

Expedia, Inc.
Form 10-K
February 10, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016

OR

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

For the transition period from _____ to _____
Commission file number: 001-37429

EXPEDIA, INC.

(Exact name of registrant as specified in its charter)

Delaware 20-2705720

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

333 108th Avenue NE

Bellevue, WA 98004

(Address of principal executive office) (Zip Code)

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

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

Title of each class:	Name of each exchange on which registered:
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Common stock, \$0.0001 par value	The Nasdaq Global Select Market
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Expedia, Inc. 2.500% Senior Notes due 2022	New York Stock Exchange
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Securities registered pursuant to Section 12(g) of the Act:

None

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

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

As of June 30, 2016, the aggregate market value of the registrant's common equity held by non-affiliates was approximately \$12,722,607,000. For the purpose of the foregoing calculation only, all directors and executive officers of the registrant are assumed to be affiliates of the registrant.

Class	Outstanding Shares at January 27, 2017 were approximately,
Common stock, \$0.0001 par value per share	137,008,389 shares
Class B common stock, \$0.0001 par value per share	12,799,999 shares

Documents Incorporated by Reference

Document	Parts Into Which Incorporated
Portions of the definitive Proxy Statement for the 2017 Annual Meeting of Stockholders (Proxy Statement)	Part III

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Expedia, Inc.

Form 10-K

For the Year Ended December 31, 2016

Part I. Item 1. Business

We refer to Expedia, Inc. and its subsidiaries collectively as “Expedia,” the “Company,” “us,” “we” and “our” in this Annual Report on Form 10-K.

Forward-Looking Statements

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

Management Overview

General Description of our Business

Expedia, Inc. is an online travel company, empowering business and leisure travelers through technology with the tools and information they need to efficiently research, plan, book and experience travel. We seek to grow our business through a dynamic portfolio of travel brands, including our majority-owned subsidiaries that feature the world’s broadest supply portfolio — including more than 350,000 properties and over 1.2 million online bookable vacation rental listings in 200 countries, over 500 airlines, packages, rental cars, cruises, as well as destination services and activities. Travel suppliers distribute and market products via our desktop and mobile offerings, as well as through alternative distribution channels including social media, our private label business and our call centers in order to reach our extensive, global audience. In addition, our advertising and media businesses help other businesses, primarily travel providers, reach a large audience of travelers around the globe.

Our portfolio of brands includes:

• Expedia.com®, a leading full service online travel company with localized sites in 33 countries;

• Hotels.com®, a global lodging expert operating 89 localized websites in 39 languages with its award winning

Hotels.com® Rewards loyalty program;

• Orbitz Worldwide, including leading U.S. travel websites Orbitz.com and CheapTickets.com, as well as ebookers, a full service travel brand with websites in seven European countries;

• Expedia® Affiliate Network (“EAN”), a global B2B brand that powers the hotel business of leading airlines, top consumer brands, online travel agencies and thousands of other partners through its API and template solutions;

• trivago®, a leading online hotel metasearch platform with sites in 55 countries worldwide;

• HomeAway®, a global online marketplace for the vacation rental industry, which also includes the VRBO, VacationRentals.com and BedandBreakfast.com brands, among others;

• Egencia®, a leading corporate travel management company;

Travelocity®, a leading online travel brand in the U.S. and Canada delivering customer service when and where our customers need it with the Customer 1st Guarantee;

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Hotwire®, inspiring spontaneous travel through Hot Rate® deals;

Expedia® Media Solutions, the advertising sales division of Expedia, Inc. that builds media partnerships and enables brand advertisers to target a highly-qualified audience of travel consumers;

Wotif Group, a leading portfolio of travel brands including Wotif.com®, Wotif.co.nz, lastminute.com.au®, lastminute.co.nz and travel.com.au®;

Classic Vacations®, a top luxury travel specialist;

CarRentals.com,™ a premier online car rental booking company with localized sites in 13 countries;

Expedia Local Expert®, a provider of online and in-market concierge services, activities, experiences and ground transportation in over a thousand destinations worldwide; and

Expedia® CruiseShipCenters®, a provider of exceptional value and expert advice for travelers booking cruises and vacations through its network of over 230 retail travel agency franchises across North America.

Summary of the Spin-Off from IAC/InterActiveCorp

On August 9, 2005, IAC/InterActiveCorp (“IAC”) completed the spin-off of substantially all of its travel and travel-related businesses by way of the distribution of all outstanding shares of Expedia, Inc., a newly-formed Delaware corporation, to IAC stockholders. Upon completion of the spin-off from IAC, Expedia shares began trading on The Nasdaq Global Select Market under the symbol “EXPE.”

Summary of the Spin-Off of TripAdvisor, Inc.

On December 20, 2011, following the close of trading on the Nasdaq Stock Market, Expedia completed the spin-off of TripAdvisor, Inc. (“TripAdvisor”), a Delaware corporation, to Expedia stockholders. TripAdvisor consists of the domestic and international operations previously associated with Expedia’s TripAdvisor Media Group and is now a separately traded public company, trading under the symbol “TRIP” on The Nasdaq Global Select Market. Expedia continues to own and operate our remaining businesses — the domestic and international operations of our travel transaction brands — as a separately traded public company, trading under the symbol “EXPE” on The Nasdaq Global Select Market.

Equity Ownership and Voting Control

As of December 31, 2016, there were 137,232,450 shares of Expedia common stock and 12,799,999 shares of Expedia Class B common stock outstanding. Expedia stockholders are entitled to one vote for each share of common stock and ten votes for each share of Class B common stock outstanding. As of December 31, 2016, Liberty Expedia Holdings, Inc. (“Liberty Expedia Holdings”), through its wholly-owned subsidiaries, held approximately 8% of Expedia’s outstanding common stock and 100% of Expedia’s outstanding Class B common stock (or, assuming conversion of all shares of Class B common stock into shares of common stock, held 16% of Expedia’s outstanding common stock).

Barry Diller, Chairman and Senior Executive of Expedia holds an irrevocable proxy granted by Liberty Expedia Holdings, pursuant to which Mr. Diller has the right to vote the Expedia securities held by Liberty Expedia Holdings and its subsidiaries (the “Diller Proxy”), which proxy has been assigned by Mr. Diller to Liberty Expedia Holdings until the earlier of May 4, 2018 or the occurrence of certain termination events. As of December 31, 2016, as a result of their agreements and respective holdings in Expedia, Mr. Diller and Liberty Expedia Holdings may be deemed to share voting power over securities representing approximately 54% of the combined voting power of the outstanding Expedia capital stock.

By virtue of the voting power of an irrevocable proxy granted to Mr. Diller by John C. Malone and Leslie Malone over their shares in Liberty Expedia Holdings and the governance arrangements at Liberty Expedia Holdings, during the period the assignment of the Diller Proxy and the proxy granted him by the Malones are in effect, Mr. Diller is effectively able to control the outcome of nearly all matters submitted to a vote or for the consent of Expedia’s stockholders (other than with respect to the election by the Expedia common stockholders of 25% of the members of Expedia’s Board of Directors and certain matters as to which a separate class vote of the holders of Expedia common stock or Expedia preferred stock is required under Delaware law). Upon the termination or expiration of the assignment of the Diller Proxy (unless the Diller Proxy itself has terminated), Mr. Diller will continue to be able to control the outcome of such matters. In addition, pursuant to the Amended and Restated Governance Agreement, dated as of December 20, 2011, as amended, among Expedia, Liberty Expedia Holdings and Mr. Diller, each of Mr. Diller and Liberty Expedia Holdings generally has the right to consent to certain significant corporate actions in

the event that Expedia or any of its subsidiaries incurs any new obligations for borrowed money within the definition of “total debt” set forth in the Governance Agreement for as long as Expedia’s ratio of total debt to EBITDA, as defined therein, equals or exceeds eight to one.

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Market Opportunity & Business Strategy

Expedia is the world's largest online travel company, yet our gross bookings represent only about 6% of total worldwide travel spending. Phocuswright estimates global travel spending at approximately \$1.3 trillion in 2016, with an increasing share booked through online channels each year. We have built, and continue to build, a broad and deep supply portfolio which today includes more than 350,000 properties, over 500 airlines and numerous car rental companies, cruise companies and other travel suppliers, as well as more than 1.2 million online bookable vacation rental properties.

We are focused on revolutionizing travel through the power of technology. We believe the strength of our brand portfolio as well as our enhanced product offerings and new channel penetration drives customer demand, which when combined with our global scale and broad based supply, give us a unique advantage in addressing the ongoing migration of travel bookings from offline to online around the world. With our unmatched global audience of travelers, and our deep and broad selection of travel products, there is a rich interplay between supply and demand in our global marketplace that helps us provide value to both travelers planning trips and supply partners wanting to grow their business through a better understanding of travel retailing and consumer demand in addition to reaching consumers in markets beyond their reach. Our primary growth drivers are technology and product innovation, global expansion, and new channel penetration.

