

**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 **September 30, 2019**

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 GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

20-2705720

(I.R.S. Employer Identification No.)

1111 Expedia Group Way W.

Seattle, WA 98119

(Address of principal executive office) (Zip Code)

(206) 481-7200

(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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

| | | | |
|-------------------------|-------------------------------------|---------------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |
| Emerging growth company | <input type="checkbox"/> | | |

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.

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

| Title of each class | Trading symbol(s) | Name of each exchange on which registered |
|--|-------------------|---|
| Common stock, \$0.0001 par value | EXPE | The Nasdaq Global Select Market |
| Expedia Group, Inc. 2.500% Senior Notes due 2022 | EXPE22 | New York Stock Exchange |

The number of shares outstanding of each of the registrant's classes of common stock as of October 25, 2019 was:

| | |
|--|--------------------|
| Common stock, \$0.0001 par value per share | 139,362,820 shares |
| Class B common stock, \$0.0001 par value per share | 5,523,452 shares |

Expedia Group, Inc.**Form 10-Q****For the Quarter Ended September 30, 2019****Contents**

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Part I. Item 1. Consolidated Financial Statements

EXPEDIA GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except share and per share data)
(Unaudited)

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|---------------|------------------------------------|---------------|
| | 2019 | 2018 | 2019 | 2018 |
| Revenue | \$ 3,558 | \$ 3,276 | \$ 9,320 | \$ 8,664 |
| Costs and expenses: | | | | |
| Cost of revenue ⁽¹⁾ | 569 | 504 | 1,604 | 1,489 |
| Selling and marketing ⁽¹⁾ | 1,660 | 1,501 | 4,852 | 4,558 |
| Technology and content ⁽¹⁾ | 440 | 404 | 1,304 | 1,200 |
| General and administrative ⁽¹⁾ | 217 | 202 | 622 | 597 |
| Amortization of intangible assets | 50 | 71 | 154 | 215 |
| Impairment of goodwill | — | — | — | 61 |
| Legal reserves, occupancy tax and other | 11 | (78) | 25 | (74) |
| Restructuring and related reorganization charges | 2 | — | 16 | — |
| Operating income | 609 | 672 | 743 | 618 |
| Other income (expense): | | | | |
| Interest income | 17 | 34 | 45 | 61 |
| Interest expense | (40) | (47) | (120) | (149) |
| Other, net | (25) | (47) | (13) | (101) |
| Total other expense, net | (48) | (60) | (88) | (189) |
| Income before income taxes | 561 | 612 | 655 | 429 |
| Provision for income taxes | (154) | (81) | (161) | (56) |
| Net income | 407 | 531 | 494 | 373 |
| Net (income) loss attributable to non-controlling interests | 2 | (6) | (5) | 16 |
| Net income attributable to Expedia Group, Inc. | \$ 409 | \$ 525 | \$ 489 | \$ 389 |
| Earnings per share attributable to Expedia Group, Inc. available to common stockholders | | | | |
| Basic | \$ 2.77 | \$ 3.51 | \$ 3.30 | \$ 2.59 |
| Diluted | 2.71 | 3.43 | 3.24 | 2.54 |
| Shares used in computing earnings per share (000's): | | | | |
| Basic | 147,232 | 149,482 | 148,052 | 150,450 |
| Diluted | 150,635 | 153,153 | 150,912 | 153,404 |

(1) Includes stock-based compensation as follows:

| | | | | |
|----------------------------|------|------|------|------|
| Cost of revenue | \$ 3 | \$ 3 | \$ 9 | \$ 8 |
| Selling and marketing | 11 | 11 | 34 | 34 |
| Technology and content | 18 | 15 | 56 | 46 |
| General and administrative | 28 | 25 | 76 | 66 |

See accompanying notes.

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|--------|------------------------------------|--------|
| | 2019 | 2018 | 2019 | 2018 |
| Net income | \$ 407 | \$ 531 | \$ 494 | \$ 373 |
| Currency translation adjustments, net of tax ⁽¹⁾ | (58) | (14) | (56) | (63) |
| Comprehensive income | 349 | 517 | 438 | 310 |
| Less: Comprehensive income (loss) attributable to non-controlling interests | (18) | 3 | (13) | (29) |
| Comprehensive income attributable to Expedia Group, Inc. | \$ 367 | \$ 514 | \$ 451 | \$ 339 |

(1) Currency translation adjustments include tax expense of \$7 million and \$8 million associated with net investment hedges for the three and nine months ended September 30, 2019 and tax expense of \$1 million and \$6 million for the three and nine months ended September 30, 2018.

See accompanying notes.

EXPEDIA GROUP, INC.
CONSOLIDATED BALANCE SHEETS

(In millions, except number of shares which are reflected in thousands and par value)

| | September 30, 2019 | December 31, 2018 |
|---|-----------------------|----------------------|
| | (Unaudited) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 3,797 | \$ 2,443 |
| Restricted cash and cash equivalents | 447 | 259 |
| Short-term investments | 658 | 28 |
| Accounts receivable, net of allowance of \$43 and \$34 | 2,684 | 2,151 |
| Income taxes receivable | 62 | 24 |
| Prepaid expenses and other current assets | 321 | 292 |
| Total current assets | 7,969 | 5,197 |
| Property and equipment, net | 2,090 | 1,877 |
| Operating lease right-of-use assets | 495 | — |
| Long-term investments and other assets | 770 | 778 |
| Deferred income taxes | 110 | 69 |
| Intangible assets, net | 1,843 | 1,992 |
| Goodwill | 8,104 | 8,120 |
| TOTAL ASSETS | \$ 21,381 | \$ 18,033 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable, merchant | \$ 1,813 | \$ 1,699 |
| Accounts payable, other | 965 | 788 |
| Deferred merchant bookings | 5,642 | 4,327 |
| Deferred revenue | 381 | 364 |
| Income taxes payable | 100 | 74 |
| Accrued expenses and other current liabilities | 932 | 808 |
| Current maturities of long-term debt | 749 | — |
| Total current liabilities | 10,582 | 8,060 |
| Long-term debt, excluding current maturities | 4,170 | 3,717 |
| Deferred income taxes | 60 | 69 |
| Operating lease liabilities | 443 | — |
| Other long-term liabilities | 354 | 506 |
| Redeemable non-controlling interests | 33 | 30 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common stock \$.0001 par value | — | — |
| Authorized shares: 1,600,000 | | |
| Shares issued: 256,276 and 231,493; Shares outstanding: 139,967 and 134,334 | | |
| Class B common stock \$.0001 par value | — | — |
| Authorized shares: 400,000 | | |
| Shares issued: 12,800 and 12,800; Shares outstanding: 5,523 and 12,800 | | |
| Additional paid-in capital | 12,882 | 9,549 |
| Treasury stock - Common stock and Class B, at cost | (9,290) | (5,742) |
| Shares: 123,586 and 97,159 | | |
| Retained earnings | 850 | 517 |
| Accumulated other comprehensive income (loss) | (258) | (220) |
| Total Expedia Group, Inc. stockholders' equity | 4,184 | 4,104 |
| Non-redeemable non-controlling interests | 1,555 | 1,547 |
| Total stockholders' equity | 5,739 | 5,651 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 21,381 | \$ 18,033 |

See accompanying notes.

EXPEDIA GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

| | Nine months ended September 30, | |
|--|------------------------------------|-----------------|
| | 2019 | 2018 |
| Operating activities: | | |
| Net income | \$ 494 | \$ 373 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation of property and equipment, including internal-use software and website development | 530 | 507 |
| Amortization of stock-based compensation | 175 | 154 |
| Amortization of intangible assets | 154 | 215 |
| Impairment of goodwill | — | 61 |
| Deferred income taxes | (58) | (281) |
| Foreign exchange loss on cash, restricted cash and short-term investments, net | 40 | 94 |
| Realized gain on foreign currency forwards | (4) | (34) |
| Loss on minority equity investments, net | 13 | 100 |
| Other | (16) | 27 |
| Changes in operating assets and liabilities, net of effects from acquisitions: | | |
| Accounts receivable | (543) | (416) |
| Prepaid expenses and other assets | — | (12) |
| Accounts payable, merchant | 119 | 42 |
| Accounts payable, other, accrued expenses and other liabilities | 207 | 171 |
| Tax payable/receivable, net | (6) | 141 |
| Deferred merchant bookings | 1,305 | 957 |
| Deferred revenue | 16 | 21 |
| Net cash provided by operating activities | 2,426 | 2,120 |
| Investing activities: | | |
| Capital expenditures, including internal-use software and website development | (864) | (634) |
| Purchases of investments | (1,283) | (1,714) |
| Sales and maturities of investments | 635 | 1,692 |
| Acquisitions, net of cash and restricted cash acquired | 80 | (40) |
| Other, net | 3 | 41 |
| Net cash used in investing activities | (1,429) | (655) |
| Financing activities: | | |
| Proceeds from issuance of long-term debt, net of issuance costs | 1,235 | — |
| Payment of long-term debt | — | (500) |
| Payment of Liberty Expedia Exchangeable Debentures | (400) | — |
| Purchases of treasury stock | (352) | (620) |
| Proceeds from issuance of treasury stock | — | 31 |
| Payment of dividends to stockholders | (145) | (138) |
| Proceeds from exercise of equity awards and employee stock purchase plan | 277 | 138 |
| Other, net | (8) | (65) |
| Net cash provided by (used in) financing activities | 607 | (1,154) |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash and cash equivalents | (62) | (119) |
| Net increase in cash, cash equivalents and restricted cash and cash equivalents | 1,542 | 192 |
| Cash, cash equivalents and restricted cash and cash equivalents at beginning of period | 2,705 | 2,917 |
| Cash, cash equivalents and restricted cash and cash equivalents at end of period | \$ 4,247 | \$ 3,109 |
| Supplemental cash flow information | | |
| Cash paid for interest | \$ 156 | \$ 196 |
| Income tax payments, net | 216 | 188 |

See accompanying notes.

EXPEDIA GROUP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In millions, except share and per share data)
(Unaudited)

| Three months ended September 30, 2018 | Common stock | | Class B common stock | | Additional paid-in capital | Treasury stock | | Retained earnings (deficit) | Accumulated other comprehensive income (loss) | Non-redeemable non-controlling interest | Total |
|--|--------------------|-------------|----------------------|-------------|----------------------------|-------------------|------------------|-----------------------------|---|---|-----------------|
| | Shares | Amount | Shares | Amount | | Shares | Amount | | | | |
| Balance as of June 30, 2018 | 230,158,642 | \$ — | 12,799,999 | \$ — | \$ 9,331 | 93,379,790 | \$(5,248) | \$ 74 | \$ (190) | \$ 1,585 | \$ 5,552 |
| Net income (loss) (excludes \$1 of net loss attributable to redeemable non-controlling interest) | | | | | | | | 525 | | 7 | 532 |
| Other comprehensive income (loss), net of taxes | | | | | | | | | (12) | (2) | (14) |
| Payment of dividends to stockholders (declared at \$0.32 per share) | | | | | | | | (47) | | | (47) |
| Proceeds from exercise of equity instruments and employee stock purchase plans | 880,328 | — | | | 71 | | | | | | 71 |
| Treasury stock activity related to vesting of equity instruments | | | | | | 15,315 | (1) | | | | (1) |
| Common stock repurchases | | | | | | 1,493,520 | (193) | | | | (193) |
| Issuance of treasury stock | | | | | | 27 | (269,646) | 4 | | | 31 |
| Purchase of remaining interest in Air Asia | | | | | | (5) | | | | (57) | (62) |
| Other changes in ownership of non-controlling interests | | | | | | (2) | | | | 8 | 6 |
| Stock-based compensation expense | | | | | | 54 | | | | | 54 |
| Other | | | | | | | (1) | (1) | | | (2) |
| Balance as of September 30, 2018 | <u>231,038,970</u> | <u>\$ —</u> | <u>12,799,999</u> | <u>\$ —</u> | <u>\$ 9,476</u> | <u>94,618,979</u> | <u>\$(5,439)</u> | <u>\$ 551</u> | <u>\$ (202)</u> | <u>\$ 1,541</u> | <u>\$ 5,927</u> |
| | | | | | | | | | | | |
| Nine months ended September 30, 2018 | Common stock | | Class B common stock | | Additional paid-in capital | Treasury stock | | Retained earnings (deficit) | Accumulated other comprehensive income (loss) | Non-redeemable non-controlling interest | Total |
| | Shares | Amount | Shares | Amount | | Shares | Amount | | | | |
| Balance as of December 31, 2017 | 228,467,355 | \$ — | 12,799,999 | \$ — | \$ 9,163 | 89,528,255 | \$(4,822) | \$ 331 | \$ (149) | \$ 1,606 | \$ 6,129 |
| Net income (loss) (excludes \$0 of net loss attributable to redeemable non-controlling interest) | | | | | | | | 389 | | (16) | 373 |
| Other comprehensive income (loss), net of taxes | | | | | | | | | (50) | (13) | (63) |
| Payment of dividends to stockholders (declared at \$0.92 per share) | | | | | | | | (138) | | | (138) |
| Proceeds from exercise of equity instruments and employee stock purchase plans | 2,396,575 | — | | | 138 | | | | | | 138 |
| Withholding taxes for stock options | | | | | | | | | | | (2) |
| Issuance of common stock in connection with acquisitions | 175,040 | — | | | | | | | | | — |
| Treasury stock activity related to vesting of equity instruments | | | | | | 165,577 | (18) | | | | (18) |
| Common stock repurchases | | | | | | 5,194,793 | (602) | | | | (602) |
| Issuance of treasury stock | | | | | | 27 | (269,646) | 4 | | | 31 |
| Purchase of remaining interest in Air Asia | | | | | | (5) | | | | (57) | (62) |
| Other changes in ownership of non-controlling interests | | | | | | (2) | | | | 21 | 19 |
| Impact of adoption of new accounting guidance | | | | | | | | (31) | (3) | | (34) |
| Stock-based compensation expense | | | | | | 157 | | | | | 157 |
| Other | | | | | | | (1) | — | | | (1) |
| Balance as of September 30, 2018 | <u>231,038,970</u> | <u>\$ —</u> | <u>12,799,999</u> | <u>\$ —</u> | <u>\$ 9,476</u> | <u>94,618,979</u> | <u>\$(5,439)</u> | <u>\$ 551</u> | <u>\$ (202)</u> | <u>\$ 1,541</u> | <u>\$ 5,927</u> |

EXPEDIA GROUP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In millions, except share and per share data)
(Unaudited)

| Three months ended September 30, 2019 | Common stock | | Class B common stock | | Additional paid-in capital | Treasury stock - Common and Class B | | Retained earnings (deficit) | Accumulated other comprehensive income (loss) | Non-redeemable non-controlling interest | Total |
|--|--------------------|-------------|----------------------|-------------|----------------------------|-------------------------------------|------------------|-----------------------------|---|---|-----------------|
| | Shares | Amount | Shares | Amount | | Shares | Amount | | | | |
| Balance as of June 30, 2019 | 234,102,186 | \$ — | 12,799,999 | \$ — | \$ 9,821 | 97,384,212 | \$(5,771) | \$ 508 | \$ (216) | \$ 1,565 | \$ 5,907 |
| Net income (loss) (excludes \$2 of net loss attributable to redeemable non-controlling interest) | | | | | | | | 409 | | — | 409 |
| Other comprehensive income (loss), net of taxes | | | | | | | | | (42) | (16) | (58) |
| Payment of dividends to stockholders (declared at \$0.34 per share) | | | | | | | | (50) | | | (50) |
| Proceeds from exercise of equity instruments and employee stock purchase plans | 1,428,632 | — | | | 121 | | | | | | 121 |
| Treasury stock activity related to vesting of equity instruments | | | | | | 23,791 | (2) | | | | (2) |
| Liberty Expedia Holdings transaction | 20,745,181 | | | | 2,883 | 23,876,671 | (3,217) | | | | (334) |
| Common stock repurchases | | | | | | 2,300,944 | (300) | | | | (300) |
| Adjustment to the fair value of redeemable non-controlling interests | | | | | | | | (17) | | | (17) |
| Other changes in ownership of non-controlling interests | | | | | — | | | | | 6 | 6 |
| Stock-based compensation expense | | | | | 58 | | | | | | 58 |
| Other | | | | | (1) | | | | | | (1) |
| Balance as of September 30, 2019 | <u>256,275,999</u> | <u>\$ —</u> | <u>12,799,999</u> | <u>\$ —</u> | <u>\$ 12,882</u> | <u>123,585,618</u> | <u>\$(9,290)</u> | <u>\$ 850</u> | <u>\$ (258)</u> | <u>\$ 1,555</u> | <u>\$ 5,739</u> |
| | | | | | | | | | | | |
| Nine months ended September 30, 2019 | Common stock | | Class B common stock | | Additional paid-in capital | Treasury stock - Common and Class B | | Retained earnings (deficit) | Accumulated other comprehensive income (loss) | Non-redeemable non-controlling interest | Total |
| | Shares | Amount | Shares | Amount | | Shares | Amount | | | | |
| Balance as of December 31, 2018 | 231,492,986 | \$ — | 12,799,999 | \$ — | \$ 9,549 | 97,158,586 | \$(5,742) | \$ 517 | \$ (220) | \$ 1,547 | \$ 5,651 |
| Net income (loss) (excludes \$2 of net loss attributable to redeemable non-controlling interest) | | | | | | | | 489 | | 7 | 496 |
| Other comprehensive income (loss), net of taxes | | | | | | | | | (38) | (18) | (56) |
| Payment of dividends to stockholders (declared at \$0.98 per share) | | | | | | | | (145) | | | (145) |
| Proceeds from exercise of equity instruments and employee stock purchase plans | 4,037,832 | — | | | 277 | | | | | | 277 |
| Withholding taxes for stock options | | | | | (2) | | | | | | (2) |
| Treasury stock activity related to vesting of equity instruments | | | | | | 249,417 | (31) | | | | (31) |
| Liberty Expedia Holdings transaction | 20,745,181 | | | | 2,883 | 23,876,671 | (3,217) | | | | (334) |
| Common stock repurchases | | | | | | 2,300,944 | (300) | | | | (300) |
| Adjustment to the fair value of redeemable non-controlling interests | | | | | | | | (17) | | | (17) |
| Other changes in ownership of non-controlling interests | | | | | (3) | | | | | 19 | 16 |
| Impact of adoption of new accounting guidance | | | | | | | | 6 | | | 6 |
| Stock-based compensation expense | | | | | 177 | | | | | | 177 |
| Other | | | | | 1 | | | | | | 1 |
| Balance as of September 30, 2019 | <u>256,275,999</u> | <u>\$ —</u> | <u>12,799,999</u> | <u>\$ —</u> | <u>\$ 12,882</u> | <u>123,585,618</u> | <u>\$(9,290)</u> | <u>\$ 850</u> | <u>\$ (258)</u> | <u>\$ 1,555</u> | <u>\$ 5,739</u> |

See accompanying notes.

