and after giving effect to this Amendment, the representations and warranties set forth in Article III of the Credit Agreement are true and correct in all material respects (in all respects in the case of representations and warranties qualified by materiality in the text thereof) on and as of the Third Amendment Effective Date with the same effect as if made on and as of such date, except to the extent such representations and warranties expressly relate to an earlier date, in which case they were so true and correct as of such earlier date.

(d) As of the Third Amendment Effective Date, before and after giving effect to this Amendment, no Default or Event of Default has occurred and is continuing.

SECTION 5. Effectiveness. This Amendment shall become effective as of the first date (the "Third Amendment Effective Date") on which the Administrative Agent (or its counsel) shall have received duly executed counterparts hereof that, when taken together, bear the authorized signatures of the Company, the Administrative Agent, the London Agent and Lenders constituting at least the Required Lenders. The Administrative Agent shall notify the Company, the Lenders and the Issuing Banks of the Third Amendment Effective Date, and such notice shall be conclusive and binding.

SECTION 6. Effect of this Amendment. (a) Except as expressly set forth herein, this Amendment shall not by implication or otherwise limit, impair, constitute a waiver of, or otherwise affect the rights and remedies of the Agents, the Issuing Banks or the Lenders under the Credit Agreement or any other Loan Document, and shall not alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the Credit Agreement or any other Loan Document, all of which are ratified and affirmed in all respects and shall continue in full force and effect. Nothing herein shall be deemed to entitle any Loan Party to any other consent to, or any other waiver, amendment, modification or other change of, any of the terms, conditions, obligations,

covenants or agreements contained in the Credit Agreement or any other Loan Document in similar or different circumstances.

(b) On and after the Third Amendment Effective Date, each reference in the Credit Agreement to "this Agreement", "herein", "hereunder", "hereto", "hereof" and words of similar import shall, unless the context otherwise requires, refer to the Credit Agreement as amended hereby, and each reference to the Credit Agreement in any other Loan Document shall be deemed to be a reference to the Credit Agreement as amended hereby. This Amendment shall constitute a "Loan Document" for all purposes of the Credit Agreement and the other Loan Documents.

SECTION 7. **Applicable Law. THIS AMENDMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK.**

SECTION 8. Counterparts. This Amendment may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original but all of which, when taken together, shall constitute a single instrument. Delivery of an executed counterpart of a signature page of this Amendment by facsimile or other electronic transmission shall be effective as delivery of a manually executed counterpart hereof.

SECTION 9. Fees and Expenses. The Company agrees to reimburse the Administrative Agent for its reasonable out-of-pocket expenses in connection with this Amendment, including the reasonable fees, charges and disbursements of Cravath, Swaine & Moore LLP, counsel for the Administrative Agent. All fees shall be payable in immediately available funds and shall not be refundable.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective authorized officers as of the date first above written.

EXPEDIA, INC., a Delaware corporation,

by:

/s/ Mark D. Okerstrom

Name: Mark D. Okerstrom
Title: Executive Vice President, Operations and Chief Financial Officer

EXPEDIA, INC., a Washington corporation,

by:

/s/ Mark D. Okerstrom

Name: Mark D. Okerstrom
Title: Executive Vice President, Operations and Chief Financial Officer

TRAVELSCAPE, LLC, a Nevada limited liability company,

by:

/s/ Mark D. Okerstrom

Name: Mark D. Okerstrom
Title: Executive Vice President, Operations and Chief Financial Officer

HOTWIRE, INC., a Delaware corporation,

by:

/s/ Mark D. Okerstrom

Name: Mark D. Okerstrom
Title: Executive Vice President, Operations and Chief Financial Officer

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JPMORGAN CHASE BANK, N.A., individually and as Administrative Agent,

by:

/s/ Peter B. Thauer

Name: Peter B. Thauer
Title: Managing Director

[*Signature Page to Third Amendment*]

J.P. MORGAN EUROPE LIMITED, individually and as London Agent,

by:

/s/ Belinda Lucas

Name: Belinda Lucas

Title: Associate

[*Signature Page to Third Amendment*]

Name of Institution: Bank of America, N.A.

by:

/s/ Jonathan Tristan

Name: Jonathan Tristan
Title: Vice President

Name of Institution: BNP Paribas

by:

/s/ Melissa Dyld

Name: Melissa Dyld
Title: Director

by:

/s/ Maria Mulic

Name: Maria Mulic
Title: Director

Name of Institution: Mizuho Bank, LTD.

by:

/s/ Daniel Guevara

Name: Daniel Guevara
Title: Authorized Signatory

Name of Institution: HSBC Bank USA, National Association

by:

/s/ Mire K. Levy

Name: Mire K. Levy
Title: Vice President

Name of Institution: Royal Bank of Canada

by:

/s/ Andra Bosneaga

Name: Andra Bosneaga
Title: Vice President

Name of Institution: Tokyo-Mitsubishi UFJ, Ltd.

by:

/s/ Ola Anderssen

Name: Ola Anderssen
Title: Director

[*Signature Page to Third Amendment*]

Name of Institution: Sumitomo Mitsui Banking Corporation

by:

/s/ James D. Weinstein

Name: James D. Weinstein
Title: Managing Director

Name of Institution: U.S. Bank National Association

by:

/s/ Lukas Coleman

Name: Lukas Coleman
Title: Vice President

Name of Institution: The Bank of Nova Scotia

by:

/s/ Diane Emanuel

Name: Diane Emanuel
Title: Managing Director

Name of Institution: Barclays Bank PLC

by:

/s/ Amir Barash

Name: Amir Barash
Title: Director

[*Signature Page to Third Amendment*]

Name of Institution: Nordea Bank AB (PUBL), New York Branch

by:

/s/ Jouni Jauhiainen

Name: Jouni Jauhiainen
Title: Director

by:

/s/ Rolf Risan

Name: Rolf Risan
Title: Senior Vice President

Exhibit 31.1

Certification

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

1. I have reviewed this quarterly report on Form 10-Q of Expedia, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 27, 2017

/s/ BARRY DILLER

Barry Diller

Chairman and Senior Executive

Exhibit 31.2

Certification

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

1. I have reviewed this quarterly report on Form 10-Q of Expedia, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 27, 2017

/s/ DARA KHOSROWSHAHI

Dara Khosrowshahi

Chief Executive Officer

Exhibit 31.3

Certification

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

1. I have reviewed this quarterly report on Form 10-Q of Expedia, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 27, 2017

/s/ MARK D. OKERSTROM

Mark D. Okerstrom

Chief Financial Officer

Exhibit 32.1

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

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

1. the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2017 (the "Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 27, 2017

/s/ BARRY DILLER

Barry Diller

Chairman and Senior Executive

Exhibit 32.2

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

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

1. the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2017 (the "Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 27, 2017

/s/ DARA KHOSROWSHAHI

Dara Khosrowshahi

Chief Executive Officer

Exhibit 32.3

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

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

1. the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2017 (the "Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 27, 2017

/s/ MARK D. OKERSTROM

Mark D. Okerstrom

Chief Financial Officer