Portfolio of Brands

Expedia operates a strong brand portfolio with global reach, targeting a broad range of travelers, travel suppliers and advertisers. We know that consumers typically visit multiple travel sites prior to booking travel, and having a multi-brand strategy increases the likelihood that those consumers will visit one or more of our sites. We also market to consumers through a variety of channels, including internet search and metasearch sites, and having multiple brands appear in search results also increases the likelihood of attracting visitors. Our brands tailor their product offerings and websites to particular traveler demographics. For example, Hotwire finds deep discount deals for the budget-minded travel shopper while our Classic Vacations brand targets high-end, luxury travelers. Brand Expedia spans the widest swath of potential customers with travel options across a broad value spectrum, while our Hotels.com brand focuses specifically on a hotel only product offering.

We organize our company around key platforms. Brand Expedia Group consists of our multi-product brands, including Brand Expedia, Orbitz, Travelocity, Wotif Group and Expedia Local Expert. In addition, our Hotwire brand also offers consumers reservations for hotels, airline tickets and rental cars.

Brand Expedia. A leading full-service online travel brand with localized sites in 33 countries offering a wide selection of travel products and services. Through award-winning mobile apps and Expedia-branded websites, travelers have access to the latest technology that delivers airline tickets, lodging, car rentals, rail, cruises, insurance and many things to do - such as airport transfers, activities and tours - from hundreds of thousands of suppliers, on both a standalone and package basis. Across the more than 20 years that Expedia has been helping people travel with confidence and ease, the company has learned that travelers benefit when Expedia continually improves and optimizes its offering, to ensure that travelers the world over can book the trip they need, in the manner they choose, at any point and save. That commitment has propelled Expedia to a leadership position within travel, and ensures that Expedia can continue to help millions of travelers experience the world.

Orbitz. In September 2015, we acquired Orbitz Worldwide, Inc., including all of its brands and assets. Orbitz Worldwide is a travel portfolio including Orbitz.com, CheapTickets.com and ebookers.

Travelocity. After entering into an exclusive, long-term strategic marketing agreement with Travelocity during the third quarter of 2013, under which Brand Expedia powered the technology platform, supply and customer service for Travelocity's existing websites in the United States and Canada, we announced in January 2015 that we had acquired the Travelocity brand and associated assets from Sabre Corporation ("Sabre") and had terminated the strategic marketing and other related agreements. A pioneer in the online travel industry, Travelocity celebrated its 20th anniversary in 2016. Travelocity and its famous Roaming Gnome encourage travelers in the United States and Canada to "Wander Wisely™".

Wotif Group. In November 2014, we completed the acquisition of Wotif Group, a leading Australian online travel company, comprised of the Wotif.com, lastminute.com.au and travel.com.au brands in Australia, and Wotif.co.nz and

lastminute.co.nz in New Zealand. Wotif.com launched in 2000, and was listed on the Australian Securities Exchange in June 2006 as Wotif.com Holdings Limited, under the ASX code “WTF,” prior to being acquired by Expedia. Expedia Local Expert. Our Expedia Local Expert network offers online and in-market concierge services, activities, experiences, attractions and ground transportation. With access to a rich portfolio of over 25,000 tours and adventures, LX can be found on more than 60 Expedia, Inc. websites, and operates more than 100 concierge and activity desks in major resort destinations.

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Hotwire. Hotwire offers a travel booking service that matches flexible, value-oriented travelers with suppliers who have excess seats, rooms and cars they offer at lower rates than retail. Hotwire's Hot Rat® Hotels, Hot Rate® Cars and Hot Rate® Flights offer travelers an extra low price as the supplier name is not revealed until after the traveler books and pays. With Hotwire's unique model, suppliers create value from excess availability without diluting their core, brand-loyal traveler base. Hotwire partners with leading hotel companies worldwide, brand-name domestic and international airlines, and major car rental companies in the United States.

Our hotel-only platform includes Hotels.com Worldwide and Expedia Affiliate Network.

Hotels.com Worldwide. Hotels.com is focused entirely on marketing and distributing lodging accommodations. Hotels.com, with 89 localized sites worldwide in 39 languages worldwide and market leading mobile apps on all major platforms, offers travelers a broad selection of lodging options. Because of its single product offering, Hotels.com is often our first entry point into a region allowing us to evaluate the market opportunity prior to adding additional brands and product offerings. Hotels.com Rewards®, the loyalty program established in 2008, offers travelers the ability to earn one free night for every ten nights stayed.

Expedia Affiliate Network. EAN is the purely partner-focused arm of Expedia, Inc. EAN partners with businesses across a wide range of verticals including loyalty programs, airlines, travel agents and online retailers who remarket EAN's accommodation rates and availabilities to their travelers. Partners can access EAN accommodations in the way that best suits their business, whether that is a fully customizable environment through EAN's API or an 'off-the-shelf,' white-label or co-branded template solution offering.

Egencia. Our full-service travel management company offers travel products and services to businesses and their corporate travelers. Egencia maintains a global presence in more than 65 countries across North America, Europe and Asia Pacific. Egencia provides, among other things, a global technology platform coupled with local telephone assistance with expert travel consultants, unique supply targeted at business travelers, and consolidated reporting for its clients. Egencia charges its corporate clients account management fees, as well as transactional fees for various contacts made as part of the travel process. In addition, Egencia provides on-site agents to some corporate clients to provide in-house, seamless support. Egencia also offers consulting and meeting management services as well as advertising opportunities. We believe the corporate travel sector represents a significant opportunity for Expedia through Egencia's compelling technology solution for businesses seeking to improve employees' travel experiences and optimize travel costs by moving the focus of the corporate travel program to online and mobile services versus the traditional call center approach.

HomeAway. In December 2015, we acquired HomeAway, which operates an online marketplace for the vacation rental industry. The HomeAway portfolio includes the vacation rental websites HomeAway.com, VRBO.com and VacationRentals.com in the United States; HomeAway.co.uk and OwnersDirect.co.uk in the United Kingdom; HomeAway.de in Germany; Abritel.fr and Homelidays.com in France; HomeAway.es and Toprural.es in Spain; AlugueTemporada.com.br in Brazil; HomeAway.com.au and Stayz.com.au in Australia; Bookabach.co.nz in New Zealand; and in Asia, HomeAway.asia. HomeAway also operates BedandBreakfast.com, a comprehensive global site for finding bed-and-breakfast properties. In addition to its online marketplace, HomeAway also offers software solutions to property managers through its HomeAway Software for Professionals and Glad to Have You products. trivago. trivago is our majority-owned hotel metasearch company, based in Dusseldorf, Germany, featuring price comparison from approximately 1.3 million hotels in over 190 countries. Officially launched in 2005, trivago is one of the best known brands globally for searching for hotels online and can be accessed worldwide via 55 localized websites and apps in 33 languages. Subsequent to its initial public offering ("IPO") in December 2016, the company is listed on the Nasdaq Global Select Market and trades under the symbol "TRVG."

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

Expedia CruiseShipCenters. Expedia CruiseShipCenters is a leading seller of cruises and vacations. The franchise company has over 230 retail locations across North America, a team of over 4,500 professionally-trained vacation

consultants and an inventory of more than 200,000 staterooms available to book online or in store. CarRentals.com. CarRentals.com is an online car rental marketing and retail firm offering a diverse selection of car rentals direct to consumers. Following our July 2014 acquisition of Auto Escape Group, one of Europe's leading online car rental reservation companies, the Auto Escape Group joined with the CarRentals.com brand. With CarRentals.com's

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international expansion, it is able to provide our customers more choices across the globe and help our supply partners expand their marketing reach.

Growth Strategy

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

Global Expansion. Our Expedia, Hotels.com, Egencia, and EAN brands operate both domestically and through international points of sale, including in Europe, Asia Pacific, Canada and Latin America. In addition, ebookers offers multi-product online reservation in Europe and Wotif Group includes a leading portfolio of travel brands, including Wotif.com, Wotif.co.nz, lastminute.com.au, lastminute.com.nz and travel.com.au. Egencia, our corporate travel business, operates in over 65 countries around the world and continues to expand, including its 2012 acquisition of VIA Travel. The HomeAway portfolio has over 50 vacation rental sites all around the world. We own a majority share of trivago, a leading hotel metasearch company. Officially launched in 2005, trivago is one of the best known travel brands in Europe and North America. trivago continues to operate independently and rapidly grow revenue through global expansion, including aggressive expansion in new countries. In addition, we have commercial agreements in place with Ctrip and eLong in China, as well as Decolar.com, Inc. in Latin America. In 2016, approximately 36% of our worldwide gross bookings and 43% of worldwide revenue were through international points of sale compared to just 21% for both worldwide gross bookings and revenue in 2005. We have a goal of generating at least 65% of our revenue through businesses and points of sale outside of the United States.