Notes to Consolidated Financial Statements

September 30, 2019

(Unaudited)

Note 1 – Basis of Presentation

Description of Business

Expedia Group, Inc. and its subsidiaries provide travel 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 services are offered through a diversified portfolio of brands including: Brand Expedia®, Hotels.com®, Expedia® Partner Solutions, Vrbo®, Egencia®, trivago®, HomeAway®, Orbitz®, Travelocity®, Hotwire®, Wotif®, ebookers®, CheapTickets®, Expedia Group™ Media Solutions, Expedia Local Expert®, CarRentals.com™, Expedia® CruiseShipCenters®, Classic Vacations®, Trivago®, VacationRentals.com and SilverRail™. In addition, many of these brands have related international points of sale. In the first quarter of 2019, we renamed the HomeAway segment Vrbo. We refer to Expedia Group, Inc. and its subsidiaries collectively as “Expedia Group,” 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 Group, 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, 2018, previously filed with the Securities and Exchange Commission. trivago is a separately listed company on the Nasdaq Global Select Market and, therefore is subject to its own reporting and filing requirements, which could result in possible differences that are not expected to be material to Expedia Group.

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; deferred loyalty rewards; 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.

Seasonality

We generally experience seasonal fluctuations in the demand for our travel 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 services, including merchant and agency hotel, is recognized as the travel takes place rather than when it is booked, revenue typically lags bookings by several weeks for our hotel business and can be several months or more for our alternative accommodations business. Historically, Vrbo has seen seasonally stronger bookings in the first quarter of the year, with the relevant stays occurring during the peak summer travel months. 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, have typically been experienced in the second half of the year, particularly the fourth quarter, as

selling and marketing costs offset revenue in the first half of the year as we typically increase marketing during the busy booking period for spring, summer and winter holiday travel. 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 growth of Vrbo, may influence the typical trend of the seasonality in the future, and there may also be business or market driven dynamics that result in short-term impacts to revenue or profitability that differ from the typical seasonal trends.

Note 2 – Summary of Significant Accounting Policies

Recently Adopted Accounting Policies

Leases. As of January 1, 2019, we adopted the Accounting Standards Updates (“ASU”) amending the guidance related to accounting and reporting guidelines for leasing arrangements using the optional transition method that allowed for a cumulative-effect adjustment in the period of adoption. Results for reporting periods beginning after January 1, 2019 are presented under the new guidance, while prior period amounts were not adjusted and continue to be reported under the accounting standards in effect for those periods.

The new guidance required 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. In addition, new disclosures are required to meet the objective of enabling users of financial statements to better understand the amount, timing and uncertainty of cash flows arising from leases.

We elected certain of the available transition practical expedients, including those that permit us to not reassess 1) whether any expired or existing contracts are or contain leases, 2) the lease classification for any expired or existing leases, and 3) any initial direct costs for any existing leases as of the effective date. We did not elect the hindsight practical expedient, which permits entities to use hindsight in determining the lease term and assessing impairment. The standard had a material impact on our consolidated balance sheets, but did not have a material impact on our consolidated statements of operations or statements of cash flows. The most significant impact was the recognition of right-of-use (“ROU”) assets and lease liabilities for operating leases. Additionally, we removed the assets and liabilities previously recorded pursuant to build-to-suit lease guidance resulting in an increase to retained earnings of approximately \$6 million.

Hedge Accounting. As of January 1, 2019, we adopted the new guidance amending the accounting guidance for hedge accounting. The new guidance requires expanded hedge accounting for both non-financial and financial risk components and refines the measurement of hedge results to better reflect an entity’s hedging strategies. The new guidance also amends the presentation and disclosure requirements on a prospective basis as well as changes how entities assess hedge effectiveness. The adoption of this new guidance had no impact on our consolidated financial statements.

Recent Accounting Policies Not Yet Adopted

Measurement of Credit Losses on Financial Instruments. 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.

Cloud Computing Arrangements. In August 2018, the FASB issued new guidance on the accounting for implementation costs incurred for a cloud computing arrangement that is a service contract. The update conforms the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the accounting guidance that provides for capitalization of costs incurred to develop or obtain internal-use-software. The new guidance is effective for annual and interim reporting periods beginning after December 15, 2019, with early adoption permitted. We are in the process of evaluating the impact of adopting this new guidance on our consolidated financial statements.

Fair Value Measurements. In August 2018, the FASB issued new guidance related to the disclosure requirements on fair value measurements, which removes, modifies or adds certain disclosures. The guidance is effective for annual and interim reporting periods beginning after December 15, 2019, with early adoption permitted. We are in the process of evaluating the impact of adopting this new guidance on our consolidated financial statements disclosures.

Significant Accounting Policies

Below are the significant accounting policies updated during 2019 as a result of the recently adopted accounting policies noted above as well as certain other accounting policies with interim disclosure requirements. For a comprehensive description of our accounting policies, refer to our Annual Report on Form 10-K for the year ended December 31, 2018.

Revenue

Deferred Merchant Bookings. We classify cash payments received in advance of our performance obligations as deferred merchant bookings. At December 31, 2018, \$3.627 billion of cash advance cash payments was reported within deferred merchant bookings, \$3.291 billion of which was recognized resulting in \$464 million of revenue during the nine months ended September 30, 2019. At September 30, 2019, the related balance was \$4.886 billion.

At December 31, 2018, \$700 million of deferred loyalty rewards was reported within deferred merchant bookings, \$624 million of which was recognized within revenue during the nine months ended September 30, 2019. At September 30, 2019, the related balance was \$756 million.

Deferred Revenue. At December 31, 2018, \$364 million was recorded as deferred revenue, \$312 million of which was recognized as revenue during the nine months ended September 30, 2019. At September 30, 2019, the related balance was \$381 million.

Practical Expedients and Exemptions. We have used the portfolio approach to account for our loyalty points as the rewards programs share similar characteristics within each program in relation to the value provided to the traveler and their breakage patterns. Using this portfolio approach is not expected to differ materially from applying the guidance to individual contracts. However, we will continue to assess and refine, if necessary, how a portfolio within each rewards program is defined.

We do not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed.

Cash, Restricted Cash and Cash Equivalents

Restricted cash includes cash and cash equivalents that is restricted through legal contracts, regulations or our intention to use the cash for a specific purpose. Our restricted cash primarily relates to certain traveler deposits and to a lesser extent collateral for office leases. The following table reconciles cash, cash equivalents and restricted cash reported in our consolidated balance sheets to the total amount presented in our consolidated statements of cash flows:

| | September 30, 2019 | December 31, 2018 |
|--|-----------------------|----------------------|
| | (in millions) | |
| Cash and cash equivalents | \$ 3,797 | \$ 2,443 |
| Restricted cash and cash equivalents | 447 | 259 |
| Restricted cash included within long-term investments and other assets | 3 | 3 |
| Total cash, cash equivalents and restricted cash and cash equivalents in the consolidated statement of cash flow | <u>\$ 4,247</u> | <u>\$ 2,705</u> |

Leases

We determine if an arrangement is a lease at inception. Operating leases are primarily for office space and data centers and are included in operating lease ROU assets, accrued expenses and other current liabilities, and operating lease liabilities on our consolidated balance sheets. ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

For operating leases with a term of one year or less, we have elected to not recognize a lease liability or ROU asset on our consolidated balance sheet. Instead, we recognize the lease payments as expense on a straight-line basis over the lease term. Short-term lease costs are immaterial to our consolidated statements of operations and cash flows.

We have office space and data center lease agreements with insignificant non-lease components and have elected the practical expedient to combine and account for lease and non-lease components as a single lease component.

Note 3 – Fair Value Measurements

Financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2019 are classified using the fair value hierarchy in the table below:

| | Total | Level 1 | Level 2 |
|------------------------------------|-----------------|---------------|-----------------|
| | (In millions) | | |
| Assets | | | |
| Cash equivalents: | | | |
| Money market funds | \$ 26 | \$ 26 | \$ — |
| Time deposits | 1,028 | — | 1,028 |
| Derivatives: | | | |
| Foreign currency forward contracts | 20 | — | 20 |
| Investments: | | | |
| Time deposits | 647 | — | 647 |
| Marketable equity securities | 109 | 109 | — |
| Total assets | \$ 1,830 | \$ 135 | \$ 1,695 |

Financial assets measured at fair value on a recurring basis as of December 31, 2018 are classified using the fair value hierarchy in the table below:

| | Total | Level 1 | Level 2 |
|------------------------------------|---------------|---------------|---------------|
| | (In millions) | | |
| Assets | | | |
| Cash equivalents: | | | |
| Money market funds | \$ 35 | \$ 35 | \$ — |
| Time deposits | 624 | — | 624 |
| Derivatives: | | | |
| Foreign currency forward contracts | 22 | — | 22 |
| Investments: | | | |
| Time deposits | 28 | — | 28 |
| Marketable equity securities | 119 | 119 | — |
| Total assets | \$ 828 | \$ 154 | \$ 674 |

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

As of September 30, 2019 and December 31, 2018, 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 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.

Our marketable equity securities consist of our investment in Despegar, a publicly traded company, which is included in long-term investments and other assets in our consolidated balance sheets. During the nine months ended September 30, 2019 and 2018, we recognized a loss of approximately \$10 million and \$102 million within other, net in our consolidated statements of operations related to the fair value changes of this equity investment.

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 September 30, 2019, we were party to outstanding forward contracts hedging our liability and revenue exposures with a total net notional value of \$3.9 billion. We had a net forward asset of \$20 million recorded in prepaid expenses and other current assets as of September 30, 2019 and \$22 million as of December 31, 2018. We recorded \$15 million and \$3 million in net gains from foreign currency forward contracts during the three months ended September 30, 2019 and 2018 as well as \$3 million and \$51 million in net gains during the nine months ended September 30, 2019 and 2018.

Assets Measured at Fair Value on a Non-recurring Basis

Our non-financial assets, such as goodwill, intangible assets and property and equipment, as well as equity method investments, are adjusted to fair value when an impairment charge is recognized or the underlying investment is sold. Such fair value measurements are based predominately on Level 3 inputs. We measure our minority investments that do not have readily determinable fair values at cost less impairment, adjusted by observable price changes with changes recorded within other, net on our consolidated statements of operations.

Goodwill. During the nine months ended September 30, 2018, we recognized a goodwill impairment charge of \$61 million related to our Core OTA segment, which resulted from sustained under-performance and a less optimistic outlook related to one of our reporting units. As a result, we concluded that sufficient indicators existed to require us to perform an interim quantitative assessment of goodwill for that reporting unit as of June 30, 2018 in which we compared the fair value of the reporting unit to its carrying value. The fair value was estimated based on a blended analysis of the present value of future discounted cash flows and market value approach, Level 3 inputs. The significant estimates used in the discounted cash flows model included our weighted average cost of capital, projected cash flows and the long-term rate of growth. Our assumptions were based on the actual historical performance of the reporting unit and took into account a recent weakening of operating results and implied risk premiums based on market prices of our equity and debt as of the assessment date. Our significant estimates in the market approach model included identifying similar companies with comparable business factors such as size, growth, profitability, risk and return on investment and assessing comparable revenue and earnings multiples in estimating the fair value of the reporting unit. The excess of the reporting unit's carrying value over our estimate of the fair value was recorded as the goodwill impairment charge in the nine months ended September 30, 2018. As of December 31, 2018, the applicable reporting unit had no remaining goodwill.

Minority Investments without Readily Determinable Fair Values. As of September 30, 2019 and December 31, 2018, the carrying values of our minority investments without readily determinable fair values totaled \$467 million and \$476 million. During the three and nine months ended September 30, 2019 and 2018, we had no material gains or losses recognized related to these minority investments.

Note 4 – Debt

The following table sets forth our outstanding debt:

| | September 30, 2019 | December 31, 2018 |
|--|-----------------------|----------------------|
| | (In millions) | |
| 5.95% senior notes due 2020 | \$ 749 | \$ 748 |
| 2.5% (€650 million) senior notes due 2022 | 708 | 740 |
| 4.5% senior notes due 2024 | 496 | 496 |
| 5.0% senior notes due 2026 | 743 | 742 |
| 3.8% senior notes due 2028 | 992 | 991 |
| 3.25% senior notes due 2030 | 1,231 | — |
| Long-term debt ⁽¹⁾ | 4,919 | 3,717 |
| Current maturities of long-term debt | (749) | — |
| Long-term debt, excluding current maturities | \$ 4,170 | \$ 3,717 |

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

Long-term Debt

Our \$750 million in registered senior unsecured notes outstanding at September 30, 2019 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 September 30, 2019 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) (“AOCI”). 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 AOCI. 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 September 30, 2019 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 September 30, 2019 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.

Our \$1 billion in registered senior unsecured notes outstanding at September 30, 2019 are due in February 2028 and bear interest at 3.8% (the “3.8% Notes”). The 3.8% Notes were issued at 99.747% 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 3.8% Notes at our option at any time in whole or from time to time in part. If we elect to redeem the 3.8% Notes prior to November 15, 2027, 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 3.8% Notes on or after November 15, 2027, we may redeem them at a redemption price of 100% of the principal plus accrued interest.

In September 2019, we privately placed \$1.25 billion of senior unsecured notes that are due in February 2030 and bear interest at 3.25% (the “3.25% Notes”). The 3.25% Notes were issued at 99.225% of par resulting in a discount, which is being amortized over their life. Interest is payable semi-annually in arrears in February and August of each year, beginning February 15, 2020. We may redeem the 3.25% Notes at our option at any time in whole or from time to time in part. If we elect to redeem the 3.25% Notes prior to November 15, 2029, 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 3.25% Notes on or after November 15, 2029, we may redeem them at a redemption price of 100% of the principal plus accrued interest. We also entered into a registration rights agreement with respect to the 3.25% Notes, under which we agreed to use commercially reasonable best efforts to file a registration statement to permit the exchange of the 3.25% Notes for registered notes having the same financial terms and covenants as the 3.25% Notes, and cause such registration statement to become effective and complete the related exchange offer within 365 days of the issuance of the 3.25% Notes. If we fail to satisfy certain of its obligations under the registration rights agreement, we will be required to pay additional interest of 0.25% per annum to the holders of the 3.25% Notes until such registrations right default is cured.

The 5.95%, 2.5%, 4.5%, 5.0%, 3.8% and 3.25% Notes (collectively the “Notes”) are senior unsecured obligations issued by Expedia Group and guaranteed by certain domestic Expedia Group subsidiaries. The Notes rank equally in right of payment with all of our existing and future unsecured and unsubordinated obligations of Expedia Group and the guarantor subsidiaries. For further information, see Note 14 – 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 \$25

million and \$65 million as of September 30, 2019 and December 31, 2018. The 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):

| | September 30, 2019 | December 31, 2018 |
|--|-----------------------|----------------------|
| | (In millions) | |
| 5.95% senior notes due 2020 | \$ 774 | \$ 778 |
| 2.5% (€650 million) senior notes due 2022 ⁽¹⁾ | 753 | 771 |
| 4.5% senior notes due 2024 | 543 | 504 |
| 5.0% senior notes due 2026 | 846 | 760 |
| 3.8% senior notes due 2028 | 1,050 | 915 |
| 3.25% senior notes due 2030 | 1,251 | — |

(1) Approximately 688 million Euro as of September 30, 2019 and 674 million Euro as of December 31, 2018.

Credit Facility

Expedia Group maintains a \$2 billion unsecured revolving credit facility with a group of lenders, which is unconditionally guaranteed by certain domestic Expedia Group subsidiaries that are the same as under the Notes and expires in May 2023. As of September 30, 2019 and December 31, 2018, 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 112.5 basis points and the commitment fee on undrawn amounts at 15 basis points as of September 30, 2019. 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 September 30, 2019 and December 31, 2018, there was \$15 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 Group, that may be terminated at any time by the lender. As of September 30, 2019 and December 31, 2018, there were no borrowings outstanding.

Note 5 – Leases

We have operating leases for office space and data centers. Our leases have remaining lease terms of one year to 19 years, some of which include options to extend the leases for up to ten years, and some of which include options to terminate the leases within one year.

Operating lease costs were \$38 million and \$114 million for the three and nine months ended September 30, 2019.