In July 2014, we completed the acquisition of Auto Escape Group, one of Europe's leading online car rental reservation companies. Auto Escape Group has joined with the CarRentals.com brand, allowing it to expand internationally to provide our customers more choices across the globe and help our supply partners expand their marketing reach.

In November 2014, we completed the acquisition of Wotif Group, an Australian online travel company. Wotif Group adds to our collection of travel's most trusted brands and enhances our supply in the Asia-Pacific region, while allowing Expedia to expose the Wotif Group to our world-class technology and its customers to our extensive global supply.

In January 2015, we acquired the Travelocity brand and other associated assets from Sabre. As a result of the acquisition, the strategic marketing agreement previously entered into during 2013, which joined Travelocity's strong brand with our best-in-class booking platform, supply base and customer service, was terminated. Evolving this relationship strengthens Expedia, Inc.'s ability to continue to innovate and deliver the best travel experiences to the widest set of travelers, all over the world.

In March 2015, we completed the acquisition of an additional 25% equity interest of AAE Travel Pte. Ltd., the joint venture formed between Expedia and AirAsia Berhad in 2011. This investment increased our total ownership in the venture to 75% and we consider this business to be a key part of our Asia Pacific strategy. Following the close of the transaction in March 2015, the financial results of the AirAsia Expedia venture are included in Expedia's consolidated financial statements.

In March 2015, Expedia and Decolar.com, Inc., the Latin American online travel company that operates the Decolar.com and Despegar.com branded websites, announced that the two companies have expanded their partnership to include deeper cooperation on hotel supply and a minority equity investment by Expedia. Building on the commercial relationship the two companies have had since 2002, the expanded agreement broadens Expedia's powering of Decolar's hotel supply and introduces the opportunity for Decolar to provide Expedia access to its hotel supply in Latin America. The customers of both

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companies will benefit from the broad, shared selection of hotels, and hotel partners will gain increased access to travelers in Latin America and around the world.

In September 2015, we completed the acquisition of Orbitz Worldwide, a leading global portfolio of travel brands and business-to-business offerings. The addition of Orbitz Worldwide brings Expedia an attractive set of well-recognized brands built by a talented team that is passionate about travel.

In December 2015, we completed the acquisition of HomeAway, which operates an online marketplace for the vacation rental industry, with sites representing over one million online bookable listings of vacation rental homes in over 190 countries. With Expedia's expertise in powering global transactional platforms and our industry-leading technology capabilities, we are partnering with our HomeAway brand to accelerate their shift from a classified marketplace to an online, transactional model to create even better experiences for HomeAway's global traveler audience and the owners and managers of its properties around the world.

In expanding our global reach, we leverage significant investments in technology, operations, brand building, supplier relationships and other initiatives that we have made since the launch of Expedia.com in 1996. Our scale of operations enhances the value of technology innovations we introduce on behalf of our travelers and suppliers. We believe that our size and scale afford the company the ability to negotiate competitive rates with our supply partners, provide breadth of choice and travel deals to our traveling customers through an expanding supply portfolio and create opportunities for new value added offers for our customers such as our loyalty programs. The size of Expedia's worldwide traveler base makes our sites an increasingly appealing channel for travel suppliers to reach customers. In addition, the sheer size of our user base and search query volume allows us to test new technologies very quickly in order to determine which innovations are most likely to improve the travel research and booking process, and then roll those features out to our worldwide audience in order to drive improvements in conversion.

New Channel Penetration. Technological innovations and developments continue to create new opportunities for travel bookings made through mobile devices, in addition to more traditional methods like desktop and laptop computers. In the past few years, each of our brands made significant progress creating new mobile websites and mobile applications that are receiving strong reviews and solid download trends, and some of our brands now see more traffic via mobile devices than via traditional desktops. Mobile bookings via smartphones continue to present an opportunity for incremental growth as they are often completed within one or two days of the travel or stay, which is a much shorter booking window than we had historically experienced via more traditional online booking methods. In addition, we are seeing increasing cross-device usage among our customers, who connect to our websites and apps across multiple devices and platforms throughout their travel planning process. We also believe mobile represents an efficient marketing channel given the opportunity for direct traffic acquisition, increase in share of wallet and in repeat customers, particularly through mobile applications. During the year ended December 31, 2016, nearly one in three Expedia, Inc. transactions were booked globally on a mobile device.

Business Models

We make travel products and services available both on a stand-alone and package basis, primarily through the following business models: the merchant model, the agency model and the advertising model. In addition, upon our acquisition of HomeAway in December 2015, we also earn revenue related to subscription-based vacation rental listing and other ancillary services provided to property owners and managers as well as from the traveler service fee that was rolled out in the United States and Europe in the first half of 2016.

Under the merchant model, we facilitate the booking of hotel rooms, airline seats, car rentals and destination services from our travel suppliers and we are the merchant of record for such bookings. The majority of our merchant transactions relate to hotel bookings. Under the agency model, we facilitate travel bookings and act as the agent in the transaction, passing reservations booked by the traveler to the relevant travel provider. We receive commissions or ticketing fees from the travel supplier and/or traveler.

We continue to see closer integration of the agency hotel product with our core merchant product through our Expedia Traveler Preference (ETP) program by offering, for participating hotels, customers the choice of whether to pay Expedia in advance under our merchant program (Expedia Collect) or pay at the hotel at the time of the stay (Hotel Collect). Growth in our ETP program has generally resulted in reduced negotiated economics to compensate for hotel supply partners absorbing expenses such as credit card fees and customer service costs, and as we continue to expand

the breadth and depth of our global hotel offering, we have made and expect to continue to make adjustments to our economics in various geographies including changes based on local market conditions. Based on these dynamics, we expect our revenue per room night to remain under pressure in the future.

Through various of our Expedia-branded and other websites, travelers can dynamically assemble multiple component travel packages in a single transaction at a lower price as compared to booking each component separately. Packages assembled

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by travelers through the packaging model on these websites primarily include a merchant hotel component and an air or car component. Travelers select packages based on the total package price, without being provided component pricing. The use of the merchant travel components in packages enables us to make certain travel products available at prices lower than those charged on an individual component basis by travel suppliers without impacting their other models. In addition, we also offer third-party pre-assembled package offerings, primarily through our international points of sale, further broadening our scope of products and services to travelers. We expect the package product to continue to be marketed primarily using the merchant model.

Under the advertising model, we offer travel and non-travel advertisers access to a potential source of incremental traffic and transactions through our various media and advertising offerings on trivago and our transaction-based websites.

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

Relationships with Travel Partners

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

Travel Suppliers. We strive to deliver value to our travel supply partners through a wide range of innovative, targeted merchandising and promotional strategies designed to generate consumer demand and increase their revenue, while simultaneously reducing their overall marketing transaction and customer service costs. Our strategic account managers and local hotel market managers work directly with travel suppliers to optimize the exposure of their travel products and brands through our points of sale, including participation in need-based, seasonal and event-driven promotions and experimentation within the new channels we are building.

We have developed proprietary, supplier-oriented technology that streamlines the interaction between some of our websites and hotel central reservation systems, making it easier and more cost-effective for hotels to manage reservations made through our brands. Through this "direct connect" technology, hotels can upload information about available products and services and rates directly from their central reservation systems into our websites, as well as automatically confirm hotel reservations made by our travelers. In the absence of direct connect technology, both of these processes are generally completed via a proprietary extranet.

In addition, HomeAway's vacation rental listing services includes a set of tools for property owners or managers, which enables them to manage an availability calendar, reservations, inquiries and the content of the listing, as well as provide various other services for property owners or managers to manage reservations or drive incremental sales volume.

Distribution Partners. GDSs, also referred to as computer reservation services, provide a centralized, comprehensive repository of travel suppliers' 'content' — such as availability and pricing of seats on various airline point-to-point flights, or 'segments.' The GDSs act as intermediaries between the travel suppliers and travel agencies, allowing agents to reserve and book flights, rooms or other travel products. Our relationships with GDSs primarily relate to our air business. We use Sabre, Amadeus and Travelport as our GDS segment providers in order to ensure the widest possible supply of content for our travelers.

Marketing and Promotions

Our marketing programs are intended to build and maintain the value of our various brands, drive traffic and ultimately bookings through our various brands and businesses, optimize ongoing traveler acquisition costs and strategically position our brands in relation to one another. Our long-term success and profitability depends on our continued ability to maintain and increase the overall number of traveler transactions flowing through our brand and shared global platforms in a cost-effective manner, as well as our ability to attract repeat customers to our sites.