Supplemental cash flow information related to leases were as follows:

| | Three months ended September 30, 2019 | Nine months ended September 30, 2019 |
|--|---|--|
| | (in millions) | |
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows from operating leases | \$ 40 | \$ 113 |
| Right-of-use assets obtained in exchange for lease obligations: | | |
| Operating leases | 16 | 43 |

Supplemental consolidated balance sheet information related to leases were as follows:

| | September 30, 2019 |
|--|---------------------------|
| | (in millions) |
| Operating lease right-of-use assets | \$ 495 |
| Current lease liabilities included within Accrued expenses and other current liabilities | \$ 101 |
| Long-term lease liabilities included within Operating lease liabilities | 443 |
| Total operating lease liabilities | \$ 544 |
| Weighted average remaining lease term | 8.8 years |
| Weighted average discount rate | 3.8% |

Maturities of lease liabilities are as follows:

| | Operating Leases |
|---|-------------------------|
| | (in millions) |
| Year ending December 31, | |
| 2019 (excluding the nine months ended September 30, 2019) | \$ 31 |
| 2020 | 115 |
| 2021 | 96 |
| 2022 | 76 |
| 2023 | 56 |
| 2024 and thereafter | 274 |
| Total lease payments | 648 |
| Less: imputed interest | (104) |
| Total | \$ 544 |

As of September 30, 2019, we have additional operating lease payments, primarily for corporate offices, that have not yet commenced of approximately \$203 million. These operating leases will commence between October 2019 and April 2021 with lease terms of 1 year to 11 years.

Note 6 – Stockholders' Equity

Dividends on our Common Stock

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

| Declaration Date | Dividend Per Share | Record Date | Total Amount (in millions) | Payment Date |
|---|---------------------------|--------------------|-----------------------------------|---------------------|
| Nine Months Ended September 30, 2019 | | | | |
| February 6, 2019 | \$ 0.32 | March 7, 2019 | \$ 47 | March 27, 2019 |
| May 1, 2019 | 0.32 | May 23, 2019 | 48 | June 13, 2019 |
| July 24, 2019 | 0.34 | August 22, 2019 | 50 | September 12, 2019 |
| Nine Months Ended September 30, 2018 | | | | |
| February 7, 2018 | 0.30 | March 8, 2018 | 46 | March 28, 2018 |
| April 24, 2018 | 0.30 | May 24, 2018 | 45 | June 14, 2018 |
| July 23, 2018 | 0.32 | August 23, 2018 | 47 | September 13, 2018 |

In addition, in November 2019, the Executive Committee, acting on behalf of the Board of Directors, declared a quarterly cash dividend of \$0.34 per share of outstanding common stock payable on December 12, 2019 to stockholders of record as of the close of business on November 19, 2019. Future declarations of dividends are subject to final determination by our Board of Directors.

Treasury Stock

As of September 30, 2019, the Company's treasury stock was comprised of approximately 116.3 million common stock and 7.3 million Class B shares. As of December 31, 2018, the entire treasury stock balance of 97.2 million shares was common stock.

Share Repurchases. In April 2018, the Executive Committee, acting on behalf of the Board of Directors, authorized a repurchase of up to an additional 15 million shares of our common stock. During the nine months ended September 30, 2019, we repurchased, through open market transactions, 2.3 million shares under these authorizations for the total cost of \$300 million, excluding transaction costs, representing an average repurchase price of \$130.30 per share. As of September 30, 2019, there were approximately 9.9 million shares remaining under the 2018 repurchase authorization. There is no fixed termination date for the repurchases. Subsequent to the end of the third quarter of 2019, we repurchased an additional 0.9 million shares for a total cost of \$118 million, excluding transaction costs, representing an average purchase price of \$135.58 per share.

For information related to shares repurchased as part of the Liberty Expedia Holdings transaction, see Note 11 – Liberty Expedia Holdings Transaction and Note 12 – Related Party Transactions.

Accumulated Other Comprehensive Loss

The balance of accumulated other comprehensive loss as of September 30, 2019 and December 31, 2018 was comprised of foreign currency translation adjustments. These translation adjustments include foreign currency transaction losses at September 30, 2019 of \$2 million (\$2 million before tax) and \$27 million (\$35 million before tax) at December 31, 2018 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.

Note 7 – Earnings Per Share

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|--|---------|------------------------------------|---------|
| | 2019 | 2018 | 2019 | 2018 |
| | (In millions, except share and per share data) | | | |
| Net income attributable to Expedia Group, Inc. | \$ 409 | \$ 525 | \$ 489 | \$ 389 |
| Earnings per share attributable to Expedia Group, Inc. available to common stockholders: | | | | |
| Basic | \$ 2.77 | \$ 3.51 | \$ 3.30 | \$ 2.59 |
| Diluted | 2.71 | 3.43 | 3.24 | 2.54 |
| Weighted average number of shares outstanding (000's): | | | | |
| Basic | 147,232 | 149,482 | 148,052 | 150,450 |
| Dilutive effect of: | | | | |
| Options to purchase common stock | 2,336 | 2,866 | 2,074 | 2,396 |
| Other dilutive securities | 1,067 | 805 | 786 | 558 |
| Diluted | 150,635 | 153,153 | 150,912 | 153,404 |

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 and nine months ended September 30, 2019, approximately 2 million of outstanding stock awards have been excluded from the calculations of diluted earnings per share attributable to common stockholders because their effect would have been antidilutive. For the three and nine ended September 30, 2018, approximately 5 million of outstanding stock awards have been excluded from the calculations of diluted earnings per share attributable to common stockholders because their effect would have been antidilutive.

Note 8 – Restructuring and Related Reorganization Charges

In connection with the centralization and migration of certain operational functions and systems, we recognized \$2 million and \$16 million in restructuring and related reorganization charges during the three and nine months ended September 30, 2019. The charges primarily related to severance and benefits and approximately \$13 million were unpaid as of September 30, 2019. Based on current plans, which are subject to change, we expect total reorganization charges in 2019 of up to \$25 million. These costs could be higher or lower should we make additional decisions in future periods that impact our reorganization efforts and exclude any possible future acquisition, or other, integrations.

Note 9 – Income Taxes

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

For the three months ended September 30, 2019, the effective tax rate was 27.4% expense on pre-tax income, compared to 13.3% expense on pre-tax income for the three months ended September 30, 2018. For the nine months ended September 30, 2019, the effective tax rate was 24.5% expense on pre-tax income, compared to 13.1% expense on pre-tax income for the nine months ended September 30, 2018. The increase in the effective tax rate for both periods was primarily driven by an increase in U.S. federal and state taxable income.

We are subject to taxation in the United States and various other state and foreign jurisdictions. During 2017, the Internal Revenue Service (“IRS”) issued proposed adjustments related to transfer pricing with our foreign subsidiaries for our 2009 to 2010 audit cycle. On July 12, 2019, we settled the audit for an immaterial impact to the consolidated financial statements. In addition, we are under examination by the IRS for our 2011 through 2013 tax years. During the fourth quarter of 2019, the IRS issued final adjustments related to transfer pricing with our foreign subsidiaries for our 2011 to 2013 audit cycle. The proposed adjustments would increase our U.S. taxable income by \$696 million, which would result in federal tax of approximately \$244 million subject to interest. We do not agree with the position of the IRS and are formally protesting the IRS position. 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.

Note 10 – 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 Group. 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. One hundred one lawsuits have been filed by or against cities, counties and states involving hotel occupancy and other taxes. Eleven lawsuits are currently active. These lawsuits are in various stages and we continue to defend against the claims made in them vigorously. With respect to the principal claims in these matters, we believe that the statutes or ordinances at issue do not apply to us or 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-seven 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. Thirty-three dismissals were based on a finding that we and the other defendants were not subject to the local tax ordinance or that the local government lacked standing to pursue its 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 and other taxes, consistent with applicable accounting principles and in light of all current facts and circumstances, in the amount of \$66 million and \$46 million as of September 30, 2019 and December 31, 2018, respectively. Our settlement reserve is based on our best estimate of probable losses and the ultimate resolution of these contingencies may be greater or less than the liabilities recorded. An estimate for a reasonably possible loss or range of loss in excess of the amount reserved cannot be made. Changes to the settlement reserve are included within legal reserves, occupancy tax and other in the consolidated statements of operations.

Pay-to-Play. Certain jurisdictions may assert that we are required to pay any assessed taxes prior to being allowed to contest or litigate the applicability of the ordinances. This prepayment of contested taxes is referred to as “pay-to-play.” Payment of these amounts is not an admission that we believe we are subject to such taxes and, even when such payments are made, we continue to defend our position vigorously. If we prevail in the litigation, for which a pay-to-play payment was made, the jurisdiction collecting the payment will be required to repay such amounts and also may be required to pay interest. For example, on September 13, 2018, the City of San Francisco refunded all pay-to-play payments previously made by Expedia Group companies, along with accumulated interest. The \$78 million refund was recorded as a gain within legal reserves, occupancy tax and other in the consolidated statements of operations and \$19 million of accumulated interest to interest income during the three months ended September 30, 2018.

We are in various stages of inquiry or audit with domestic and foreign tax authorities, some of which, including in the City of Los Angeles regarding hotel occupancy taxes and in the United Kingdom regarding the application of value added tax (“VAT”) to our European Union related transactions as discussed below, may 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 any pay-to-play payments made.

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.

Competition and Consumer Matters. 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 Group companies are or have been involved in investigations predominately related to whether certain parity clauses in contracts between Expedia Group 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 Group companies, 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 the Expedia Group companies’ 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 Group companies waived certain rate, conditions and availability parity clauses in agreements with European hotel partners for a period of five years. While the Expedia Group companies maintain that their 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 the Expedia Group companies’ waivers, nearly all NCAs in Europe have announced either the closure of their investigation or inquiries involving Expedia Group companies or a decision not to open an investigation or inquiry involving Expedia Group companies. 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. On June 4, 2019, the Higher Regional Court Düsseldorf issued its judgment in this matter and ruled that certain parity clauses are in compliance with applicable German and European competition rules and the FCO’s prohibition order against Booking.com was annulled. The decision is not yet final as the FCO has applied to the German Federal Supreme Court to admit an appeal from the decision.

The Italian competition authority's case closure decision against Booking.com and Expedia Group companies 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 certain Expedia Group companies, Booking.com and HRS to be prohibited under Swiss law. The decision explicitly notes that the Expedia Group companies' current contract terms with Swiss hotels are not subject to this prohibition. The Swiss competition authority imposed no fines or other sanctions against the Expedia Group companies and did not find an abuse of a dominant market position by the Expedia Group companies. The FCO's case against the Expedia Group companies' 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 the Expedia Group companies 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 Group companies objecting to certain parity clauses in contracts between Expedia Group companies 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 appealed the decision and, on June 21, 2017, the Paris Court of Appeal published a judgment overturning the decision. The court annulled parity clauses contained in the agreements at issue, ordered the Expedia Group companies to amend their contracts, and imposed a fine. The Expedia Group companies have appealed the decision. The appeal will not stay payment of the fine.

Hotelerverband 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 Group defendants' statutory costs. IHA appealed the decision and, on December 4, 2017, the Court of Appeals rejected IHA's appeal. The Court of Appeals expressly confirmed that Expedia Group's MFNs are in compliance both with European and German competition law. While IHA had indicated an intention to appeal the decision to the Federal Supreme Court, it has not lodged an appeal within the applicable deadline, with the consequence that the Court of Appeals judgment has now become final.

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 has been 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 Group companies) in relation to certain parity provisions in their contracts with hotels. The working group issued questionnaires to online travel agencies including Expedia Group companies, metasearch sites and hotels in 2016. The underlying results of the ECN monitoring exercise were published on April 6, 2017.

Legislative bodies in France (July 2015), Austria (December 2016), Italy (August 2017) and Belgium (August 2018) have also adopted new domestic anti-parity clause legislation. Expedia Group believes each of these pieces of legislation violates both EU and national legal principles and therefore, Expedia Group companies have challenged these laws at the European Commission. A motion requesting the Swiss government to take action on narrow price parity has been adopted in the Swiss parliament. The Swiss government is now required to draft legislation implementing the motion. The Company is unable to predict whether and with what content legislation 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 Group'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 Group companies. 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 Group companies, on July 27, 2016 with respect to parity provisions in contracts between hotels and online travel companies. On September 13, 2016, the Expedia Group companies submitted a response to the complaint to CADE. On March 27, 2018, the Expedia Group companies resolved CADE's concerns based on a settlement implementing waivers substantially similar to those provided to accommodation providers in Europe. In late 2016, Expedia Group companies resolved 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). More recently, however, the Australian NCA has reopened its investigation. On and with effect from March 22, 2019, Expedia Group voluntarily and unilaterally waived certain additional rate parity provisions in agreements with Australian hotel partners. Expedia Group companies are in ongoing discussions with a limited number of

NCA's in other countries in relation to their contracts with hotels. In April 2019, the Japan Fair Trade Commission (“JFTC”) launched an investigation into certain practices of a number of online travel companies, including Expedia Group companies. Expedia Group is cooperating with the JFTC in this investigation. Expedia Group is currently unable to predict the impact the implementation of the waivers both in Europe and elsewhere will have on Expedia Group's business, on investigations or inquiries by NCA's in other countries, or on industry practice more generally.

In addition, regulatory authorities in Europe (including the UK Competition and Markets Authority, or “CMA”), Australia, and elsewhere have initiated legal proceedings and/or undertaken market studies, inquiries or investigations relating to online marketplaces and how information is presented to consumers using those marketplaces, including practices such as search results rankings and algorithms, discount claims, disclosure of charges, and availability and similar messaging.

On June 28, 2018, the CMA announced that it will be requiring hotel booking websites to take action to address concerns identified in the course of its ongoing investigation. After consulting with the CMA, on January 31, 2019, we agreed to offer certain voluntary undertakings with respect to the presentation of information on certain of our UK consumer-facing websites in order to address the CMA's concerns. On February 4, 2019, the CMA confirmed that, as a result of the undertakings offered, it has closed its investigation without any admission or finding of liability. The undertakings become effective on September 1, 2019. On October 21, 2019, the Italian Competition Authority announced that it had accepted Expedia's voluntary undertakings with respect to the presentation of information on its Italian website and closed the proceedings against Expedia without any admission or finding of liability. The undertakings became effective on September 1, 2019.

On August 23, 2018, the Australian Competition and Consumer Commission, or “ACCC”, instituted proceedings in the Australian Federal Court against trivago. The ACCC alleged breaches of Australian consumer law relating to trivago's advertisements in Australia concerning the hotel prices available on trivago's Australian site and trivago's strike-through pricing practice. A trial took place and the parties await a ruling; an appropriate reserve has been accrued in respect of this matter.

We are cooperating with regulators in the investigations described above where applicable, but we are unable to predict what, if any, effect such actions will have on our business, industry practices or online commerce more generally. Other than described above, we have not accrued a reserve in connection with the market studies, investigations, inquiries or legal proceedings described above either because the likelihood of an unfavorable outcome is not probable, or the amount of any loss is not estimable.

Note 11 – Liberty Expedia Holdings Transaction

On July 26, 2019, Expedia Group acquired all of the outstanding shares of Liberty Expedia Holdings, Inc. (“Liberty Expedia Holdings”) in a transaction in which the outstanding shares of Liberty Expedia Holdings' Series A common stock and Series B common stock were exchanged for newly issued shares of common stock of Expedia Group with a fair value of \$2.9 billion, assumption of \$400 million in debt and \$15 million of cash. We accounted for the acquired Liberty Expedia Holdings assets and liabilities, except for the Expedia Group shares repurchased, as a business combination. We accounted for the exchanged Expedia Group shares held by Liberty Expedia Holdings as a share repurchase for consideration of \$3.2 billion. As a result of this transaction, Expedia Group's shares outstanding were reduced by approximately 3.1 million shares. The fair value of the assets and liabilities acquired in the business combination was \$91 million, which was primarily comprised of \$78 million of cash and \$10 million of a trade name definite lived intangible asset related to Bodybuilding.com. Bodybuilding.com is primarily an Internet retailer of dietary supplements, sports nutrition products, and other health and wellness products. No goodwill was recorded for the portion of the transaction accounted for as a business combination.

In connection with the Liberty Expedia Holdings transaction, a wholly-owned subsidiary of Expedia Group, Inc. (“Merger LLC”) assumed the obligations of Liberty Expedia Holdings with respect to the \$400 million aggregate outstanding principal amount of 1.0% Exchangeable Senior Debentures due 2047 issued by Liberty Expedia Holdings (the “Exchangeable Debentures”) and the indenture governing the Exchangeable Debentures. Also in connection with the Liberty Expedia Holdings transaction, Liberty Expedia Holdings delivered a notice of redemption with respect to the Exchangeable Debentures, pursuant to which Merger LLC would redeem all of the Exchangeable Debentures at a redemption price, in cash, equal to the sum of (i) the adjusted principal amount of such Exchangeable Debentures, (ii) any accrued and unpaid interest on such Exchangeable Debentures to the redemption date, and (iii) any final period distribution on such Exchangeable Debentures (subject to the right of holders of the Exchangeable Debentures to exchange such Exchangeable Debentures for equity of Expedia Group, Inc. or, at Merger LLC's election, cash or a combination of such equity and cash). On August 26, 2019, Merger LLC redeemed all of the Exchangeable Debentures in exchange for a total payment of approximately \$401 million (with no holders of the Exchangeable Debentures electing to exchange).

The purchase price allocation was based on preliminary valuations of the assets acquired and the liabilities assumed and are subject to revision. Bodybuilding.com was consolidated into our financial statements starting on the acquisition date and we have recognized a related \$24 million in revenue and \$3 million in operating losses for the three and nine months ended

September 30, 2019, which are included within Corporate and Eliminations in our segment footnote. Pro forma financial information has not been presented as, absent Liberty Expedia Holdings' goodwill impairment related to Bodybuilding.com during the year ended December 31, 2018, such pro forma information would not be materially different from historical results.

For information related to Liberty Expedia Holdings transaction, see Note 12 – Related Party Transactions.

Note 12 – Related Party Transactions

Mr. Diller is the Chairman and Senior Executive of Expedia Group. Certain relationships between Mr. Diller and the Company in connection with the Liberty Expedia Transaction (as defined below) are described below.

Prior to the closing of the Liberty Expedia Transaction on July 26, 2019, Liberty Expedia Holdings, Inc. (“Liberty Expedia Holdings”) and its subsidiaries held 11,076,672 shares of Expedia Group common stock and 12,799,999 shares of Expedia Group Class B common stock, which shares represented approximately 53% of the total voting power of all shares of Expedia Group common stock and Class B common stock, based on a total of 136,832,712 shares of Expedia Group common stock and 12,799,999 shares of Class B common stock outstanding as of July 12, 2019. Pursuant to an Amended and Restated Stockholders Agreement between Liberty Expedia and Mr. Diller (as amended as of November 4, 2016, the “Stockholders Agreement”), Mr. Diller generally had the right to vote all shares of Expedia Group common stock and Class B common stock held by Liberty Expedia Holdings and its subsidiaries (the “Diller Proxy”). As described below, the Stockholders Agreement, including the Diller Proxy, was terminated on July 26, 2019, upon the closing of the Liberty Expedia Transaction.

Merger Agreement

On April 15, 2019, Expedia Group entered into an Agreement and Plan of Merger (as amended by Amendment No. 1 to Agreement and Plan of Merger, dated as of June 5, 2019, the “Merger Agreement”) with Liberty Expedia Holdings, LEMS I LLC, a Delaware limited liability company and a wholly owned subsidiary of the Company (“Merger LLC”), and LEMS II Inc., a Delaware corporation and a wholly owned subsidiary of Merger LLC (“Merger Sub”) and certain other related agreements (the transactions contemplated by the Merger Agreement and related agreements, the “Liberty Expedia Transaction”). The Merger Agreement provided for, among other things and subject to the satisfaction or waiver of certain specified conditions set forth therein, (i) the merger of Merger Sub with and into Liberty Expedia Holdings (the “Merger”), with Liberty Expedia Holdings surviving the Merger as a wholly owned subsidiary of Merger LLC, and (ii) immediately following the Merger, the merger of Liberty Expedia Holdings (as the surviving corporation in the Merger) with and into Merger LLC (the “Upstream Merger”, and together with the Merger, the “Combination”), with Merger LLC surviving the Upstream Merger as a wholly owned subsidiary of the Company.

On July 26, 2019, the Combination was completed. At the effective time of the Merger (the “Effective Time”), each share of Series A common stock, par value \$0.01 per share, of Liberty Expedia Holdings (the “Liberty Expedia Series A common stock”) and each share of Series B common stock, par value \$0.01 per share, of Liberty Expedia Holdings (the “Liberty Expedia Series B common stock”) issued and outstanding immediately prior to the Effective Time (except for shares held by Liberty Expedia Holdings as treasury stock or held directly by Expedia Group) was converted into the right to receive a number of shares of Expedia Group common stock such that each holder of record of shares of Liberty Expedia Series A common stock or Liberty Expedia Series B common stock had the right to receive, in the aggregate, a number of shares of Expedia Group common stock equal to the product of the total number of shares of such series of Liberty Expedia Series A common stock and Liberty Expedia Series B common stock held of record by such holder immediately prior to the Merger multiplied by an exchange ratio equal to 0.36, with such product rounded up to the next whole share of Expedia Group common stock. The aggregate consideration payable in the Combination was approximately 20.7 million shares of Expedia Group common stock.

Voting Agreement

In connection with the transactions contemplated by the Merger Agreement, John C. Malone and Leslie Malone (together, the “Malone Group”) entered into a voting agreement (the “Voting Agreement”) with the Company on April 15, 2019, pursuant to which, at the July 26, 2019 meeting of the Liberty Expedia Holdings stockholders at which the Merger was approved, the Malone Group voted shares of Liberty Expedia common stock representing approximately 32% of the total voting power of the issued and outstanding shares of Liberty Expedia Holdings common stock as of April 30, 2019, as reported in Liberty Expedia Holdings' Definitive Proxy Statement on Schedule 14A filed on June 26, 2019, in favor of the Merger Agreement and the transactions contemplated thereby.

Exchange Agreement

Simultaneously with the entry into the Merger Agreement, Mr. Diller, The Diller Foundation d/b/a The Diller - von Furstenberg Family Foundation (the “Family Foundation”), Liberty Expedia Holdings and the Company entered into an Exchange Agreement (the “Exchange Agreement,” the rights contemplated by which and by the New Governance Agreement (as defined below) were agreed by Mr. Diller to be deemed to be in recognition and in lieu of Mr. Diller's existing rights under the Former Governance Agreement (as defined below) and the Stockholders Agreement (as defined above)), pursuant to which

on July 26, 2019, immediately prior to the closing of the Combination, Mr. Diller and the Family Foundation exchanged with Liberty Expedia Holdings 5,523,452 shares of Expedia Group common stock for the same number of shares of Expedia Group Class B common stock held by Liberty Expedia Holdings (the shares of Class B common stock acquired by Mr. Diller and the Family Foundation pursuant to the Exchange Agreement, collectively referred to as the “Original Shares”). The Original Shares represent approximately 28% of the total voting power of all shares of Expedia Group common stock and Class B common stock, based on approximately 140 million shares of Expedia Group common stock and approximately 5.5 million shares of Class B common stock outstanding as of September 30, 2019.

Former Governance Agreement

During 2018 through July 26, 2019, Liberty Expedia Holdings (as assignee of Qurate Retail, Inc. (“Qurate”)) was a party to the Amended and Restated Governance Agreement, dated as of December 20, 2011, as amended, among the Company, Liberty Expedia Holdings and Mr. Diller (the “Former Governance Agreement”), pursuant to which Liberty Expedia Holdings had the right to nominate up to a number of directors equal to 20% of the total number of the directors on the Board (rounded up to the next whole number if the number of directors on the Board were not an even multiple of five) and had certain rights regarding committee participation, so long as Liberty Expedia Holdings satisfied certain stock ownership requirements. The Former Governance Agreement was terminated on July 26, 2019 upon the closing of the Liberty Expedia Transaction, at which time, pursuant to the Merger Agreement, each of the three directors serving on the Expedia Group Board of Directors who were nominated by Liberty Expedia Holdings resigned from the Board.

New Governance Agreement

Simultaneously with the entry into the Merger Agreement, the Company and Mr. Diller entered into a Second Amended and Restated Governance Agreement (the “New Governance Agreement,” the rights contemplated by which and by the Exchange Agreement (as defined above) were agreed by Mr. Diller to be deemed to be in recognition and in lieu of Mr. Diller’s existing rights under the Former Governance Agreement (as defined above) and the Stockholders Agreement (as defined above)), which provides, among other things, that Mr. Diller may exercise a right (the “Purchase/Exchange Right”) during the nine month period following the closing of the Combination, to (1) exchange with the Company (or its wholly owned subsidiary) an equivalent number of shares of Expedia Group common stock for, or (2) purchase from the Company (or its wholly owned subsidiary), at a price per share equal to the average closing price of Expedia Group common stock for the five trading days immediately preceding notice of exercise, up to 7,276,547 shares of Expedia Group Class B common stock (any shares acquired pursuant to the Purchase/Exchange Right, the “Additional Shares”). The Purchase/Exchange Right may be exercised from time to time in whole or in part. Assuming the exercise in full by Mr. Diller of the Purchase/Exchange Right, the Original Shares and Additional Shares would collectively represent approximately 49% of the total voting power of all outstanding shares of Expedia Group common stock and Class B common stock, assuming a total of approximately 133 million shares of Expedia Group common stock and 12,799,999 shares of Class B common stock outstanding immediately following the exercise of the Purchase/Exchange Right. The foregoing assumes that Mr. Diller exercises his right to acquire the Additional Shares solely by exchanging shares of Expedia Group common stock acquired in the open market (or otherwise, other than from the Company). If Mr. Diller were to acquire the Additional Shares through cash purchases directly from the Company (or its wholly owned subsidiary), the Original Shares and Additional Shares would collectively represent approximately 48% of the total voting power of all outstanding shares of Expedia Group common stock and Class B common stock (based on approximately 140 million shares of Expedia Group common stock and 12,799,999 shares of Class B common stock outstanding immediately following the exercise of the Purchase/Exchange Right).

Prior to the transfer of any Additional Shares, a transferee must deliver a proxy granting Mr. Diller sole voting control over such shares and deliver a joinder agreement agreeing to be bound by certain terms of the New Governance Agreement. Subject to limited exceptions, any transferred Additional Shares over which Mr. Diller does not maintain sole voting control will be automatically converted into shares of Expedia Group common stock.

All Additional Shares will be automatically converted into shares of Expedia Group common stock immediately following the earliest of (a) Mr. Diller’s death or disability; (b) such time as Mr. Diller no longer serves as Chairman or Senior Executive of the Company, other than as a result of his removal (other than for “cause” as defined in the New Governance Agreement) or failure to be nominated or elected when he is willing to serve in such position; and (c) aggregate transfers by Mr. Diller (or certain limited permitted transferees of Mr. Diller) of Original Shares exceeding 5% of the outstanding voting power of the Company.

The automatic conversion features described above negotiated by the Expedia Group Special Committee and agreed to by Mr. Diller under the New Governance Agreement did not exist under the Former Governance Agreement.

Additionally, subject to limited exception, no current or future holder of Original Shares or Additional Shares may participate in, or vote in favor of, or tender shares into, any change of control transaction involving at least 50% of the outstanding shares or voting power of capital stock of the Company, unless such transaction provides for the same per share consideration and mix of consideration (or election right) and the same participation rights for shares of Class B common stock

and shares of Expedia Group common stock. These requirements negotiated by the Expedia Group Special Committee and agreed to by Mr. Diller under the New Governance Agreement did not exist under the Former Governance Agreement.

At the 2019 Annual Meeting of the Company's stockholders, the Company is proposing, and Mr. Diller has agreed to vote in favor of, a proposal to amend its Certificate of Incorporation to reflect the aforementioned transfer restrictions, automatic conversion provisions and change-of-control restrictions reflected in the New Governance Agreement.

Following the closing of the Liberty Expedia Transaction, the Company ceased to be a controlled company under the Nasdaq Stock Market Listing Rules and is required to comply with all of Nasdaq's corporate governance requirements on the phase-in schedule described below. On July 26, 2019, the Company received notice from Nasdaq confirming that the Company no longer complies with Nasdaq Marketplace Rule 5605(b)(1), which requires a majority of the Company's Board of Directors to be composed of "independent directors" (as defined in Nasdaq Marketplace Rule 5605(a)(2)). Within 12 months from ceasing to be a "controlled company," the Company is required to have a majority of independent directors on the Board of Directors. Additionally, the Compensation Committee is required to be composed of at least two members, one of whom is independent upon ceasing to be a "controlled company," a majority of whom is independent within 90 days of ceasing to be a "controlled company" and all members of which are independent within one year of ceasing to be a "controlled company." The Nominating Committee is required to include at least one member who is independent upon ceasing to be a "controlled company" and all members of which must be independent within one year of ceasing to be a "controlled company." Currently, 6 of the 12 directors on the Board of Directors are independent (as defined in Nasdaq Marketplace Rule 5605(a)(2)). The Compensation Committee currently consists of two members, each of whom is independent and the Nominating Committee currently consists of three members, two of whom are independent. The Company is actively seeking to comply with the majority independent director rule and the independent nominating committee rules, but is currently relying on the twelve-month phase-in periods set forth in Nasdaq's Marketplace Rule 5615(c)(3).

While it is possible that Mr. Diller may at some point in the future beneficially own more than 50% of the outstanding voting power of the Company, the provisions of the New Governance Agreement provide that following one of the automatic conversion triggers mentioned above, the number of shares of Class B common stock acquired by Mr. Diller in connection with the Liberty Expedia Transaction will not exceed approximately 5.5 million shares of Class B common stock, or approximately 28% of the total voting power of Expedia Group based on approximately 140 million shares of Expedia Group common stock and approximately 5.5 million shares of Class B common stock outstanding as of September 30, 2019. Further, as described above, the New Governance Agreement provides that, subject to limited exception, no current or future holder of Original Shares or Additional Shares may participate in, or vote or tender in favor of, any change of control transaction involving at least 50% of the outstanding shares of capital stock of the Company, unless such transaction provides for the same per share consideration and mix of consideration (or election right) and the same participation rights for shares of Expedia Group Class B common stock and shares of Expedia Group common stock.

Other Agreements

Simultaneously with the Company's entry into the Merger Agreement, certain additional related agreements were entered into, including:

- A Stockholders Agreement Termination Agreement, by and among Mr. Diller, Liberty Expedia Holdings and certain wholly owned subsidiaries of Liberty Expedia Holdings, pursuant to the Stockholders Agreement (as defined above), including the Diller Proxy (as defined above) terminated on July 26, 2019, upon the closing of the Liberty Expedia Transaction;
- A Governance Agreement Termination Agreement, by and among Mr. Diller, the Company, Liberty Expedia Holdings and certain wholly owned subsidiaries of Liberty Expedia Holdings, pursuant to which the Former Governance Agreement (as defined above) terminated on July 26, 2019, upon the closing of the Liberty Expedia Transaction;
- An Assumption and Joinder Agreement to Tax Sharing Agreement by and among the Company, Liberty Expedia Holdings and Qurate, pursuant to which the Company agreed to assume, effective at the closing of the Liberty Expedia Transaction, Liberty Expedia Holdings' rights and obligations under the Tax Sharing Agreement, dated as of November 4, 2016, by and between Qurate and Liberty Expedia Holdings;
- An Assumption Agreement Concerning Transaction Agreement Obligations by and among the Company, Liberty Expedia Holdings, Qurate and the Malone Group, pursuant to which the Company agreed to assume, effective at the closing of the Liberty Expedia Transaction, certain of Liberty Expedia Holdings' rights and obligations under the Amended and Restated Transaction Agreement, dated as of September 22, 2016, as amended by the letter agreement dated as of March 6, 2018, as further amended by Amendment No. 2 to the Transaction Agreement dated as of April 15, 2019 (the "Transaction Agreement"), which survive the termination of the Transaction Agreement; and
- An Assumption and Joinder Agreement to Reorganization Agreement by and among the Company, Liberty Expedia Holdings and Qurate, pursuant to which the Company agreed to assume, effective at the closing of the Liberty Expedia

Transaction, Liberty Expedia Holdings' rights and obligations under the Reorganization Agreement, dated as of October 26, 2016, by and between Qurate and Liberty Expedia Holdings.

Note 13 – Segment Information

We have four reportable segments: Core OTA, trivago, Vrbo (previously referred to as our “HomeAway” segment) and Egencia. 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, Expedia Partner Solutions, Orbitz, Travelocity, Wotif Group, ebookers, CheapTickets, Hotwire.com, CarRentals.com, Classic Vacations and SilverRail Technologies, Inc. Our trivago segment generates advertising revenue primarily from sending referrals to online travel companies and travel service providers from its hotel metasearch websites. Our Vrbo segment operates an online marketplace for the alternative accommodations industry. Our Egencia segment provides managed travel services to corporate customers worldwide.

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 and Core OTA and Vrbo include the realized foreign currency gains or losses related to the forward contracts hedging a component of our net merchant lodging 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. In addition, when Vrbo properties are booked through our Core OTA websites and vice versa, the segments split the third-party revenue for management and segment reporting purposes with the majority of the third-party revenue residing with the website marketing the property or room.

Corporate and Eliminations also includes unallocated corporate functions and expenses as well as Bodybuilding.com subsequent to our acquisition on July 26, 2019. 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 and nine months ended September 30, 2019 and 2018. 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.