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Our marketing channels primarily include online advertising, including search engine marketing and optimization as well as metasearch, social media sites, offline advertising, loyalty programs, mobile apps and direct and/or personalized traveler communications on our websites as well as through direct e-mail communication with our travelers. Our marketing programs and initiatives include promotional offers such as coupons as well as seasonal or periodic special offers from our travel suppliers based on our supplier relationships. Our traveler loyalty programs include Hotels.com Rewards on Hotels.com global websites and Expedia®+ rewards on over 30 Brand Expedia points of sale, as well as Orbitz Rewards on Orbitz.com. The cost of these loyalty programs is recorded as a reduction of revenue in our consolidated financial statements.

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

Operations and Technology

We operate several technology platforms that support our brands. The Brand Expedia technology platform supports our full-service and multi-product brands, including Brand Expedia, Orbitz, Travelocity, Wotif Group and Expedia Local Expert, as well as certain parts of the Hotwire brand. The Hotels.com technology platform supports our hotel-only offering, including Hotels.com Worldwide and EAN. In addition, we operate Egencia, our corporate travel platform; HomeAway, our vacation rentals platform; and trivago, the hotel-only metasearch platform.

All of our brands share and benefit from our corporate technology infrastructure, including customer support, data centers and transaction processing capabilities.

We provide 24-hour-a-day, seven-day-a-week traveler sales and support by telephone or via e-mail. For purposes of operational flexibility, we use a combination of outsourced and in-house call centers. Our call centers are located throughout the world, including outsourced operations in the Philippines, El Salvador, Egypt and India. We invested significantly in our call center technologies, with the goal of improving customer experience and increasing the efficiency of our call center agents, and have plans to continue reaping the benefits of these investments going forward.

Our systems infrastructure and web and database servers are housed in various locations, mainly in the United States, which have 24-hour monitoring and engineering support, as well as in the public cloud. These data centers have their own generators and multiple back-up systems. Significant amounts of our owned computer hardware for operating the websites are located at these facilities. For some critical systems, we have both production and disaster-recovery facilities. Our technology systems are subject to certain risks, which are described below in Part I, Item 1A — Risk Factors.

Competition

Our brands compete in rapidly evolving and intensely competitive markets. We believe international markets represent especially large opportunities for Expedia and those of our competitors that wish to expand their brands and businesses abroad to achieve global scale. We also believe that Expedia is one of only a few companies that are focused on building a truly global, travel marketplace.

Our competition, which is strong and increasing, includes online and offline travel companies that target leisure and corporate travelers, including travel agencies, tour operators, travel supplier direct websites and their call centers, consolidators and wholesalers of travel products and services, large online portals and search websites, certain travel metasearch websites, mobile travel applications, social media websites, as well as traditional consumer eCommerce and group buying websites. We face these competitors in local, regional, national and/or international markets. In some cases, competitors are offering more favorable terms and improved interfaces to suppliers and travelers which make competition increasingly difficult. We also face competition for customer traffic on internet search engines and metasearch websites, which impacts our customer acquisition and marketing costs.

We believe that maintaining and enhancing our brands is a critical component of our effort to compete. We differentiate our brands from our competitors primarily based on the multiple channels we use to generate demand, quality and breadth of travel products, channel features and usability, price or promotional offers, traveler service and quality of travel planning content and advice as well as offline brand efforts. The emphasis on one or more of these factors varies, depending on the brand or business and the related target demographic. Our brands face increasing competition from travel supplier direct websites. In some cases, supplier direct channels offer advantages to travelers, such as long standing loyalty programs, complimentary services such as Wi-Fi, and better pricing. Our websites feature travel products and services from numerous travel suppliers,

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and allow travelers to combine products and services from multiple providers in one transaction. We face competition from airlines, hotels, alternative accommodation sites, rental car companies, cruise operators and other travel service providers, whether working individually or collectively, some of which are suppliers to our websites. Our business is generally sensitive to changes in the competitive landscape, including the emergence of new competitors or business models, and supplier consolidation.

Intellectual Property Rights

Our intellectual property rights, including our patents, trademarks, copyright, domain names, trade dress, proprietary technology, and trade secrets, are an important component of our business. For example, we rely heavily upon our intellectual property and proprietary information in our content, brands, software code, proprietary technology, ratings indexes, informational databases, images, graphics and other components that make up our services. We have acquired some of our intellectual property rights and proprietary information through acquisitions, as well as licenses and content agreements with third parties.

We protect our intellectual property and proprietary information by relying on our terms of use, confidentiality procedures and contractual provisions, as well as international, national, state and common law rights. In addition, we enter into confidentiality and invention assignment agreements with employees and contractors, and license and confidentiality agreements with other third parties. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use our trade secrets or our intellectual property and proprietary information without authorization which, if discovered, might require the uncertainty of legal action to correct. In addition, there can be no assurance that others will not independently and lawfully develop substantially similar properties.

We maintain our trademark portfolio by filing trademark applications with the appropriate international trademark offices, maintaining appropriate registrations, securing contractual trademark rights when appropriate, and relying on common law trademark rights when appropriate. We also register copyrights and domain names as we deem appropriate. We protect our trademarks, copyrights and domain names with an enforcement program and use of intellectual property licenses. Trademark and intellectual property protection may not be available or may not be sought, sufficient or effective in every jurisdiction where we operate. Contractual disputes or limitations may affect the use of trademarks and domain names governed by private contract.

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

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

Regulation

We must comply with laws and regulations relating to the travel industry, the vacation rental industry and the provision of travel services, including registration in various states as “sellers of travel” and compliance with certain disclosure requirements and participation in state restitution funds. In addition, our businesses are subject to regulation by the U.S. Department of Transportation and must comply with various rules and regulations governing the provision of air transportation, including those relating to advertising and accessibility.

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

supplier failure.

Additionally, we are subject to consumer protection, privacy and consumer data, labor, economic and trade sanction programs, tax, and anti-trust and competition laws and regulations around the world that are not specific to the travel industry.

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Some of these laws and regulations have not historically been applied in the context of online travel companies, so there can be uncertainty regarding how these requirements relate to our various business models.

Financial Information about Segments and Geographic Areas

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

We have four reportable segments: Core Online Travel Companies ("Core OTA"), trivago, Egencia and HomeAway upon its acquisition in December 2015. In addition, eLong was a reportable segment through its disposal on May 22, 2015. The segment and geographic information required herein is contained in NOTE 19 — Segment Information, in the notes to our consolidated financial statements.

Additional Information

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

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

Code of Ethics. We post both our Employee Code of Business Conduct and Ethics, which applies to all employees, including all executive officers and senior financial officers, as well as our Code of Business Conduct and Ethics for Directors and Senior Financial Officers on our corporate website at www.expediainc.com. Both codes comply with Item 406 of SEC Regulation S-K and the rules of NASDAQ. We intend to disclose any changes to the codes that affect the provisions required by Item 406 of Regulation S-K, and any waivers of the code of ethics for our executive officers, senior financial officers or directors, on our corporate website.

Employees

As of December 31, 2016, we employed approximately 20,075 full-time and part-time employees. We believe we have good relationships with our employees, including relationships with employees represented by works councils or other similar organizations.

Part I. Item 1A. Risk Factors

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

We operate in an increasingly competitive global environment.

The market for the services we offer is increasingly and intensely competitive. We compete with both established and emerging online and traditional sellers of travel-related services, including:

- online and traditional travel agencies, wholesalers and tour operators,
- travel suppliers, including hotels and airlines,
- large online portal and search websites,
- travel metasearch websites,
-
- corporate travel management service providers,
- mobile platform travel applications,
- social media websites,
- eCommerce websites and group buying websites, and

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- Alternative accommodation websites.

Online and traditional travel agencies: We face increasing competition from other online travel agencies (“OTAs”) in many regions, such as The Priceline Group and its subsidiaries Booking.com and Agoda.com, as well as regional competitors such as Ctrip, which in some cases may have more favorable offerings for travelers or suppliers, including pricing and supply breadth. In addition, the global OTA market continues to consolidate, with certain competitors merging or forming strategic partnerships. We also compete with traditional travel agencies (operating both offline and online), wholesalers and tour operators for both travelers and the acquisition and retention of supply.

Travel suppliers: Travel suppliers such as airlines and hotels, may offer products and services on more favorable terms to consumers who transact directly with them, including lower prices, no fees or unique access to proprietary loyalty programs, such as points and miles. Many of these competitors, such as airlines, hotel and rental car companies, have been steadily focusing on increasing online demand on their own websites and mobile applications in lieu of third-party distributors such as the various Expedia sites. For instance, some low cost airlines, which are having increasing success in the marketplace, distribute their online supply exclusively through their own websites and several large hotel chains have combined to establish a single online hotels search platform with links directly to their own websites and mobile applications. In the past year, certain hotel chains have launched advertising campaigns expressly designed to drive consumer traffic directly to their websites. Suppliers who sell on their own websites, in some instances, offer advantages such as favorable rates, increased or exclusive product availability, complimentary Wi-Fi, and their own bonus miles or loyalty points, or in the case of airlines promote hotel supply at their websites, which could make their offerings more attractive to consumers than ours.