Notes to Consolidated Financial Statements – (Continued)

| Three months ended September 30, 2019 | | | | | | | |
|---|-----------------|---------------|---------------|---------------|--------------------------|-----------------|---------------|
| | Core OTA | trivago | Vrbo | Egencia | Corporate & Eliminations | Total | |
| | (In millions) | | | | | | |
| Third-party revenue | \$ 2,732 | \$ 190 | \$ 467 | \$ 145 | \$ 24 | \$ 3,558 | |
| Intersegment revenue | — | 89 | — | — | (89) | — | |
| Revenue | <u>\$ 2,732</u> | <u>\$ 279</u> | <u>\$ 467</u> | <u>\$ 145</u> | <u>\$ (65)</u> | <u>\$ 3,558</u> | |
| Adjusted EBITDA | \$ 865 | \$ 12 | \$ 215 | \$ 19 | \$ (199) | \$ 912 | |
| Depreciation | (95) | (3) | (26) | (12) | (42) | (178) | |
| Amortization of intangible assets | — | — | — | — | (50) | (50) | |
| Stock-based compensation | — | — | — | — | (60) | (60) | |
| Legal reserves, occupancy tax and other | — | — | — | — | (11) | (11) | |
| Restructuring and related reorganization charges | — | — | — | — | (2) | (2) | |
| Realized (gain) loss on revenue hedges | (1) | — | (1) | — | — | (2) | |
| Operating income (loss) | <u>\$ 769</u> | <u>\$ 9</u> | <u>\$ 188</u> | <u>\$ 7</u> | <u>\$ (364)</u> | <u>609</u> | |
| Other expense, net | | | | | | | (48) |
| Income before income taxes | | | | | | | 561 |
| Provision for income taxes | | | | | | | (154) |
| Net income | | | | | | | 407 |
| Net loss attributable to non-controlling interests | | | | | | | 2 |
| Net income attributable to Expedia Group, Inc. | | | | | | | <u>\$ 409</u> |

| Three months ended September 30, 2018 | | | | | | | |
|---|-----------------|---------------|---------------|---------------|--------------------------|-----------------|---------------|
| | Core OTA | trivago | Vrbo | Egencia | Corporate & Eliminations | Total | |
| | (In millions) | | | | | | |
| Third-party revenue | \$ 2,527 | \$ 200 | \$ 410 | \$ 139 | \$ — | \$ 3,276 | |
| Intersegment revenue | — | 95 | — | — | (95) | — | |
| Revenue | <u>\$ 2,527</u> | <u>\$ 295</u> | <u>\$ 410</u> | <u>\$ 139</u> | <u>\$ (95)</u> | <u>\$ 3,276</u> | |
| Adjusted EBITDA | \$ 837 | \$ 31 | \$ 209 | \$ 19 | \$ (184) | \$ 912 | |
| Depreciation | (88) | (4) | (17) | (12) | (50) | (171) | |
| Amortization of intangible assets | — | — | — | — | (71) | (71) | |
| Stock-based compensation | — | — | — | — | (54) | (54) | |
| Legal reserves, occupancy tax and other | — | — | — | — | 78 | 78 | |
| Realized (gain) loss on revenue hedges | (21) | — | (1) | — | — | (22) | |
| Operating income (loss) | <u>\$ 728</u> | <u>\$ 27</u> | <u>\$ 191</u> | <u>\$ 7</u> | <u>\$ (281)</u> | <u>672</u> | |
| Other expense, net | | | | | | | (60) |
| Income before income taxes | | | | | | | 612 |
| Provision for income taxes | | | | | | | (81) |
| Net income | | | | | | | 531 |
| Net income attributable to non-controlling interests | | | | | | | (6) |
| Net income attributable to Expedia Group, Inc. | | | | | | | <u>\$ 525</u> |

Notes to Consolidated Financial Statements – (Continued)

| Nine months ended September 30, 2019 | | | | | | | |
|---|-----------------|---------------|-----------------|---------------|--------------------------|-----------------|---------------|
| | Core OTA | trivago | Vrbo | Egencia | Corporate & Eliminations | Total | |
| (In millions) | | | | | | | |
| Third-party revenue | \$ 7,249 | \$ 505 | \$ 1,081 | \$ 461 | \$ 24 | \$ 9,320 | |
| Intersegment revenue | — | 262 | — | — | (262) | — | |
| Revenue | <u>\$ 7,249</u> | <u>\$ 767</u> | <u>\$ 1,081</u> | <u>\$ 461</u> | <u>\$ (238)</u> | <u>\$ 9,320</u> | |
| Adjusted EBITDA | \$ 1,832 | \$ 56 | \$ 259 | \$ 85 | \$ (576) | \$ 1,656 | |
| Depreciation | (281) | (9) | (73) | (38) | (129) | (530) | |
| Amortization of intangible assets | — | — | — | — | (154) | (154) | |
| Stock-based compensation | — | — | — | — | (175) | (175) | |
| Legal reserves, occupancy tax and other | — | — | — | — | (25) | (25) | |
| Restructuring and related reorganization charges | — | — | — | — | (16) | (16) | |
| Realized (gain) loss on revenue hedges | (12) | — | (1) | — | — | (13) | |
| Operating income (loss) | <u>\$ 1,539</u> | <u>\$ 47</u> | <u>\$ 185</u> | <u>\$ 47</u> | <u>\$ (1,075)</u> | <u>743</u> | |
| Other expense, net | | | | | | | (88) |
| Income before income taxes | | | | | | | 655 |
| Provision for income taxes | | | | | | | (161) |
| Net income | | | | | | | 494 |
| Net income attributable to non-controlling interests | | | | | | | (5) |
| Net income attributable to Expedia Group, Inc. | | | | | | | <u>\$ 489</u> |

| Nine months ended September 30, 2018 | | | | | | | |
|---|-----------------|----------------|---------------|---------------|--------------------------|-----------------|---------------|
| | Core OTA | trivago | Vrbo | Egencia | Corporate & Eliminations | Total | |
| (In millions) | | | | | | | |
| Third-party revenue | \$ 6,706 | \$ 571 | \$ 941 | \$ 446 | \$ — | \$ 8,664 | |
| Intersegment revenue | — | 323 | — | — | (323) | — | |
| Revenue | <u>\$ 6,706</u> | <u>\$ 894</u> | <u>\$ 941</u> | <u>\$ 446</u> | <u>\$ (323)</u> | <u>\$ 8,664</u> | |
| Adjusted EBITDA | \$ 1,721 | \$ (17) | \$ 266 | \$ 76 | \$ (547) | \$ 1,499 | |
| Depreciation | (256) | (11) | (46) | (35) | (159) | (507) | |
| Amortization of intangible assets | — | — | — | — | (215) | (215) | |
| Impairment of goodwill | — | — | — | — | (61) | (61) | |
| Stock-based compensation | — | — | — | — | (154) | (154) | |
| Legal reserves, occupancy tax and other | — | — | — | — | 74 | 74 | |
| Realized (gain) loss on revenue hedges | (17) | — | (1) | — | — | (18) | |
| Operating income (loss) | <u>\$ 1,448</u> | <u>\$ (28)</u> | <u>\$ 219</u> | <u>\$ 41</u> | <u>\$ (1,062)</u> | <u>618</u> | |
| Other expense, net | | | | | | | (189) |
| Income before income taxes | | | | | | | 429 |
| Provision for income taxes | | | | | | | (56) |
| Net income | | | | | | | 373 |
| Net loss attributable to non-controlling interests | | | | | | | 16 |
| Net income attributable to Expedia Group, Inc. | | | | | | | <u>\$ 389</u> |

Revenue by Business Model and Service Type

The following table presents revenue by business model and service type:

| | Three months ended September 30, | | Nine months ended September 30, | |
|------------------------|----------------------------------|----------|---------------------------------|----------|
| | 2019 | 2018 | 2019 | 2018 |
| (in millions) | | | | |
| Business Model: | | | | |
| Merchant | \$ 1,863 | \$ 1,688 | \$ 4,935 | \$ 4,554 |
| Agency | 917 | 876 | 2,444 | 2,311 |
| Advertising and media | 311 | 302 | 860 | 858 |
| Vrbo | 467 | 410 | 1,081 | 941 |
| Total revenue | \$ 3,558 | \$ 3,276 | \$ 9,320 | \$ 8,664 |
| Service Type: | | | | |
| Lodging | \$ 2,599 | \$ 2,347 | \$ 6,555 | \$ 5,951 |
| Air | 202 | 209 | 678 | 674 |
| Advertising and media | 311 | 302 | 860 | 858 |
| Other ⁽¹⁾ | 446 | 418 | 1,227 | 1,181 |
| Total revenue | \$ 3,558 | \$ 3,276 | \$ 9,320 | \$ 8,664 |

- (1) Other includes car rental, insurance, destination services, cruise and fee revenue related to our corporate travel business, among other revenue streams, none of which are individually material. Other also includes product revenue of \$24 million during the three and nine months ended September 30, 2019 related to our acquisition of Bodybuilding.com.

Our Core OTA segment generates revenue from the merchant, agency and advertising and media business models as well as all service types. trivago segment revenue is generated through advertising and media. All Vrbo revenue is included within the lodging service type. Our Egencia segment generates revenue from similar business models and service types to Core OTA applied to the corporate traveler with the majority being agency revenue.

Note 14 – Guarantor and Non-Guarantor Supplemental Financial Information

Condensed consolidating financial information of Expedia Group, 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 September 30, 2019

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|--|---------------|---------------------------|-------------------------------|-----------------|---------------|
| | (In millions) | | | | |
| Revenue | \$ — | \$ 2,733 | \$ 916 | \$ (91) | \$ 3,558 |
| Costs and expenses: | | | | | |
| Cost of revenue | — | 408 | 166 | (5) | 569 |
| Selling and marketing | — | 1,258 | 488 | (86) | 1,660 |
| Technology and content | — | 309 | 131 | — | 440 |
| General and administrative | — | 140 | 77 | — | 217 |
| Amortization of intangible assets | — | 30 | 20 | — | 50 |
| Legal reserves, occupancy tax and other | — | 3 | 8 | — | 11 |
| Restructuring and related reorganization charges | — | — | 2 | — | 2 |
| Intercompany (income) expense, net | — | 250 | (250) | — | — |
| Operating income | — | 335 | 274 | — | 609 |
| Other income (expense): | | | | | |
| Equity in pre-tax earnings of consolidated subsidiaries | 439 | 170 | — | (609) | — |
| Other, net | (40) | 46 | (54) | — | (48) |
| Total other income (expense), net | 399 | 216 | (54) | (609) | (48) |
| Income before income taxes | 399 | 551 | 220 | (609) | 561 |
| Provision for income taxes | 10 | (111) | (53) | — | (154) |
| Net income | 409 | 440 | 167 | (609) | 407 |
| Net loss attributable to non-controlling interests | — | 1 | 1 | — | 2 |
| Net income attributable to Expedia Group, Inc. | \$ 409 | \$ 441 | \$ 168 | \$ (609) | \$ 409 |
| Comprehensive income attributable to Expedia Group, Inc. | \$ 367 | \$ 376 | \$ 105 | \$ (481) | \$ 367 |

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
Three months ended September 30, 2018

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---------------|---------------------------|-------------------------------|-----------------|---------------|
| | (In millions) | | | | |
| Revenue | \$ — | \$ 2,503 | \$ 869 | \$ (96) | \$ 3,276 |
| Costs and expenses: | | | | | |
| Cost of revenue | — | 362 | 147 | (5) | 504 |
| Selling and marketing | — | 1,096 | 496 | (91) | 1,501 |
| Technology and content | — | 287 | 117 | — | 404 |
| General and administrative | — | 129 | 73 | — | 202 |
| Amortization of intangible assets | — | 44 | 27 | — | 71 |
| Legal reserves, occupancy tax and other | — | (78) | — | — | (78) |
| Intercompany (income) expense, net | — | 239 | (239) | — | — |
| Operating income | — | 424 | 248 | — | 672 |
| Other income (expense): | | | | | |
| Equity in pre-tax earnings of consolidated subsidiaries | 560 | 204 | — | (764) | — |
| Other, net | (46) | (13) | (1) | — | (60) |
| Total other income (expense), net | 514 | 191 | (1) | (764) | (60) |
| Income before income taxes | 514 | 615 | 247 | (764) | 612 |
| Provision for income taxes | 11 | (55) | (37) | — | (81) |
| Net income | 525 | 560 | 210 | (764) | 531 |
| Net (income) loss attributable to non-controlling interests | — | 1 | (7) | — | (6) |
| Net income attributable to Expedia Group, Inc. | \$ 525 | \$ 561 | \$ 203 | \$ (764) | \$ 525 |
| Comprehensive income attributable to Expedia Group, Inc. | \$ 514 | \$ 545 | \$ 186 | \$ (731) | \$ 514 |

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
 Nine months ended September 30, 2019

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---------------|---------------------------|-------------------------------|-----------------|---------------|
| | (In millions) | | | | |
| Revenue | \$ — | \$ 7,274 | \$ 2,313 | \$ (267) | \$ 9,320 |
| Costs and expenses: | | | | | |
| Cost of revenue | — | 1,162 | 459 | (17) | 1,604 |
| Selling and marketing | — | 3,675 | 1,427 | (250) | 4,852 |
| Technology and content | — | 914 | 390 | — | 1,304 |
| General and administrative | — | 400 | 222 | — | 622 |
| Amortization of intangible assets | — | 92 | 62 | — | 154 |
| Legal reserves, occupancy tax and other | — | 17 | 8 | — | 25 |
| Restructuring and related reorganization charges | — | — | 16 | — | 16 |
| Intercompany (income) expense, net | — | 661 | (661) | — | — |
| Operating income | — | 353 | 390 | — | 743 |
| Other income (expense): | | | | | |
| Equity in pre-tax earnings of consolidated subsidiaries | 582 | 257 | — | (839) | — |
| Other, net | (122) | 84 | (50) | — | (88) |
| Total other income (expense), net | 460 | 341 | (50) | (839) | (88) |
| Income before income taxes | 460 | 694 | 340 | (839) | 655 |
| Provision for income taxes | 29 | (109) | (81) | — | (161) |
| Net income | 489 | 585 | 259 | (839) | 494 |
| Net (income) loss attributable to non-controlling interests | — | 2 | (7) | — | (5) |
| Net income attributable to Expedia Group, Inc. | \$ 489 | \$ 587 | \$ 252 | \$ (839) | \$ 489 |
| Comprehensive income attributable to Expedia Group, Inc. | \$ 451 | \$ 522 | \$ 189 | \$ (711) | \$ 451 |

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
Nine months ended September 30, 2018

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|--|---------------|---------------------------|-------------------------------|-----------------|---------------|
| | (In millions) | | | | |
| Revenue | \$ — | \$ 6,643 | \$ 2,348 | \$ (327) | \$ 8,664 |
| Costs and expenses: | | | | | |
| Cost of revenue | — | 1,094 | 410 | (15) | 1,489 |
| Selling and marketing | — | 3,256 | 1,614 | (312) | 4,558 |
| Technology and content | — | 847 | 353 | — | 1,200 |
| General and administrative | — | 375 | 222 | — | 597 |
| Amortization of intangible assets | — | 134 | 81 | — | 215 |
| Impairment of goodwill | — | — | 61 | — | 61 |
| Legal reserves, occupancy tax and other | — | (75) | 1 | — | (74) |
| Intercompany (income) expense, net | — | 654 | (654) | — | — |
| Operating income | — | 358 | 260 | — | 618 |
| Other income (expense): | | | | | |
| Equity in pre-tax earnings of consolidated subsidiaries | 501 | 223 | — | (724) | — |
| Other, net | (146) | (22) | (21) | — | (189) |
| Total other income (expense), net | 355 | 201 | (21) | (724) | (189) |
| Income before income taxes | 355 | 559 | 239 | (724) | 429 |
| Provision for income taxes | 34 | (54) | (36) | — | (56) |
| Net income | 389 | 505 | 203 | (724) | 373 |
| Net loss attributable to non-controlling interests | — | 2 | 14 | — | 16 |
| Net income attributable to Expedia Group, Inc. | \$ 389 | \$ 507 | \$ 217 | \$ (724) | \$ 389 |
| Comprehensive income attributable to Expedia Group, Inc. | \$ 339 | \$ 435 | \$ 147 | \$ (582) | \$ 339 |

Notes to Consolidated Financial Statements – (Continued)

CONDENSED CONSOLIDATING BALANCE SHEET
September 30, 2019

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|------------------|---------------------------|-------------------------------|--------------------|------------------|
| (In millions) | | | | | |
| ASSETS | | | | | |
| Total current assets | \$ 431 | \$ 6,685 | \$ 2,581 | \$ (1,728) | \$ 7,969 |
| Investment in subsidiaries | 10,795 | 3,041 | — | (13,836) | — |
| Intangible assets, net | — | 1,438 | 405 | — | 1,843 |
| Goodwill | — | 6,367 | 1,737 | — | 8,104 |
| Other assets, net | — | 2,379 | 1,120 | (34) | 3,465 |
| TOTAL ASSETS | \$ 11,226 | \$ 19,910 | \$ 5,843 | \$ (15,598) | \$ 21,381 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Total current liabilities | \$ 1,317 | \$ 8,537 | \$ 2,456 | \$ (1,728) | \$ 10,582 |
| Long-term debt | 4,170 | — | — | — | 4,170 |
| Other long-term liabilities | — | 477 | 414 | (34) | 857 |
| Redeemable non-controlling interests | — | 33 | — | — | 33 |
| Stockholders' equity | 5,739 | 10,863 | 2,973 | (13,836) | 5,739 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 11,226 | \$ 19,910 | \$ 5,843 | \$ (15,598) | \$ 21,381 |

CONDENSED CONSOLIDATING BALANCE SHEET
December 31, 2018

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|------------------|---------------------------|-------------------------------|--------------------|------------------|
| (In millions) | | | | | |
| ASSETS | | | | | |
| Total current assets | \$ 402 | \$ 5,261 | \$ 2,137 | \$ (2,603) | \$ 5,197 |
| Investment in subsidiaries | 10,615 | 3,425 | — | (14,040) | — |
| Intangible assets, net | — | 1,520 | 472 | — | 1,992 |
| Goodwill | — | 6,366 | 1,754 | — | 8,120 |
| Other assets, net | — | 1,840 | 913 | (29) | 2,724 |
| TOTAL ASSETS | \$ 11,017 | \$ 18,412 | \$ 5,276 | \$ (16,672) | \$ 18,033 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Total current liabilities | \$ 1,649 | \$ 7,396 | \$ 1,618 | \$ (2,603) | \$ 8,060 |
| Long-term debt | 3,717 | — | — | — | 3,717 |
| Other long-term liabilities | — | 320 | 284 | (29) | 575 |
| Redeemable non-controlling interests | — | 17 | 13 | — | 30 |
| Stockholders' equity | 5,651 | 10,679 | 3,361 | (14,040) | 5,651 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 11,017 | \$ 18,412 | \$ 5,276 | \$ (16,672) | \$ 18,033 |

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Nine months ended September 30, 2019

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidated |
|--|---------------|---------------------------|-------------------------------|-----------------|
| | (In millions) | | | |
| Operating activities: | | | | |
| Net cash provided by operating activities | \$ — | \$ 1,952 | \$ 474 | \$ 2,426 |
| Investing activities: | | | | |
| Capital expenditures, including internal-use software and website development | — | (800) | (64) | (864) |
| Purchases of investments | — | (1,217) | (66) | (1,283) |
| Sales and maturities of investments | — | 622 | 13 | 635 |
| Acquisitions, net of cash and restricted cash acquired | — | 80 | — | 80 |
| Other, net | — | 3 | — | 3 |
| Net cash used in investing activities | — | (1,312) | (117) | (1,429) |
| Financing activities: | | | | |
| Proceeds from issuance of long-term debt, net of issuance costs | 1,235 | — | — | 1,235 |
| Payment of Liberty Expedia Exchangeable Debentures | — | (400) | — | (400) |
| Purchases of treasury stock | (352) | — | — | (352) |
| Payment of dividends to stockholders | (145) | — | — | (145) |
| Proceeds from exercise of equity awards and employee stock purchase plan | 277 | — | — | 277 |
| Transfers (to) from related parties | (1,013) | 1,039 | (26) | — |
| Other, net | (2) | 6 | (12) | (8) |
| Net cash provided by (used in) financing activities | — | 645 | (38) | 607 |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash and cash equivalents | — | (16) | (46) | (62) |
| Net increase in cash, cash equivalents and restricted cash and cash equivalents | — | 1,269 | 273 | 1,542 |
| Cash, cash equivalents and restricted cash and cash equivalents at beginning of the period | — | 1,190 | 1,515 | 2,705 |
| Cash, cash equivalents and restricted cash and cash equivalents at end of the period | \$ — | \$ 2,459 | \$ 1,788 | \$ 4,247 |

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
 Nine months ended September 30, 2018

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidated |
|--|-------------|---------------------------|-------------------------------|-----------------|
| (In millions) | | | | |
| Operating activities: | | | | |
| Net cash provided by operating activities | \$ — | \$ 1,509 | \$ 611 | \$ 2,120 |
| Investing activities: | | | | |
| Capital expenditures, including internal-use software and website development | — | (533) | (101) | (634) |
| Purchases of investments | — | (1,714) | — | (1,714) |
| Sales and maturities of investments | — | 1,618 | 74 | 1,692 |
| Acquisitions, net of cash and restricted cash acquired | — | (40) | — | (40) |
| Transfers (to) from related parties | — | (60) | 60 | — |
| Other, net | — | 39 | 2 | 41 |
| Net cash provided by (used in) investing activities | — | (690) | 35 | (655) |
| Financing activities: | | | | |
| Payment of long-term debt | (500) | — | — | (500) |
| Purchases of treasury stock | (620) | — | — | (620) |
| Payment of dividends to stockholders | (138) | — | — | (138) |
| Proceeds from exercise of equity awards and employee stock purchase plan | 138 | — | — | 138 |
| Transfers (to) from related parties | 1,092 | (666) | (426) | — |
| Other, net | 28 | 1 | (63) | (34) |
| Net cash used in financing activities | — | (665) | (489) | (1,154) |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash and cash equivalents | — | (55) | (64) | (119) |
| Net increase in cash, cash equivalents and restricted cash and cash equivalents | — | 99 | 93 | 192 |
| Cash, cash equivalents and restricted cash and cash equivalents at beginning of period | — | 1,321 | 1,596 | 2,917 |
| Cash, cash equivalents and restricted cash and cash equivalents at end of period | \$ — | \$ 1,420 | \$ 1,689 | \$ 3,109 |

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, 2018, 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,” “believes,” “could,” “estimates,” “expects,” “goal,” “intends,” “likely,” “may,” “plans,” “potential,” “predicts,” “projected,” “seeks,” “should” and “will,” or the negative of these terms or other similar expressions, 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 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, 2018.

Overview

Expedia Group is one of the world’s largest travel companies. We help knock down the barriers to travel, making it easier, more enjoyable, more attainable and more accessible. We bring the world within reach for customers and partners around the globe. We leverage our platform and technology capabilities across an extensive portfolio of businesses and brands to orchestrate the movement of people and the delivery of travel experiences on both a local and global basis. We make available, on a stand-alone and package basis, travel services provided by numerous lodging properties, airlines, car rental companies, activities and experiences 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 websites. 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, 2018.

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, 2017 and 2018 represented years of continuing growth for the travel industry. While the first nine months of 2019 have seen continued growth for the industry, it has been at a slower pace than in prior years. Additionally, political instability, geopolitical conflicts, acts of terrorism, significant fluctuations in currency values, sovereign debt issues, natural disasters 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 are driving rapid growth in online penetration of travel expenditures. According to Phocuswright, an independent travel, tourism and hospitality research firm, in 2019, over 45% of U.S. and European leisure and unmanaged corporate travel expenditures are expected to occur 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 35% to 45% in 2019. These penetration rates increased over the past few years, and are expected to continue growing, which presents an attractive growth opportunity for our business, while also attracting 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 aggressively pursued direct online distribution of their products and services. Competitive entrants such as “metasearch” companies, including Kayak.com (owned by Booking Holdings), trivago (in which Expedia Group 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. In addition, the increasing popularity of the “sharing economy,” accelerated by online penetration, has had a direct impact on the travel and lodging industry. Businesses such as Airbnb, Vrbo (previously HomeAway, which Expedia acquired in December 2015) and Booking.com (owned by Booking Holdings) 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 expected to continue to grow as a percentage of the global accommodation market. Furthermore, we see increased interest in the online travel industry from search engine companies as evidenced by recent innovations including direct booking functionality and product enhancements by companies such as Google. Finally, traditional consumer ecommerce and group buying websites expanded their local offerings into the travel market by adding hotel offers to their websites.

The online travel industry also saw 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 Group facilitates both merchant (Expedia Collect) and agency (Hotel Collect) hotel offerings with our hotel supply partners through both agency-only contracts as well as our hybrid Expedia Traveler Preference (ETP) program, which offers travelers the choice of whether to pay Expedia Group 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 marketing spending on a brand basis, making decisions in each applicable market that we think are appropriate based on the relative growth opportunity and 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. In addition, 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 traveler mind share.

Lodging

Lodging includes hotel accommodations as well as alternative accommodations primarily made available through Vrbo. As a percentage of our total worldwide revenue in the first nine months of 2019, lodging accounted for 70%. Our room night growth has been healthy at 16% in 2017, 13% in 2018 and 11% in the first nine months of 2019. Average daily rates (“ADRs”) for rooms on Expedia Group websites increased 3% in 2017, increased 5% in 2018 and decreased 1% in the first nine months of 2019. The decrease in the first nine months of 2019 was primarily due to the negative impact of foreign exchange. More recently, we have seen pressure on a local currency basis on ADRs.

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 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 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 and profitability.

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 generally increased on a currency-neutral basis in a gradually improving overall travel environment. Current occupancy rates for hotels in the United States remain high; however, U.S. hotel supply has continued to grow, which may put additional pressure on ADRs. In some 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. Companies like Airbnb, Vrbo and Booking.com 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 succeeded in adding supply to our global lodging

marketplace with over 1.4 million properties on our global websites as of September 30, 2019, including over 650,000 integrated Vrbo alternative accommodations listings.

Alternative Accommodations. With our acquisition of Vrbo (previously HomeAway) and all of its brands in December 2015, we expanded into the fast growing alternative accommodations market. Vrbo is a leader in this market and represents an attractive growth opportunity for Expedia Group. Vrbo 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. Vrbo offers hosts subscription-based listing or pay-per-booking service models. It also generates revenue from a traveler service fee for bookings. As of September 30, 2019, there are over 2.1 million online bookable listings available on Vrbo.

Air

Significant airline sector consolidation in the United States in recent years 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 2017 and into 2018, there was evidence of discounting by the U.S. carriers while currency headwinds and weaker macroeconomic trends put pressure on international results. Starting in the second half of 2018, there has been evidence of modest fare increases, though it remains unclear if this trend will continue. Ticket prices on Expedia Group websites declined 1% in 2017, increased 2% in 2018 and were flat in the first nine months of 2019. Based on airline reports, demand for airline tickets seems to be strong, helping increase air revenues globally. There is significant correlation between airline revenue and fuel prices, and fluctuations in fuel prices generally take time to be reflected in air revenue. Given current volatility, it is uncertain how fuel prices could impact airfares. We could encounter pressure on air remuneration as air carriers combine, certain supply agreements renew and as we continue to add airlines to ensure local coverage in new markets.

Air ticket volumes increased 4% in 2017, 5% in 2018 and 9% in the first nine months of 2019. As a percentage of our total worldwide revenue in the first nine months of 2019, air accounted for 7%.

Advertising & Media

Our advertising and media business is principally driven by revenue generated by trivago, a leading hotel metasearch website, in addition to Expedia Group Media Solutions, which is responsible for generating advertising revenue on our global online travel brands. In the first nine months of 2019, we generated a total of \$860 million of advertising and media revenue, flat compared to the same period in 2018, representing 9% of our total worldwide revenue. In 2018, trivago shifted its operational focus, reducing marketing spend to better balance revenue and profit growth. The lower marketing spend negatively impacted revenue growth, while benefiting profitability. This trend continued into the first nine months of 2019.

Growth Strategy

Global Expansion. Our Brand Expedia, Hotels.com, Egencia, and Expedia Partner Solutions 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.com, Wotif.co.nz, lastminute.com.au, lastminute.co.nz and travel.com.au are focused principally on the Australia and New Zealand markets. The Vrbo portfolio offers alternative accommodations websites all around the world. We own a majority share of trivago, a leading metasearch company. Officially launched in 2005, trivago is one of the best known travel brands in Europe and North America. In December 2016, trivago successfully completed its initial public offering 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, Traveloka in Southeast Asia, as well as Despegar in Latin America, among many others. In conjunction with the commercial arrangements with Traveloka and Despegar, we have also made strategic investments in both companies. In the first nine months of 2019, approximately 37% 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. More recently, we have invested in migrating parts of our technology platform to the cloud, as well as focused on expanding our lodging supply in key focus markets around the world. 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

Group's worldwide traveler base makes our websites 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 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 to drive improvements in conversion.

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 Group technology platform is operated by a dedicated technology team, which drives innovations that make researching and shopping for travel increasingly easier and helps customers find and book the best possible travel options. We have made key investments in technology, including significant development of our technical platforms, that make it possible for us to deliver innovations at a faster pace. Improvements in our global platforms for Hotels.com and Brand Expedia continue to enable us to significantly increase the innovation cycle, thereby improving conversion and driving faster growth rates for those brands. Since 2014, we have acquired Travelocity, Wotif Group and Orbitz Worldwide, including Orbitz, CheapTickets and ebookers, and migrated their brands to the Brand Expedia technology platform. In addition, Orbitz for Business customers were migrated to the Egencia technology platform in 2016. In 2015, we acquired Vrbo (previously HomeAway), including all of its brands. We intend to continue leveraging these technology 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.

Channel Expansion. Technological innovations and developments continue to create new opportunities for travel bookings. 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 many of our brands now see more traffic via mobile devices than via traditional PCs. Mobile bookings continue to present an opportunity for incremental growth as they are often completed with a much shorter booking window than we historically experienced via more traditional online booking methods. Additionally, our brands are implementing new technologies like voice-based search, chatbots and messaging apps as mobile-based options for travelers. In addition, we are seeing significant 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 nine months of 2019, more than one in three Expedia Group transactions globally were booked on a mobile device.

Seasonality

We generally experience seasonal fluctuations in the demand for our travel 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 services, including merchant and agency hotel, is recognized as the travel takes place rather than when it is booked, revenue typically lags bookings by several weeks for our hotel business and can be several months or more for our alternative accommodations business. Historically, Vrbo has seen seasonally stronger bookings in the first quarter of the year, with the relevant stays occurring during the peak summer travel months. 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, have typically been experienced in the second half of the year, particularly the fourth quarter, as selling and marketing costs offset revenue in the first half of the year as we typically increase marketing during the busy booking period for spring, summer and winter holiday travel. 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 growth of Vrbo, may influence the typical trend of the seasonality in the future, and there may also be business or market driven dynamics that result in short-term impacts to revenue or profitability that differ from the typical seasonal trends. As Vrbo has further shifted to a predominately transaction-based business model for alternative accommodations listings and its booking window elongates, its seasonal trends are more pronounced than our other traditional leisure businesses.

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, 2018 as well as updates in the current fiscal year provided in Note 2 – Summary of Significant Accounting Policies in the notes to the consolidated financial statements.

Occupancy and Other Taxes

Legal Proceedings. We are currently involved in eleven 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/or ordinances at issue do not apply to us or the services we provide, namely the facilitation of travel planning and 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:

- *State of Mississippi Litigation.* On August 28, 2019, the State filed an application for a permanent injunction, which the defendants will oppose. On October 4, 2019, defendants filed a motion to stay the trial court proceedings with the Mississippi Supreme Court pending disposition of defendants’ petition for interlocutory appeal; the State has opposed the motion, which remains pending.
- *Arizona Cities Litigation.* On September 9, 2019, the Arizona Supreme Court affirmed in part and reversed in part the Arizona Court of Appeals’ decision and remanded the case back to the tax court for further proceedings.
- *Colorado Department of Revenue Tax Litigation.* The parties have reached a settlement in principle.

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 and other tax litigation, consistent with applicable accounting principles and in light of all current facts and circumstances, in the amount of \$66 million as of September 30, 2019, and \$46 million as of December 31, 2018.

Certain jurisdictions, including without limitation the states of New York, New Jersey, North Carolina, Minnesota, Oregon, Rhode Island, Maryland, Pennsylvania, Hawaii, Iowa, Massachusetts, Arizona, Wisconsin, Idaho, the city of New York, and the District of Columbia, have enacted legislation seeking to tax online travel company services as part of sales or other taxes for hotel and/or other accommodations and/or car rental. In addition, in certain jurisdictions, we have entered into voluntary collection agreements pursuant to which we have agreed to voluntarily collect and remit taxes to state and/or local taxing jurisdictions. We are currently remitting taxes to a number of jurisdictions, including without limitation the states of New York, New Jersey, South Carolina, North Carolina, Minnesota, Georgia, Wyoming, West Virginia, Oregon, Rhode Island, Montana, Maryland, Kentucky, Maine, New Jersey, Pennsylvania, Hawaii, Iowa, Massachusetts, Arizona, Wisconsin, Idaho, the city of New York and the District of Columbia, as well as certain other jurisdictions.

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. However, any significant pay-to-play payment or litigation loss could negatively impact our liquidity. For additional information, see Note 10 – Commitments and Contingencies - Legal Proceedings - Pay-to-Play in the notes to the consolidated financial statements.

Other Jurisdictions. We are also in various stages of inquiry or audit with domestic and foreign tax authorities, some of which, including the City of Los Angeles regarding hotel occupancy taxes and the United Kingdom regarding the application of value added tax (“VAT”) to our European Union related transactions, may impose a pay-to-play requirement to challenge an adverse inquiry or audit result in court.

Segments

We have four reportable segments: Core Online Travel Agencies (“Core OTA”), trivago, Vrbo and Egencia. 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, Expedia Partner Solutions, Orbitz, Travelocity, Wotif Group, ebookers, CheapTickets, Hotwire.com, CarRentals.com, Classic Vacations and SilverRail. Our trivago segment generates advertising revenue primarily from sending referrals to online travel companies and travel service providers from its hotel metasearch websites. Our Vrbo segment operates an online marketplace for the alternative accommodations industry. Our Egencia segment provides managed travel services to corporate customers worldwide.

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 Vrbo 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.

When Vrbo properties are booked through our Core OTA websites and vice versa, the segments split the third-party revenue for management and segment reporting purposes with the majority of the third-party revenue residing with the website marketing the property or room. The operating metrics, including gross bookings and room nights, are not split but instead generally reside entirely with the website marketing the property or room.

Gross Bookings and Revenue Margin

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|------------------------|----------------------------------|-----------|----------|---------------------------------|-----------|----------|
| | 2019 | 2018 | % Change | 2019 | 2018 | % Change |
| | (\$ in millions) | | | (\$ in millions) | | |
| Gross Bookings | | | | | | |
| Core OTA | \$ 22,234 | \$ 20,217 | 10% | \$ 68,568 | \$ 62,399 | 10% |
| trivago ⁽¹⁾ | — | — | N/A | — | — | N/A |
| Vrbo | 2,633 | 2,496 | 5% | 9,657 | 9,257 | 4% |
| Egencia | 2,060 | 1,963 | 5% | 6,403 | 6,114 | 5% |
| Total gross bookings | \$ 26,927 | \$ 24,676 | 9% | \$ 84,628 | \$ 77,770 | 9% |
| Revenue Margin | | | | | | |
| Core OTA | 12.3% | 12.5% | | 10.6% | 10.7% | |
| trivago ⁽¹⁾ | N/A | N/A | | N/A | N/A | |
| Vrbo | 17.7% | 16.4% | | 11.2% | 10.2% | |
| Egencia | 7.0% | 7.1% | | 7.2% | 7.3% | |
| Total revenue margin | 13.2% | 13.3% | | 11.0% | 11.1% | |

(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.

The increase in worldwide gross bookings for the three and nine months ended September 30, 2019, as compared to the same periods in 2018, was primarily driven by growth at our Core OTA segment, including growth at Expedia Partner Solutions, which includes the benefit from enterprise deals launched in late 2018, and Hotels.com. Brand Expedia also contributed to the increase in gross bookings for nine months ended September 30, 2019.