Search engines: We also face increasing competition from search engines including Google. To the extent that these leading search engines that have a significant presence in our key markets disintermediate online travel agencies or travel content providers by offering comprehensive travel planning, shopping or booking capabilities, or increasingly refer those leads directly to suppliers or other favored partners, increase the cost of traffic directed to our websites, or offer the ability to transact on their own website, there could be a material adverse impact on our business and financial performance. For example, in recent years search engines have increased their focus on acquiring or launching flight and hotel search products that provide increasingly comprehensive travel planning content and direct booking capabilities, comparable to OTAs. In addition, these search engines continue to expand their voice and artificial intelligence capabilities. To the extent these actions have a negative effect on our search traffic or the cost of acquiring such traffic, our business and financial performance could be adversely affected.

In addition, our websites, or websites in which we hold a significant ownership position, including trivago-branded websites, compete for advertising revenue with these search engines, as well as with large internet portal sites that offer advertising opportunities for travel-related companies. Several of these competitors have significantly greater financial, technical, marketing and other resources and large client bases than we do. We expect to face additional competition as other established and emerging companies enter the online advertising market. Competition could result in higher traffic acquisitions costs, reduced margins on our advertising services, loss of market share, reduced customer traffic to our websites and reduced advertising by travel companies on our websites.

Travel metasearch engines: Travel metasearch websites, including Kayak.com (a subsidiary of Priceline), trivago (a majority-owned subsidiary of Expedia), TripAdvisor, and Qunar (a subsidiary of Ctrip), aggregate travel search results for a specific itinerary across supplier, travel agent and other websites. In addition, some metasearch sites have added or intend to add various forms of direct or assisted booking functionality to their sites in direct competition with certain of our brands. To the extent metasearch websites limit our participation within their search results, or consumers utilize the metasearch website for travel services and bookings instead of ours, our traffic-generating arrangements could be affected in a negative manner, or we may be required to increase our marketing costs to maintain market share, either of which could have an adverse effect on our business and results of operations. In addition, as a result of our majority ownership interest in trivago, we also now compete more directly with other metasearch engines and content aggregators for advertising revenue. To the extent that trivago’s ability to aggregate travel search results for a specific itinerary across supplier, travel agent and other websites is hampered, whether due to its affiliation with us or otherwise, trivago’s business and results of operations could be adversely affected and the value of our investment in trivago could be negatively impacted.

Corporate travel management service providers: Egencia, our full-service corporate travel management company, competes with online and traditional corporate travel providers, including Carlson Wagonlit and American Express, as well as vendors of corporate travel and expense management software and services, including Concur. Some of these competitors may have more financial resources, greater name recognition, well-established client bases, differentiated business models, or a broader global presence, which may make it difficult for us to retain or attract new corporate travel clients.

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Mobile platform travel applications: Mobile platforms, including smartphones and tablet computers, continue to grow significantly. The improved functionality of mobile platforms has led to an increased use by consumers of standalone applications to research and book travel. If we are unable to offer innovative, user-friendly, feature-rich mobile applications and websites for our travel services, along with effective marketing and advertising, or if our mobile applications and websites are not used by consumers, we could lose market share to existing competitors or new entrants and our future growth and results of operations could be adversely affected.

Social media websites: Social media websites, including Facebook, continue to develop search functionality for data included within their websites and mobile applications, which may in the future develop into an alternative research and booking resource for travelers, resulting in additional competition. Notably, Facebook has launched Dynamic Ads for Travel product, expanding its reach into the travel market.

Alternative accommodations: Airbnb and similar websites that facilitate the short-term rental of homes and apartments from owners provide an alternative to hotel rooms and vacation rental properties available through Expedia websites, including HomeAway. The continued growth of alternative accommodation sources could affect overall travel patterns generally and the demand for our services specifically in facilitating reservations at hotels and vacation rentals. Furthermore, Airbnb and similar websites have added other travel services, such as tours, activities, hotel and flight bookings, any of which could further extend their reach into the travel market as they seek to compete with the traditional OTAs.

Other participants in the travel industry: Traditional consumer eCommerce websites and group buying websites have periodically undertaken efforts to expand their local offerings into the travel market by adding hotel offers to their sites. To the extent such websites continue to expand these services over time, it may create additional competition. In addition, car rideshare services, such as Uber, increasingly compete with the traditional car rental services that we offer on our retail websites and to our corporate clients, which may negatively affect our car-based and corporate travel businesses.

We cannot assure you that we will be able to compete successfully against any current, emerging and future competitors or on platforms that may emerge, or provide differentiated products and services to our traveler base. Increasing competition from current and emerging competitors, the introduction of new technologies and the continued expansion of existing technologies, such as metasearch and other search engine technologies, may force us to make changes to our business models, which could affect our financial performance and liquidity.

In general, increased competition has resulted in and may continue to result in reduced margins, as well as loss of travelers, transactions and brand recognition.

The industry in which we operate is dynamic.

We continue to adapt our business to remain competitive, including investing in evolving channels such as metasearch and mobile, as well as offering new consumer choices, including inventory types and transactional models, and increasing supplier inventory on our existing platforms through acquisitions and partnerships. If we fail to appropriately adapt to competitive or consumer preference developments, our business could be adversely affected.

Our attempts to adapt our current business models or practices or adopt new business models and practices in order to compete, may involve significant risks and uncertainties, including distraction of management from current operations, expenses associated with the initiatives, different legal or tax requirements, inadequate return on investments, difficulties and expenses associated with the integration of acquired brands and their inventory onto our platforms, as well as limit our ability to develop new site features. In addition, adaptations to our business may require significant investments, including changes to our financial systems and processes, which could significantly increase our costs and increase the risk of payment delays and/or non-payments of amounts owed to us from our supplier partners and customers. In addition, these new initiatives may not be successful and may harm our financial condition and operating results.

Our business could be negatively affected by changes in search engine algorithms and dynamics or other traffic-generating arrangements.

We increasingly utilize internet search engines such as Google, principally through the purchase of travel-related keywords, to generate a significant portion of the traffic to our websites and the websites of our affiliates. Search

engines frequently update and change the logic that determines the placement and display of results of a user's search, such that the purchased or algorithmic placement of links to our websites and those of our affiliates can be negatively affected. In addition, a significant amount of traffic is directed to our websites and those of our affiliates through participation in pay-per-click and display advertising campaigns on search engines, including Google, and travel metasearch engines, including Kayak and TripAdvisor. Pricing and operating dynamics for these traffic sources can change rapidly, both technically and competitively. Moreover, a search or metasearch engine could, for competitive or other purposes, adopt emerging technologies, such as voice, alter its search algorithms or results, any of which could cause a website to place lower in search query results, or inhibit

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participation in the search query results. If a major search engine changes its algorithms or results in a manner that negatively affects the search engine ranking, paid or unpaid, of our websites and the websites of our affiliates, or those of our third-party distribution partners, or if competitive dynamics impact the costs or effectiveness of search engine optimization, search engine marketing or other traffic-generating arrangements in a negative manner, our business and financial performance would be adversely affected, potentially to a material extent. In addition, certain metasearch companies have added or intend to add various forms of direct or assisted booking functionality to their sites. To the extent such functionality is promoted at the expense of traditional paid listings, this may reduce the amount of traffic to our websites or those of our affiliates.

Our business depends on our relationships with travel suppliers and travel distribution partners.

An important component of our business success depends on our ability to maintain and expand relationships with travel suppliers, GDS partners, as well as owners and managers of vacation rental properties. A substantial portion of our revenue is derived from compensation negotiated with travel suppliers, in particular hotel suppliers, airlines, and GDS partners for bookings made through our websites. Each year we typically negotiate or renegotiate numerous long-term hotel and airline contracts.

No assurances can be given that our compensation, access to inventory, or access to inventory at competitive rates, will not be further reduced or eliminated in the future, or that travel suppliers will not reduce average daily rates (“ADRs”), attempt to implement costly direct connections; charge us for or otherwise restrict access to content, increase credit card fees or fees for other services; fail to provide us with accurate booking information or otherwise take actions that would increase our operating expenses. Any of these actions, or other similar actions, could reduce our revenue and margins thereby adversely affecting our business and financial performance.

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

Our business and financial performance are affected by the health of the worldwide travel industry. Travel expenditures are sensitive to personal and business-related discretionary spending levels and tend to decline or grow more slowly during economic downturns. Decreased travel expenditures could reduce the demand for our services, thereby causing a reduction in revenue.