Results of Operations
Revenue

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|-------------------------------|----------------------------------|----------|----------|---------------------------------|----------|----------|
| | 2019 | 2018 | % Change | 2019 | 2018 | % Change |
| | (\$ in millions) | | | (\$ in millions) | | |
| Revenue by Segment | | | | | | |
| Core OTA | \$ 2,732 | \$ 2,527 | 8 % | \$ 7,249 | \$ 6,706 | 8 % |
| trivago (Third-party revenue) | 190 | 200 | (5)% | 505 | 571 | (11)% |
| Vrbo | 467 | 410 | 14 % | 1,081 | 941 | 15 % |
| Egencia | 145 | 139 | 4 % | 461 | 446 | 3 % |
| Corporate (Bodybuilding.com) | 24 | — | N/A | 24 | — | N/A |
| Total revenue | \$ 3,558 | \$ 3,276 | 9 % | \$ 9,320 | \$ 8,664 | 8 % |

Revenue increased for the three and nine months ended September 30, 2019, compared to the same periods in 2018, primarily driven by growth in the Core OTA segment, including growth at Expedia Partner Solutions and Hotels.com, as well as growth at Vrbo. The increase in revenue for nine months ended September 30, 2019 was also impacted by an increase at Brand Expedia, which was partially offset by a decrease at trivago.

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|--------------------------------------|----------------------------------|----------|----------|---------------------------------|----------|----------|
| | 2019 | 2018 | % Change | 2019 | 2018 | % Change |
| | (\$ in millions) | | | (\$ in millions) | | |
| Revenue by Service Type | | | | | | |
| Lodging | \$ 2,599 | \$ 2,347 | 11 % | \$ 6,555 | \$ 5,951 | 10% |
| Air | 202 | 209 | (3)% | 678 | 674 | 1% |
| Advertising and media ⁽¹⁾ | 311 | 302 | 3 % | 860 | 858 | —% |
| Other | 446 | 418 | 7 % | 1,227 | 1,181 | 4% |
| Total revenue | \$ 3,558 | \$ 3,276 | 9 % | \$ 9,320 | \$ 8,664 | 8% |

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

Lodging revenue increased 11% and 10% for the three and nine months ended September 30, 2019, compared to the same periods in 2018, driven by growth at Expedia Partner Solutions, Hotels.com and Vrbo as well as Brand Expedia for the nine months ended September 30, 2019. Total room nights stayed grew 11% for both periods, while revenue per room night was flat year over year for both periods as higher monetization at Vrbo offset lower ADRs.

Air revenue decreased 3% for the three months ended September 30, 2019, compared to the same period in 2018, on a 10% decrease in revenue per ticket, which was primarily driven by a reclassification of certain partner fees to other revenue and a shift in product mix, partially offset by an 8% increase in air tickets sold driven by growth at Expedia Partner Solutions, largely related to enterprise deals launched in late 2018. Air revenue increased 1% for the nine months ended September 30, 2019, compared to the same period in 2018, on a 9% increase in air tickets sold, partially offset by an 8% decrease in revenue per ticket.

Advertising and media revenue increased 3% for the three months ended September 30, 2019, compared to the same period in 2018, due to continued growth at Expedia Group Media Solutions, partially offset by a decline in local currency revenue at trivago as well as negative impacts from foreign exchange. Advertising and media revenue was consistent for the nine months ended September 30, 2019, compared to the same period in 2018, as the growth at Expedia Group Media Solutions was mostly offset by decline in local currency revenue at trivago as well as negative impacts from foreign exchange. All other revenue, which includes car rental, insurance, destination services, fee revenue related to our corporate travel business and Bodybuilding.com, increased 7% and 4% for the three and nine months ended September 30, 2019, compared to the same periods in 2018, benefiting from the inorganic impact related to the acquisition of Bodybuilding.com and the reclassification of certain partner fees from air revenue. The quarter-to-date increase was also due to higher car revenue.

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

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|----------------------------------|----------------------------------|----------|----------|---------------------------------|----------|----------|
| | 2019 | 2018 | % Change | 2019 | 2018 | % Change |
| | (\$ in millions) | | | (\$ in millions) | | |
| Revenue by Business Model | | | | | | |
| Merchant | \$ 1,863 | \$ 1,688 | 10% | \$ 4,935 | \$ 4,554 | 8% |
| Agency | 917 | 876 | 5% | 2,444 | 2,311 | 6% |
| Advertising and media | 311 | 302 | 3% | 860 | 858 | —% |
| Vrbo | 467 | 410 | 14% | 1,081 | 941 | 15% |
| Total revenue | \$ 3,558 | \$ 3,276 | 9% | \$ 9,320 | \$ 8,664 | 8% |

Merchant revenue increased for the three and nine months ended September 30, 2019, compared to the same periods in 2018, primarily due to the increase in merchant hotel revenue driven by an increase in room nights stayed.

Agency revenue increased for the three and nine months ended September 30, 2019, compared to the same periods in 2018, primarily due to the growth in agency hotel as well as air for the nine months ended September 30, 2019.

Vrbo revenue increased for the three and nine months ended September 30, 2019, compared to the same periods in 2018, primarily due to growth in transactional revenue of approximately 20% for both periods, partially offset by a decrease of subscription revenue for both periods.

Cost of Revenue

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|------------------------------|----------------------------------|--------|----------|---------------------------------|----------|----------|
| | 2019 | 2018 | % Change | 2019 | 2018 | % Change |
| | (\$ in millions) | | | (\$ in millions) | | |
| Customer operations | \$ 245 | \$ 229 | 7 % | \$ 718 | \$ 676 | 6 % |
| Credit card processing | 133 | 136 | (3)% | 393 | 394 | — % |
| Data center, cloud and other | 191 | 139 | 38 % | 493 | 419 | 18 % |
| Total cost of revenue | \$ 569 | \$ 504 | 13 % | \$ 1,604 | \$ 1,489 | 8 % |
| % of revenue | 16.0% | 15.4% | | 17.2% | 17.2% | |

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, certain transactional level taxes, costs related to Bodybuilding.com and stock-based compensation.

During the three and nine months ended September 30, 2019, the increase in cost of revenue expense, compared to the same periods in 2018, was driven by \$52 million and \$74 million of higher data center, cloud and other costs primarily due to higher cloud expense, an inorganic impact related to the Bodybuilding.com acquisition and the newly enacted French digital service tax, as well as \$16 million and \$42 million of higher customer operations expenses. Cloud expense in cost of revenue during the three and nine months ended September 30, 2019 was \$46 million and \$115 million, compared to \$22 million and \$67 million for the same periods of 2018.

Selling and Marketing

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|-----------------------------|----------------------------------|----------|----------|---------------------------------|----------|----------|
| | 2019 | 2018 | % Change | 2019 | 2018 | % Change |
| | (\$ in millions) | | | (\$ in millions) | | |
| Direct costs | \$ 1,397 | \$ 1,228 | 14 % | \$ 4,041 | \$ 3,731 | 8 % |
| Indirect costs | 263 | 273 | (4)% | 811 | 827 | (2)% |
| Total selling and marketing | \$ 1,660 | \$ 1,501 | 11 % | \$ 4,852 | \$ 4,558 | 6 % |
| % of revenue | 46.7% | 45.8% | | 52.1% | 52.6% | |

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 \$159 million and \$294 million during the three and nine months ended September 30, 2019, compared to the same periods in 2018, due to higher direct costs of \$169 million and \$310 million as a result of increases at Expedia Partner Solutions as well as at Hotels.com and Vrbo, in part due to a mix shift to high cost marketing channels. The increase in direct costs for nine months ended September 30, 2019 was also impacted by an increase at Brand Expedia, which was partially offset by a decrease at trivago.

Technology and Content

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|--|----------------------------------|--------|----------|---------------------------------|----------|----------|
| | 2019 | 2018 | % Change | 2019 | 2018 | % Change |
| | (\$ in millions) | | | (\$ in millions) | | |
| Personnel and overhead | \$ 209 | \$ 197 | 6% | \$ 634 | \$ 599 | 6% |
| Depreciation and amortization of technology assets | 136 | 127 | 7% | 399 | 370 | 8% |
| Other | 95 | 80 | 19% | 271 | 231 | 17% |
| Total technology and content | \$ 440 | \$ 404 | 9% | \$ 1,304 | \$ 1,200 | 9% |
| % of revenue | 12.4% | 12.3% | | 14.0% | 13.8% | |

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 \$36 million and \$104 million during the three and nine months ended September 30, 2019, compared to the same periods in 2018, primarily due to higher personnel and overhead of \$12 million and \$35 million to support our product and technology initiatives, higher depreciation and amortization of technology assets of \$9 million and \$29 million as well as higher licensing and maintenance expenses and cloud expenses for both periods. Cloud expense in technology and content during the three and nine months ended September 30, 2019 was \$18 million and \$46 million, compared to \$11 million and \$36 million in the same periods of 2018.

General and Administrative

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|----------------------------------|----------------------------------|--------|----------|---------------------------------|--------|----------|
| | 2019 | 2018 | % Change | 2019 | 2018 | % Change |
| | (\$ in millions) | | | (\$ in millions) | | |
| Personnel and overhead | \$ 127 | \$ 128 | — % | \$ 381 | \$ 383 | — % |
| Professional fees and other | 90 | 74 | 21 % | 241 | 214 | 13 % |
| Total general and administrative | \$ 217 | \$ 202 | 7 % | \$ 622 | \$ 597 | 4 % |
| % of revenue | 6.1% | 6.1% | | 6.7% | 6.9% | |

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 \$15 million and \$25 million during the three and nine months ended September 30, 2019, compared to the same periods in 2018, primarily driven by higher professional fees, in addition to an inorganic impact related to Bodybuilding.com.

Amortization of Intangible Assets

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|-----------------------------------|----------------------------------|-------|----------|---------------------------------|--------|----------|
| | 2019 | 2018 | % Change | 2019 | 2018 | % Change |
| | (\$ in millions) | | | (\$ in millions) | | |
| Amortization of intangible assets | \$ 50 | \$ 71 | (30)% | \$ 154 | \$ 215 | (29)% |

Amortization of intangible assets decreased \$21 million and \$61 million during the three and nine months ended September 30, 2019, compared to the same periods in 2018 primarily due to the completion of amortization related to certain intangible assets.

Impairment of Goodwill

During the nine months ended September 30, 2018, we recognized a goodwill impairment charge of \$61 million related to a reporting unit within our Core OTA segment. See Note 3 – Fair Value Measurements for further information.

Legal Reserves, Occupancy Tax and Other

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|----------------------------------|---------|----------|---------------------------------|---------|----------|
| | 2019 | 2018 | % Change | 2019 | 2018 | % Change |
| | (\$ in millions) | | | (\$ in millions) | | |
| Legal reserves, occupancy tax and other | \$ 11 | \$ (78) | N/A | \$ 25 | \$ (74) | N/A |
| % of revenue | 0.3% | (2.4)% | | 0.3% | (0.8)% | |

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 and other 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.

During the nine months ended September 30, 2019, we received a \$10 million refund of prepaid pay-to-play amounts from the State of Hawaii in connection with the general excise tax litigation resulting in a corresponding benefit during the period, which nets down increases in reserves for occupancy tax and other matters.

During the three and nine months ended September 30, 2018, we received a refund of prepaid pay-to-play payments of \$78 million from the City of San Francisco and recorded a related gain in legal reserves, occupancy tax and other.

Restructuring and Related Reorganization Charges

In connection with the centralization and migration of certain operational functions and systems, we recognized \$2 million and \$16 million in restructuring and related reorganization charges during the three and nine months ended September 30, 2019 primarily related to severance and benefits. Based on current plans, which are subject to change, we expect total reorganization charges in 2019 of up to \$25 million. These costs could be higher or lower should we make additional decisions in future periods that impact our reorganization efforts and exclude any possible future acquisition, or other, integrations.

Operating Income

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|------------------|----------------------------------|--------|----------|---------------------------------|--------|----------|
| | 2019 | 2018 | % Change | 2019 | 2018 | % Change |
| | (\$ in millions) | | | (\$ in millions) | | |
| Operating income | \$ 609 | \$ 672 | (9)% | \$ 743 | \$ 618 | 20% |
| % of revenue | 17.1% | 20.5% | | 8.0% | 7.1% | |

Operating income decreased for the three months ended September 30, 2019, compared to the same period in 2018 primarily due to the \$78 million gain recognized related to the San Francisco pay-to-play during 2018, partially offset by lower amortization of intangibles in the current year. Operating income increased for the nine months ended September 30, 2019, compared to the same period in 2018, due to a growth in revenue in excess of operating costs, partially offset by the prior year pay-to-play gain related to San Francisco.

Adjusted EBITDA by Segment

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|----------------------------------|--------|----------|---------------------------------|----------|----------|
| | 2019 | 2018 | % Change | 2019 | 2018 | % Change |
| | (\$ in millions) | | | (\$ in millions) | | |
| Core OTA | \$ 865 | \$ 837 | 3 % | \$ 1,832 | \$ 1,721 | 6 % |
| trivago | 12 | 31 | (60)% | 56 | (17) | N/A |
| Vrbo | 215 | 209 | 3 % | 259 | 266 | (2)% |
| Egencia | 19 | 19 | (1)% | 85 | 76 | 12 % |
| Unallocated overhead costs (Corporate) ⁽¹⁾ | (199) | (184) | 8 % | (576) | (547) | 5 % |
| Total Adjusted EBITDA ⁽²⁾ | \$ 912 | \$ 912 | — % | \$ 1,656 | \$ 1,499 | 10 % |

(1) Includes immaterial operating results of Bodybuilding.com subsequent to our acquisition on July 26, 2019.

(2) Adjusted EBITDA is a non-GAAP measure. See “Definition and Reconciliation of Adjusted EBITDA” below for more information.

Adjusted EBITDA is our primary segment operating metric. See Note 13 – Segment Information in the notes to the consolidated financial statements for additional information on intersegment transactions, unallocated overhead costs and for a reconciliation of Adjusted EBITDA by segment to net income (loss) attributable to Expedia Group, Inc. for the periods presented above.

Core OTA Adjusted EBITDA increased \$28 million and \$111 million during the three and nine months ended September 30, 2019, compared to the same periods in 2018, primarily due to an increase of \$205 million and \$543 million in revenue, partially offset by higher operating expenses, including an increase in direct sales and marketing expense.

trivago's Adjusted EBITDA was \$12 million during the three months ended September 30, 2019, compared to Adjusted EBITDA of \$31 million for the same period in 2018, with the decrease due to continued revenue declines. During the nine months ended September 30, 2019, trivago's Adjusted EBITDA was \$56 million, compared to an Adjusted EBITDA loss of \$17 million for the same period in 2018, with the increase resulting from its marketing rationalization efforts that began late in the second quarter of 2018, which focused on improved profitability and reducing operating expenditures.

Vrbo Adjusted EBITDA increased \$6 million during the three months ended September 30, 2019, compared to the same period in 2018, due to an increase of \$57 million in revenue, partially offset by higher operating expenses mainly related to investments in performance and brand marketing. Vrbo Adjusted EBITDA for the nine months ended September 30, 2019 decreased 2%, compared to the same period in 2018, as higher operating expenses mainly related to investments in direct marketing were mostly offset by the increase in revenue.

Egencia Adjusted EBITDA for the three months ended September 30, 2019 was consistent with the same period in 2018. For the nine months ended September 30, 2019, Egencia Adjusted EBITDA increased \$9 million compared to the same period in 2018, as a result of growth in revenue as well as leverage on operating expenses.

Unallocated overhead costs increased \$15 million and \$29 million during the three and nine months ended September 30, 2019, compared to the same periods in 2018, primarily due to higher general and administrative expenses and technology expenses.

Interest Income and Expense

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|------------------|----------------------------------|-------|----------|---------------------------------|-------|----------|
| | 2019 | 2018 | % Change | 2019 | 2018 | % Change |
| | (\$ in millions) | | | (\$ in millions) | | |
| Interest income | \$ 17 | \$ 34 | (49)% | \$ 45 | \$ 61 | (27)% |
| Interest expense | (40) | (47) | (15)% | (120) | (149) | (19)% |

Interest income decreased for the three and nine months ended September 30, 2019, compared to the same periods in 2018, as a result of the interest income recognized in 2018 on the San Francisco pay-to-play refund mentioned above of \$19 million. Interest expense decreased for the three and nine months ended September 30, 2019, compared to the same periods in 2018, as a result of the August 2018 maturity of our \$500 million senior unsecured notes.

Other, Net

Other, net is comprised of the following:

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|----------------------------------|---------|---------------------------------|----------|
| | 2019 | 2018 | 2019 | 2018 |
| | (\$ in millions) | | | |
| Foreign exchange rate gains (losses), net | \$ (2) | \$ (6) | \$ (14) | \$ 1 |
| Losses on minority equity investments, net | (25) | (39) | (13) | (100) |
| Other | 2 | (2) | 14 | (2) |
| Total other, net | \$ (25) | \$ (47) | \$ (13) | \$ (101) |

Provision for Income Taxes

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|----------------------------|----------------------------------|-------|----------|---------------------------------|-------|----------|
| | 2019 | 2018 | % Change | 2019 | 2018 | % Change |
| | (\$ in millions) | | | (\$ in millions) | | |
| Provision for income taxes | \$ 154 | \$ 81 | 89% | \$ 161 | \$ 56 | 186% |
| Effective tax rate | 27.4% | 13.3% | | 24.5% | 13.1% | |

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 effective tax rate in the interim period in which the change occurs, including discrete tax items.

For the three months ended September 30, 2019, the effective tax rate was 27.4% expense on pre-tax income, compared to 13.3% expense on pre-tax income for the three months ended September 30, 2018. For the nine months ended September 30, 2019, the effective tax rate was 24.5% expense on pre-tax income, compared to 13.1% expense on pre-tax income for the nine months ended September 30, 2018. The increase in the effective tax rate for both periods was primarily driven by an increase in U.S. federal and state taxable income.