For example, during regional or global recessions, domestic and global economic conditions can deteriorate rapidly resulting in increased unemployment and a reduction in available budgets for both business and leisure travelers, which slow spending on the services we provide and have a negative impact on our revenue growth. Additionally, if individual countries or regions experience deteriorating credit and economic conditions, and/or significant fluctuations of currency values relative to other currencies such as the U.S. dollar, it can lead to a negative impact on our foreign denominated net assets, gross bookings, revenues, operating expenses, and net income as expressed in U.S. dollars. Further economic weakness and uncertainty may result in significantly decreased spending on our services by both business and leisure travelers, which may have a material adverse impact on our business and financial performance. Political instability, including as a result of the recent United Kingdom “Brexit” referendum to withdraw from the European Union, geopolitical conflicts, significant fluctuations in currency values, sovereign debt issues, and macroeconomic concerns are examples of events that contribute to a somewhat uncertain economic environment, which could have a negative impact on the travel industry in the future. For example, the Paris terrorist attacks in November 2015 had a negative impact in the fourth quarter of 2015.

Our business is also sensitive to fluctuations in hotel supply, occupancy and ADRs, decreases in airline capacity, periodically rising airline ticket prices, or the imposition of taxes or surcharges by regulatory authorities, all of which we have experienced historically.

Other factors that could negatively affect our business include:

- Significant changes in oil prices;
- Continued air carrier and hotel chain consolidation;
- Reduced access to discount airfares;
- Travel-related strikes or labor unrest, bankruptcies or liquidations;
- Increased incidents of actual or threatened terrorism;
- Periods of political instability or geopolitical conflict, resulting in additional restrictions on travel or travelers becoming concerned about safety issues;

Natural disasters or events such as severe weather conditions, volcanic eruptions, hurricanes or earthquakes;

- Travel-related accidents or the grounding of aircraft due to safety concerns; and

Health-related risks, such as the Ebola, H1N1, SARs and avian flu outbreaks.

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Such concerns could result in a protracted decrease in demand for our travel services. This decrease in demand, depending on its scope and duration, together with any future issues affecting travel safety, could significantly and adversely affect our business, working capital and financial performance over the short and long-term. In addition, the disruption of the existing travel plans of a significant number of travelers upon the occurrence of certain events, such as severe weather conditions, actual or threatened terrorist activity or war, could result in the incurrence of significant additional costs and decrease our revenues leading to constrained liquidity if we, as we have done historically in the case of severe weather conditions, provide relief to affected travelers by refunding the price or fees associated with airline tickets, hotel reservations and other travel products and services.

We rely on the value of our brands, and the costs of maintaining and enhancing our brand awareness are increasing. We invest considerable financial and human resources in our brands in order to retain and expand our customer base. We expect that the cost of maintaining and enhancing our brands will continue to increase due to a variety of factors, including increased spending from our competitors, promotional and discounting activities, the increasing costs of our growing customer loyalty programs, the increasing costs of supporting multiple brands and the impact of competition among our multiple brands, expansion into geographies and products where our brands are less well known, inflation in media pricing including search engine keywords and the continued emergence and relative travel-related traffic share growth of search engines and metasearch engines. During 2016, certain online travel companies and metasearch sites continued to expand their offline and digital advertising campaigns globally, increasing competition for share of voice, and we expect this activity to continue in the future. We are also pursuing and expect to continue to pursue long-term growth opportunities, particularly in emerging markets, which have had and may continue to have a negative impact on our overall marketing efficiency.

Our efforts to preserve and enhance consumer awareness of our brands may not be successful, and, even if we are successful in our branding efforts, such efforts may not be cost-effective, or as efficient as they have been historically. Moreover, branding efforts with respect to some brands within the Expedia portfolio have in the past and may in the future result in marketing inefficiencies and negatively impact growth rates of other brands within our portfolio. In addition, our decisions over allocation of resources, and choosing to invest in branding efforts for certain brands in our portfolio at the expense of not investing in, or reducing our investments in, other brands in our portfolio could have an overall negative financial impact. If we are unable to maintain or enhance consumer awareness of our brands and generate demand in a cost-effective manner, it would have a material adverse effect on our business and financial performance.

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

We depend on the use of sophisticated information technologies and systems, including technology and systems used for website and mobile applications, reservations, customer service, supplier connectivity, communications, procurement, payments, fraud detection and administration. As our operations grow in size, scope and complexity, we must continuously improve and upgrade our systems and infrastructure to offer an increasing number of travelers enhanced products, services, features and functionality, while maintaining or improving the reliability and integrity of our systems and infrastructure.

Our future success also depends on our ability to adapt our services and infrastructure to meet rapidly evolving consumer trends and demands while continuing to improve the performance, features and reliability of our service in response to competitive service and product offerings. The emergence of cloud computing, the growth of alternative platforms such as smartphone and tablet computing devices and the emergence of niche competitors who may be able to optimize products, services or strategies that use cloud computing or for such platforms have, and will continue to require, new and costly investments in technology. Transitioning to these new technologies may be disruptive to resources and the services we provide, and may increase our reliance on third party service providers. For example, we are beginning to ramp up a multi-year project to migrate products and functionality and significantly increase our utilization of cloud computing services (such as Amazon Web Services). In addition, we may not be successful, or may be less successful than our current or new competitors, in developing technology that operates effectively across multiple devices and platforms and that is appealing to consumers, either of which would negatively impact our business and financial performance. New developments in other areas, such as cloud computing and software as a

service provider, could also make it easier for competition to enter our markets due to lower up-front technology costs. In addition, we may not be able to maintain our existing systems or replace or introduce new technologies and systems as quickly as we would like or in a cost-effective manner. We have been engaged in a multi-year effort to migrate key portions of our consumer, affiliate, and corporate travel sites and back office application functionality to new technology platforms to enable us to improve conversion, innovate more rapidly, achieve better search engine optimization and improve our site merchandising and transaction processing capabilities, among other anticipated benefits. Implementations and system enhancements such as these have been in the past, and may continue to be in the future, more time consuming and expensive than originally anticipated, and the resources devoted to those efforts have adversely affected, and may continue to adversely affect, our ability to develop new site features. In addition, during the migration process the sites have in the past, and

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may continue in the future, to experience reduced functionality, decreases in conversion rates, and increased costs relating to maintaining redundant systems. Also, we may be unable to devote financial resources to new technologies and systems, or enhancements to existing infrastructure, technologies and systems, in the future. Overall, these implementations and systems enhancements may not achieve the desired results in a timely manner, to the extent anticipated, or at all. If any of these events occur, our business and financial performance could suffer.

Acquisitions, investments or significant commercial arrangements could result in operating and financial difficulties. We have acquired, invested in or entered into significant commercial arrangements with a number of businesses in the past, and our future growth may depend, in part, on future acquisitions, investments or significant commercial arrangements, any of which could be material to our financial condition and results of operations. Certain financial and operational risks related to acquisitions, investments or significant commercial arrangements that may have a material impact on our business are:

- Diversion of management’s attention or other resources from our existing businesses, for example during 2016, we expended significant resources in the integration of Orbitz Worldwide, Inc.;
 - Difficulties and expenses in assimilating the operations, products, technology, privacy protection systems, information systems or personnel of the acquired company;
 - Use of cash resources and incurrence of debt and contingent liabilities in funding acquisitions, including with regard to future payment obligations in connection with put/call rights, may limit other potential uses of our cash, including stock repurchases, dividend payments and retirement of outstanding indebtedness;
 - Amortization expenses related to acquired intangible assets and other adverse accounting consequences, including changes in fair value of contingent consideration;
 - Expected and unexpected costs incurred in pursuing acquisitions, including identifying and performing due diligence on potential acquisition targets that may or may not be successful, if unsuccessful could result in unexpected litigation or regulatory exposure, unfavorable accounting treatment, unexpected increases in taxes due, a loss of anticipated tax benefits or other adverse effects on our business, operating results or financial condition;
 - Impairment of relationships with employees, suppliers, customers, vendors and affiliates of our business and the acquired business;
 - The assumption of known and unknown debt and liabilities of the acquired company;
 - Failure of the acquired company to achieve anticipated traffic, transactions, revenues, earnings or cash flows or to retain key management or employees;
 - Failure to generate adequate returns on our acquisitions and investments, or returns in excess of alternative uses of capital;
 - Failure to properly and timely integrate acquired companies and their operations, reducing our ability to achieve, among other things, anticipated returns on our acquisitions through cost savings and other synergies;
 - Entrance into markets in which we have no direct prior experience and increased complexity in our business;
 - Challenges relating to the structure of an investment, such as governance, accountability and decision-making conflicts that may arise in the context of a joint venture or majority ownership investment;
 - Impairment of goodwill or other intangible assets such as trademarks or other intellectual property arising from our acquisitions;
 - Costs associated with litigation or other claims arising in connection with the acquired company;
 - Increased or unexpected costs or delays to obtain governmental approvals for acquisitions;
 - Increased competition amongst potential acquirers for acquisition targets could result in a material increase in the purchase price for such targets or otherwise limit our ability to consummate acquisitions; and
 - Adverse market reaction to acquisitions or investments or failure to consummate such transactions.
- Moreover, we rely heavily on the representations and warranties and related indemnities provided to us by the sellers of acquired companies, including as they relate to creation, ownership and rights in intellectual property and compliance with laws and contractual requirements. Our failure to address these risks or other problems encountered in connection with past or future acquisitions and investments could cause us to fail to realize the anticipated benefits

of such acquisitions or investments, incur unanticipated liabilities and harm our business generally.

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Our HomeAway business is in the process of transitioning to a primarily transaction-based business, which could have a material adverse effect on our operations and financial results.

We are subject to legal, financial and competitive risk associated with HomeAway's transition to a primarily transaction-based business. HomeAway historically generated the majority of its revenues when owners or managers of vacation rentals paid HomeAway subscription fees for the listing of their properties on the HomeAway family of sites. While subscription fees were the predominant source of revenue for HomeAway, a growing share of HomeAway's revenue is now generated from a commission-based business model, where the traveler pays a service fee for the use of the HomeAway platform and the owner or manager of the property pays HomeAway a fee or a commission on a transactional basis for each booking of the property by a traveler. HomeAway launched the traveler service fee and introduced its Book with Confidence Guarantee in the United States beginning in February 2016, followed by a rollout in Europe beginning in June 2016. In addition, HomeAway moved to a single subscription option for its homeowners and property manager partners in July 2016. HomeAway's business model transition involves significant additional risks and potential costs for HomeAway, including:

- Delays or unanticipated costs in implementing the transition, which may delay or negate any expected benefits;
- Supplier or traveler disruption similar to or worse than disruptions associated with previous business model and platform migrations;
- Market research that indicated higher than expected price elasticity for travelers in increasingly transparent markets such as HomeAway's market and for HomeAway's suppliers more broadly;
- Suppliers and travelers may not adopt HomeAway's new payment structures as expected or at all, or may choose to transact with competitors;
- Execution risk associated with launching a new business initiative that HomeAway did not have prior experience in;
- Failure to implement or expand HomeAway's technology, systems and network infrastructure in light of additional payment processing and reporting complexity, or failure to do so at a reasonable cost;
- Higher cost of traffic reducing cost per view effectiveness and reducing HomeAway's ability to spend at the desired return on investment;
- Increased risk of fraud; and
- Additional potential tax exposures.

These risks could have a material adverse effect on HomeAway's business and results of operations, which in turn could have a material adverse effect on Expedia's operations and financial results.

In addition, HomeAway has been and continues to be, subject to regulatory development that affect the vacation rental industry and the ability of companies like us to list those vacation rentals online. For example, some states and local jurisdictions have adopted or are considering statutes or ordinances that prohibit property owners and managers from renting certain properties for fewer than 30 consecutive days or otherwise limit their ability to do so, and other states and local jurisdictions may introduce similar regulations. Many homeowners, condominium and neighborhood associations have adopted rules that prohibit or restrict short-term vacation rentals. In addition, many of the fundamental statutes and ordinances that impose taxes or other obligations on travel and lodging companies were established before the growth of the Internet and e-commerce, which creates a risk of these laws being used in ways not originally intended that could burden property owners and managers or otherwise harm our business.

Our international operations involve additional risks and our exposure to these risks will increase as our business expands globally.

We operate in a number of jurisdictions outside of the United States and intend to continue to expand our international presence. As we have expanded globally, our international (non-U.S.) revenue has increased from 39% in 2010 to 43% in 2016. In foreign jurisdictions, we face complex, dynamic and varied risk landscapes. As we begin to operate in new markets and countries, we must tailor our services and business models to the unique circumstances of such countries and markets, which can be complex, difficult, costly and divert management and personnel resources. Laws and business practices that favor local competitors or prohibit or limit foreign ownership of certain businesses or our failure to adapt our practices, systems, processes and business models effectively to the traveler and supplier

preferences of each country into which we expand, could slow our growth. For example, to compete in certain international markets we have in the past, and may in the future, adopt locally-preferred payment methods, which has increased our costs and instances of fraud. Certain international markets in which we operate have lower margins than more mature markets, which could have a negative impact on our overall margins as our revenues from these markets grow over time.

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As we continue to grow our global presence, we accumulate a greater portion of our cash balances outside of the United States in our foreign subsidiaries. Repatriation of cash balances by our foreign subsidiaries to the United States may result in a higher effective tax rate and incremental cash tax payments.

In addition to the risks outlined elsewhere in this section, our international operations are also subject to a number of other risks, including:

- Currency exchange restrictions or costs and exchange rate fluctuations, and the risks and costs inherent in hedging such exposures;
- Exposure to local economic or political instability and threatened or actual acts of terrorism;
- Compliance with U.S. and Non-U.S. regulatory laws and requirements relating to anti-corruption, antitrust or competition, economic sanctions, data content and privacy, consumer protection, employment and labor laws, health and safety, and advertising and promotions;
- Compliance with additional U.S. laws applicable to U.S. companies operating internationally;
- Differences, inconsistent interpretations and changes in U.S. and non-U.S. laws and regulations, including tax laws and regulations;
- Weaker enforcement of our contractual and intellectual property rights;
- Lower levels of credit card usage and increased payment and fraud risk;
- Longer payment cycles, and difficulties in collecting accounts receivable;
- Preferences by local populations for local providers;
- Restrictions on, or adverse tax and other consequences related to repatriation of cash, the withdrawal of non-U.S. investments, cash balances and earnings, as well as restrictions on our ability to invest in our operations in certain countries;
- Financial risk arising from transactions in multiple currencies;
- Slower adoption of the internet as an advertising, broadcast and commerce medium in those markets as compared to the United States;
- Our ability to support new technologies, including mobile devices, that may be more prevalent in international markets;
- Difficulties in attracting and retaining qualified employees in international markets, as well as managing staffing and operations due to increased complexity, distance, time zones, language and cultural differences; and
- Uncertainty regarding liability for services and content, including uncertainty as a result of local laws and lack of precedent.

The China travel market in particular is significant and has grown significantly in recent years. Prior to May 2015, we conducted our operations in China primarily through our majority ownership interest in eLong, Inc., a leading online travel service provider in China. Following the sale of our eLong ownership stake in May 2015 to a group of China-based purchasers, including to a subsidiary of Ctrip International, Ltd., we have conducted our business in China through localized websites and commercial arrangements with local partners, including Ctrip. There can be no guarantee that we will be able to grow or even maintain market share and brand awareness in the highly dynamic and intensely competitive market in China and our failure to do so could significantly impact our ability to grow our overall business.

A failure to comply with current laws, rules and regulations or changes to such laws, rules and regulations and other legal uncertainties may adversely affect our business, financial performance, results of operations or business growth. Our business and financial performance could be adversely affected by unfavorable changes in or interpretations of existing laws, rules and regulations or the promulgation of new laws, rules and regulations applicable to us and our businesses, including those relating to travel and vacation rental licensing and listing requirements, the internet and online commerce, internet advertising and price display, consumer protection, anti-corruption, anti-trust and competition, economic and trade sanctions, tax, banking, data security and privacy. As a result, regulatory authorities could prevent or temporarily suspend us from carrying on some or all of our activities or otherwise penalize us if our practices were found not to comply with applicable regulatory or licensing requirements or any binding interpretation of such requirements. Unfavorable changes or interpretations could decrease demand for our products and services,

limit marketing methods and capabilities, affect our margins, increase costs and/or subject us to additional liabilities. For example, there are, and will likely continue to be, an increasing number of laws and regulations pertaining to the internet and online commerce that may relate to liability for information retrieved from or transmitted over the internet, display of certain taxes and fees, online editorial and user-generated content, user privacy, behavioral targeting and online advertising,

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taxation, liability for third-party activities and the quality of products and services. Furthermore, the growth and development of online commerce may prompt calls for more stringent consumer protection laws and more aggressive enforcement efforts, which may impose additional burdens on online businesses generally.

Likewise, the SEC, Department of Justice (“DOJ”) and Office of Foreign Assets Controls (“OFAC”), as well as foreign regulatory authorities, have continued to increase the enforcement of economic sanctions and trade regulations and anti-corruption laws, across industries. U.S. trade sanctions relate to transactions with designated foreign countries, including Cuba, Iran, North Korea, Sudan, Syria and the Crimea region of the Ukraine, and nationals and others of those countries, as well as certain specifically targeted individuals and entities. We believe that our activities comply with OFAC, European Union, and United Kingdom economic sanction and trade regulations and anti-corruption regulations, including the Foreign Corrupt Practices Act (“FCPA”) and the UK Bribery Act. As regulations continue to evolve and regulatory oversight continues to increase, we cannot guarantee that our programs and policies will be deemed compliant by all applicable regulatory authorities. In the event our controls should fail or are found to be out of compliance for other reasons, we could be subject to monetary damages, civil and criminal money penalties, litigation and damage to our reputation and the value of our brands.