We are subject to taxation in the United States and various other state and foreign jurisdictions. During 2017, the Internal Revenue Service (“IRS”) issued proposed adjustments related to transfer pricing with our foreign subsidiaries for our 2009 to 2010 audit cycle. On July 12, 2019, we settled the audit for an immaterial impact to the consolidated financial statements. In addition, we are under examination by the IRS for our 2011 through 2013 tax years. During the fourth quarter of 2019, the IRS issued final adjustments related to transfer pricing with our foreign subsidiaries for our 2011 to 2013 audit cycle. The proposed adjustments would increase our U.S. taxable income by \$696 million, which would result in federal tax of approximately \$244 million subject to interest. We do not agree with the proposed adjustments and are formally protesting the IRS position. 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.

Definition and Reconciliation of Adjusted EBITDA

We report Adjusted EBITDA as a supplemental measure to U.S. generally accepted accounting principles (“GAAP”). Adjusted EBITDA is among the primary metrics by which management evaluates the performance of the business and on which internal budgets are based. Management believes that investors should have access to the same set of tools that management uses to analyze our results. This non-GAAP measure should be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for or superior to GAAP. Adjusted EBITDA has certain limitations in that it does not take into account the impact of certain expenses to our consolidated statements of operations. We endeavor to compensate for the limitation of the non-GAAP measure presented by also providing the most directly comparable GAAP measure and a description of the reconciling items and adjustments to derive the non-GAAP measure. Adjusted EBITDA also excludes certain items related to transactional tax matters, which may ultimately be settled in cash, and we urge investors to review the detailed disclosure regarding these matters included above, in the Legal Proceedings section, as well as the notes to the financial statements. The non-GAAP financial measure used by the Company may be calculated differently from, and therefore may not be comparable to, similarly titled measures used by other companies.

Adjusted EBITDA is defined as net income (loss) attributable to Expedia Group adjusted for (1) net income (loss) attributable to non-controlling interests; (2) provision for income taxes; (3) total other expenses, net; (4) stock-based compensation expense, including compensation expense related to certain subsidiary equity plans; (5) acquisition-related impacts, including (i) amortization of intangible assets and goodwill and intangible asset impairment, (ii) gains (losses) recognized on changes in the value of contingent consideration arrangements, if any, and (iii) upfront consideration paid to settle employee compensation plans of the acquiree, if any; (6) certain other items, including restructuring; (7) items included in legal reserves, occupancy tax and other; (8) that portion of gains (losses) on revenue hedging activities that are included in other, net that relate to revenue recognized in the period; and (9) depreciation.

The above items are excluded from our Adjusted EBITDA measure because these items are noncash in nature, or because the amount and timing of these items is unpredictable, not driven by core operating results and renders comparisons with prior periods and competitors less meaningful. We believe Adjusted EBITDA is a useful measure for analysts and investors to evaluate our future on-going performance as this measure allows a more meaningful comparison of our performance and projected cash earnings with our historical results from prior periods and to the results of our competitors. Moreover, our management uses this measure internally to evaluate the performance of our business as a whole and our individual business segments. In addition, we believe that by excluding certain items, such as stock-based compensation and acquisition-related impacts, Adjusted EBITDA corresponds more closely to the cash operating income generated from our business and allows investors to gain an understanding of the factors and trends affecting the ongoing cash earnings capabilities of our business, from which capital investments are made and debt is serviced.

The reconciliation of net income attributable to Expedia Group, Inc. to Adjusted EBITDA is as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|----------------------------------|--------|---------------------------------|----------|
| | 2019 | 2018 | 2019 | 2018 |
| | (In millions) | | | |
| Net income attributable to Expedia Group, Inc. | \$ 409 | \$ 525 | \$ 489 | \$ 389 |
| Net income (loss) attributable to non-controlling interests | (2) | 6 | 5 | (16) |
| Provision for income taxes | 154 | 81 | 161 | 56 |
| Total other expense, net | 48 | 60 | 88 | 189 |
| Operating income | 609 | 672 | 743 | 618 |
| Gain (loss) on revenue hedges related to revenue recognized | 2 | 22 | 13 | 18 |
| Restructuring and related reorganization charges | 2 | — | 16 | — |
| Legal reserves, occupancy tax and other | 11 | (78) | 25 | (74) |
| Stock-based compensation | 60 | 54 | 175 | 154 |
| Amortization of intangible assets | 50 | 71 | 154 | 215 |
| Impairment of goodwill | — | — | — | 61 |
| Depreciation | 178 | 171 | 530 | 507 |
| Adjusted EBITDA | \$ 912 | \$ 912 | \$ 1,656 | \$ 1,499 |

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 \$4.5 billion and \$2.5 billion at September 30, 2019 and December 31, 2018, and our \$2 billion revolving credit facility, which is essentially untapped and expires in May 2023. The revolving credit facility bears interest based on the Company's credit ratings with the applicable interest rate on drawn amounts at LIBOR plus 112.5 basis points and the commitment fee on undrawn amounts at 15 basis points as of September 30, 2019.

As of September 30, 2019, the total cash and cash equivalents and short-term investments held outside the United States was \$844 million (\$619 million in wholly-owned foreign subsidiaries and \$225 million in majority-owned subsidiaries).

In September 2019, we privately placed \$1.25 billion of senior unsecured notes that are due in February 2030 and bear interest at 3.25% (the "3.25% Notes"). The 3.25% Notes were issued at 99.225% of par resulting in a discount, which is being amortized over their life. Interest is payable semi-annually in arrears in February and August of each year, beginning February 15, 2020. We used or expect to use the net proceeds of this offering for general corporate purposes, which may include, but are not limited to, the repayment, prepayment, redemption or repurchase of our indebtedness (including, but not limited to, our 5.95% senior notes due 2020) as well as working capital, capital expenditures and acquisitions.

Our credit ratings are periodically reviewed by rating agencies. As of September 30, 2019, Moody's rating was Baa3 with an outlook of "positive," which was upgraded during the third quarter of 2019 from Ba1 in connection with the closing of our acquisition of Liberty Expedia, 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 September 30, 2019, we were in compliance with the covenants and conditions in our revolving credit facility and outstanding debt, which was comprised of \$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%, \$750 million of registered senior unsecured notes due in February 2026 that bear interest at 5.0%, \$1 billion of registered senior unsecured notes due in February 2028 that bear interest at 3.8% and \$1.25 billion of senior unsecured notes due in February 2030 that bear interest at 3.25%.

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 Partner Solutions 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 Vrbo's continued shift to become the merchant of record on more of its transactions.

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 Vrbo alternative accommodations listing business, may counteract or intensify the anticipated seasonal fluctuations.

As of September 30, 2019, we had a deficit in our working capital of \$2.6 billion, which is comparable to the deficit of \$2.9 billion as of December 31, 2018.

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 our cloud computing expenses have increased and are expected to continue 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 2019 to increase over 2018 spending levels. For the new headquarters, we expect to spend approximately \$900 million. Of the total, approximately \$290 million was spent between 2016 and 2018, and approximately \$290 million was spent during the nine months ended September 30, 2019. During full year 2019 and 2020, we expect to spend \$380 to \$410 million and \$200 to \$230 million, respectively. However, the timing of spend could shift as we continue to progress toward completion of the project.

Our cash flows are as follows:

| | Nine months ended September 30, | | |
|--|---------------------------------|----------|-----------|
| | 2019 | 2018 | \$ Change |
| (In millions) | | | |
| Cash provided by (used in): | | | |
| Operating activities | \$ 2,426 | \$ 2,120 | \$ 306 |
| Investing activities | (1,429) | (655) | (774) |
| Financing activities | 607 | (1,154) | 1,761 |
| Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash and cash equivalents | (62) | (119) | 57 |

For the nine months ended September 30, 2019, net cash provided by operating activities increased by \$306 million primarily due to an increase in benefits from working capital changes driven mostly from a change in deferred merchant bookings as well as higher operating income after adjusting for impacts of depreciation and amortization.

For the nine months ended September 30, 2019, cash used in investing activities increased \$774 million due to higher net purchases of investments of \$626 million and higher current year capital expenditures, including amounts related to our new corporate headquarters.

For the nine months ended September 30, 2019, cash provided by financing activities primarily included \$1.235 billion of net proceeds for the issuance of the 3.25% Notes in September 2019 as well as \$277 million of proceeds from the exercise of options and employee stock purchase plans, partially offset by \$400 million payment of debt assumed in the Liberty Expedia transaction, cash dividend payments of \$145 million and cash paid to acquire shares of \$352 million, including the repurchased shares under the authorization discussed below as well as \$20 million for repurchases with respect to the Liberty Expedia

Holdings transaction. For the nine months ended September 30, 2018, cash used in financing activities primarily included cash paid to acquire shares of \$620 million, \$500 million long-term debt repayment, and \$138 million of cash dividend payments, partially offset by \$138 million of proceeds from the exercise of options and employee stock purchase plans.

During the nine months ended September 30, 2019 and September 30, 2018, we repurchased, through open market transactions, 2.3 million and 5.2 million shares under share authorizations for a total cost of \$300 million and \$602 million, excluding transaction costs. As of September 30, 2019, there were approximately 9.9 million shares remaining under an April 2018 authorization. There is no fixed termination date for the repurchases. Subsequent to the end of the third quarter of 2019, we repurchased an additional 0.9 million shares for a total cost of \$118 million, excluding transaction costs, representing an average purchase price of \$135.58 per share.

During the first nine months of 2019 and 2018, 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 millions) | Payment Date |
|---|--------------------|-----------------|----------------------------|--------------------|
| Nine Months Ended September 30, 2019 | | | | |
| February 6, 2019 | \$ 0.32 | March 7, 2019 | \$ 47 | March 27, 2019 |
| May 1, 2019 | 0.32 | May 23, 2019 | 48 | June 13, 2019 |
| July 24, 2019 | 0.34 | August 22, 2019 | 50 | September 12, 2019 |
| Nine Months Ended September 30, 2018 | | | | |
| February 7, 2018 | 0.30 | March 8, 2018 | 46 | March 28, 2018 |
| April 24, 2018 | 0.30 | May 24, 2018 | 45 | June 14, 2018 |
| July 23, 2018 | 0.32 | August 23, 2018 | 47 | September 13, 2018 |

In addition, in November 2019, the Executive Committee, acting on behalf of the Board of Directors, declared a quarterly cash dividend of \$0.34 per share of outstanding common stock payable on December 12, 2019 to stockholders of record as of the close of business on November 19, 2019. Future declarations of dividends are subject to final determination by our Board of Directors.

Foreign exchange rate changes resulted in a decrease of our cash and restricted cash balances denominated in foreign currency during the nine months ended September 30, 2019 of \$62 million reflecting a net depreciation in foreign currencies during the period, partially offset by higher foreign-denominated cash balances. Foreign exchange rate changes resulted in a decrease of our cash and restricted cash balances denominated in foreign currency during the nine months ended September 30, 2018 of \$119 million reflecting a net depreciation in foreign currencies during the 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, 2018. Other than our contractual obligations and commercial commitments, we did not have any off-balance sheet arrangements as of September 30, 2019 or December 31, 2018.

Certain Relationships and Related Party Transactions

For a discussion of certain relationships and related party transactions, see Note 11 – Liberty Expedia Holdings Transaction and Note 12 – Related Party Transactions in the notes to the consolidated financial statements.

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

Market Risk Management

There have been no material changes in our market risk during the three and nine months ended September 30, 2019. 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, 2018.

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 September 30, 2019 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 Group 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, 2018 and our Quarterly Reports on Form 10-Q for the quarter ended March 31, 2019 and June 30, 2019. The following are developments regarding, as applicable, such legal proceedings and/or new legal proceedings:

Litigation Relating to Occupancy and Other Taxes

City of San Antonio, Texas Litigation. On July 26, 2019, plaintiffs filed a notice of appeal from the district court’s decision awarding the defendants approximately \$2.25 million in reimbursable costs. That appeal remains pending.

State of Mississippi Litigation. On July 30, 2019, defendants filed a motion to stay further proceedings in the trial court, which the trial court denied on October 1, 2019. On August 28, 2019, the State filed an application for a permanent injunction, which the defendants will oppose. On October 4, 2019, defendants filed a motion to stay the trial court proceedings with the Mississippi Supreme Court pending disposition of defendants’ petition for interlocutory appeal; the State has opposed the motion, which remains pending.

Arizona Cities Litigation. On September 9, 2019, the Arizona Supreme Court issued a decision affirming in part and reversing in part the Arizona Court of Appeals’ decision and remanding the case back to the tax court for further proceedings.

State of Louisiana/City of New Orleans Litigation. On August 23, 2019, the City of Baton Rouge and the Parish of East Baton Rouge filed a petition to intervene in the lawsuit, which the court granted on September 9, 2019. On August 27, 2019, a Special Master was assigned to the case.

Colorado Department of Revenue Tax Litigation. The parties have reached a tentative settlement agreement.

Non-Tax Litigation and Other Legal Proceedings

Putative Class Action Litigation

Israeli Putative Class Action Lawsuit (Silis). The plaintiff has filed a motion for class certification which Hotels.com will oppose.

Israeli Putative Class Action Lawsuit (Ze’ev). The plaintiff has filed a motion for class certification which defendants will oppose. The court has scheduled a hearing on the motion for May 6, 2020.

Cases against HomeAway.com, Inc. The district court heard argument on the plaintiffs’ motion for class certification on October 16, 2019, and the parties await a ruling.

Other Legal Proceedings

Santa Monica, California Litigation. HomeAway filed a petition for rehearing/rehearing en banc of the United States Ninth Circuit Court of Appeals’ decision affirming the trial court’s dismissal of HomeAway’s claims. The Ninth Circuit denied that petition on August 16, 2019, thereby ending the case.

Palm Beach County, Florida Litigation (Ordinance Regulatory Amendments Challenge). On September 16, 2019, the parties filed a Stipulation of Dismissal and Settlement, which the court signed on September 18, 2019, thereby ending the case.

Ryanair Lawsuit (Ireland). The parties reached a settlement agreement and the case was dismissed on August 13, 2019.

Ryanair Lawsuit (United States). The parties reached a settlement agreement and the case was dismissed on August 9, 2019.

IBM Lawsuit. The parties reached a settlement agreement and the pending Delaware and Arizona cases were dismissed on October 7, 2019 and October 2, 2019, respectively.

Fee Disclosure Class Actions. On July 26, 2019, Plaintiff voluntarily dismissed the remaining claims in the *Woodell* case, thereby ending the matter.

United Airlines Litigation. On September 17, 2019, the parties filed a stipulation to dismiss the action with prejudice, thereby ending the matter.

In re Expedia Group, Inc. Stockholders Litigation, On August 12, 2019, the Delaware Court of Chancery granted a stipulated motion consolidating three lawsuits that had been filed by Expedia shareholders in the Delaware Court of Chancery in connection with the Company’s acquisition of Liberty Expedia Holdings, Inc. (“LEXE”): (1) *Teamsters Union Local No.*

142 Pension Fund v. Barry Diller, et. al.; (2) *Plaut v. Diller, et al.*; and (3) *Steamfitters local 449 Pension Plan v. Diller et al.* These actions asserted, among other things, direct and derivative claims against all current and one former member of the Company's board of directors and the Company alleging that the individual defendants violated their fiduciary duties by wrongfully causing the Company to enter into certain agreements with the Company's Executive Chairman, in connection with the Company's acquisition of LEXE on July 26, 2019. On September 20, 2019, the court appointed a lead plaintiff and its counsel, and ordered the filing of a consolidated amended complaint. In October 2019, plaintiffs filed a consolidated amended complaint.

Competition and Consumer Matters

For a discussion of certain competition and consumer protection matters see Note 10 – Commitments and Contingencies - Legal Proceedings - Competition and Consumer Matters 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, 2018, which could materially affect our business, financial condition or future results. These 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

In April 2018, the Executive Committee, acting on behalf of the Board of Directors, authorized a repurchase of up to 15 million shares of our common stock. A summary of the repurchase activity for the third quarter of 2019 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, except per share data) | | | | |
| July 1-31, 2019 | — | \$ — | — | 12,223 |
| August 1-31, 2019 | 1,128 | 128.80 | 1,128 | 11,095 |
| September 1-30, 2019 | 1,173 | 131.74 | 1,173 | 9,922 |
| Total | <u>2,301</u> | | <u>2,301</u> | |

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 |
| 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 September 30, 2019, formatted in XBRL: (i) Consolidated Statements of Operations, (ii) Consolidated Statements of Comprehensive Income (Loss), (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Changes in Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) 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.

November 6, 2019

Expedia Group, Inc.

By: _____ /s/ Alan Pickerill

Alan Pickerill
Chief Financial Officer

Certification

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

1. I have reviewed this quarterly report on Form 10-Q of Expedia Group, 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: November 6, 2019

/s/ BARRY DILLER

Barry Diller

Chairman and Senior Executive

Certification

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

1. I have reviewed this quarterly report on Form 10-Q of Expedia Group, 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: November 6, 2019

/s/ MARK D. OKERSTROM

Mark D. Okerstrom

Chief Executive Officer

Certification

I, Alan Pickerill, Chief Financial Officer of Expedia Group, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Expedia Group, 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: November 6, 2019

/s/ ALAN PICKERILL

Alan Pickerill

Chief Financial Officer

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

I, Barry Diller, Chairman and Senior Executive of Expedia Group, 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 September 30, 2019 (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: November 6, 2019

/s/ BARRY DILLER

Barry Diller

Chairman and Senior Executive

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

I, Mark D. Okerstrom, Chief Executive Officer of Expedia Group, 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 September 30, 2019 (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: November 6, 2019

/s/ MARK D. OKERSTROM

Mark D. Okerstrom

Chief Executive Officer

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

I, Alan Pickerill, Chief Financial Officer of Expedia Group, 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 September 30, 2019 (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: November 6, 2019

/s/ ALAN PICKERILL

Alan Pickerill

Chief Financial Officer