We also have been subject, and we will likely be subject in the future, to inquiries from time to time from regulatory bodies concerning compliance with consumer protection, competition, tax and travel industry-specific laws and regulations, including but not limited to investigations and legal proceedings relating to the travel industry and, in particular, parity provisions in contracts between hotels and online travel companies, including Expedia described in Part I, Item 3, Legal Proceedings - Hotel Booking Practices Proceedings and Litigation. The failure of our businesses to comply with these laws and regulations could result in fines and/or proceedings against us by governmental agencies and/or consumers, which if material, could adversely affect our business, financial condition and results of operations. Further, if such laws and regulations are not enforced equally against other competitors in a particular market, our compliance with such laws may put us a competitive disadvantage vis-à-vis competitors who do not comply with such requirements. We are unable at this time to predict the timing or outcome of these various investigations and lawsuits or similar future investigations or lawsuits, and their impact, if any, on our business and results of operations.

The promulgation of new laws, rules and regulations, or the new interpretation of existing laws, rules and regulations, in each case that restrict or otherwise unfavorably impact the ability or manner in which we provide travel services could require us to change certain aspects of our business, operations and commercial relationships to ensure compliance, which could decrease demand for services, reduce revenues, increase costs and/or subject the company to additional liabilities.

Furthermore, our future growth may be limited by anti-trust or competition laws. For example, our business has grown and continues to expand, and, as a consequence, increases in our size and market share may negatively affect our ability to obtain regulatory approval of proposed acquisitions, investments or significant commercial arrangements, any of which could adversely affect our ability to grow and compete.

Application of existing tax laws, rules or regulations are subject to interpretation by taxing authorities.

The application of various domestic and international income and non-income tax laws, rules and regulations to our historical and new products and services is subject to interpretation by the applicable taxing authorities. These taxing authorities have become more aggressive in their interpretation and/or enforcement of such laws, rules and regulations over time, as governments are increasingly focused on ways to increase revenues. This has contributed to an increase in audit activity and harsher stances by tax authorities. As such, additional taxes or other assessments may be in excess of our current tax reserves or may require us to modify our business practices to reduce our exposure to additional taxes going forward, any of which could have a material adverse effect on our business, results of operations and financial condition.

A number of taxing authorities have made inquiries, filed lawsuits and levied assessments asserting we are required to collect and remit hotel occupancy, state and local sales or use taxes or other taxes, including, but not limited to, the legal proceedings described in Part I, Item 3, Legal Proceedings. We are also in various stages of inquiry or audit with multiple European Union jurisdictions regarding the application of value added tax to our European Union transactions, as well as in multiple jurisdictions globally. While we believe we comply with applicable tax laws, rules

and regulations in the jurisdictions we operate, tax authorities may conclude we owe additional taxes. We have in the past and may in the future be required in certain domestic and foreign jurisdictions to pay any such tax assessments prior to contesting their validity, which payments may be substantial. This requirement is commonly referred to as “pay-to-play.” Payment of these amounts is not an admission that the taxpayer believes it is subject to such taxes. For example, as a pre-condition to challenging the assessments, in 2015, we paid \$2.3 million under protest to the city of Portland, Oregon and Multnomah County, Oregon; during 2009, we paid \$48 million under protest to the city of San Francisco and an additional \$25.5 million under protest on May 26, 2014 in connection with additional assessments; and during 2013, we paid \$171 million to the state of Hawaii. In September 2015, following a ruling by the Hawaii Supreme Court, the State of Hawaii refunded the Expedia companies \$132 million of the original “pay-to-play” amount, and Orbitz also received a similar refund of \$22 million. The Expedia companies intend to appeal the August 5,

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2016 decision by the Hawaii tax court holding that taxes are due on the online travel companies' services to facilitate merchant model car rental transactions, in which case the Expedia companies will be expected to pay under protest the full amount claimed due, or approximately \$16.5 million, as a condition of appeal. Significant judgment and estimation is required in determining our worldwide tax liabilities. In the ordinary course of our business, there are transactions and calculations, including intercompany transactions and cross-jurisdictional transfer pricing, for which the ultimate tax determination is uncertain or otherwise subject to interpretation. Tax authorities may disagree with our intercompany charges, including the amount of or basis for such charges, cross-jurisdictional transfer pricing or other matters and assess additional taxes. We believe our tax estimates are reasonable, however, the final determination of tax audits could be materially different from our historical income tax provisions and accruals in which case we may be subject to additional tax liabilities, possibly including interest and penalties, which could have a material adverse effect on our cash flows, financial condition and results of operations.

System interruption, security breaches and the lack of redundancy in our information systems may harm our businesses.

We rely on information technology systems, including the Internet and third-party hosted services, to support a variety of business processes and activities and to store sensitive data, including booking transactions, intellectual property, our proprietary business information and that of our suppliers and business partners, personally identifiable information of our customers and employees, and data with respect to invoicing and the collection of payments, accounting, procurement, and supply chain activities. In addition, we rely on our information technology systems to process financial information and results of operations for internal reporting purposes and to comply with financial reporting, legal, and tax requirements. The risk of a cybersecurity-related attack, intrusion, or disruption, including by criminal organizations, hacktivists, foreign governments, and terrorists, is persistent. Additionally, as we continue to integrate our acquired companies, such as Orbitz, into our information technology systems, we may increase the risk of these system interruptions. We have experienced and may in the future experience system interruptions that make some or all of these systems unavailable or prevent us from efficiently fulfilling orders or providing services to third parties. These interruptions could include security intrusions and attacks on our systems for fraud or service interruption. Significant interruptions, outages or delays in our internal systems, or systems of third parties that we rely upon — including multiple co-location providers for data centers, cloud computing providers for application hosting, and network access providers — and network access, or deterioration in the performance of such systems, would impair our ability to process transactions, decrease our quality of service that we can offer to our travelers, damage our reputation and brands, increase our costs and/or cause losses.

Potential security breaches to our systems or the systems of our service providers, whether resulting from internal or external sources, could significantly harm our business. We devote significant resources to network security, monitoring and testing, employee training, and other security measures, but there can be no guarantee that these measures will prevent all possible security breaches or attacks. A party, whether internal or external, that is able to circumvent our security systems could misappropriate customer or employee information, intellectual property, proprietary information or other business and financial data or cause significant interruptions in our operations. We may need to expend additional significant resources to protect against security breaches or to address problems caused by breaches, and a security breach resulting in the reduction of website availability could cause a loss of substantial business volume during the occurrence of any such incident. Because the techniques used to sabotage security change frequently, are often not recognized until launched against a target, and may originate from less regulated or remote areas around the world, we may be unable to proactively address these techniques or to implement adequate preventive measures. Security breaches could result in negative publicity, damage to reputation, exposure to risk of loss or litigation and possible liability due to regulatory penalties and sanctions or pursuant to our contractual arrangements with payment card processors for associated expenses and penalties. Security breaches could also cause travelers and potential users and our business partners to lose confidence in our security, which would have a negative effect on the value of our brands. Failure to adequately protect against attacks or intrusions, whether for their own systems or systems of vendors, could expose us to security breaches that could have an adverse impact on financial performance.

In addition, no assurance can be given that our backup systems or contingency plans will sustain critical aspects of our operations or business processes in all circumstances, many other systems are not fully redundant and our disaster recovery or business continuity planning may not be sufficient. Fire, flood, power loss, telecommunications failure, break-ins, earthquakes, acts of war or terrorism, acts of God, computer viruses, electronic intrusion attempts from both external and internal sources and similar events or disruptions may damage or impact or interrupt computer or communications systems or business processes at any time. Although we have put measures in place to protect certain portions of our facilities and assets, any of these events could cause system interruption, delays and loss of critical data, and could prevent us from providing services to our travelers and/or third parties for a significant period of time. In addition, any remediation efforts may be costly for which we may not have adequate insurance to cover such losses or costs. Moreover, the costs of enhancing infrastructure to attain improved stability and redundancy may be time consuming and expensive and may require resources and expertise that are difficult to obtain.

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Amendment to existing tax laws, rules or regulations or enactment of new unfavorable tax laws, rules or regulations could have an adverse effect on our business and financial performance.

Many of the underlying laws, rules or regulations imposing taxes and other obligations were established before the growth of the digital economy. If the tax laws, rules or regulations were amended, or if new unfavorable tax laws, rules or regulations were enacted, particularly with respect to occupancy, sales, value-added taxes, or unclaimed property, or other tax laws applicable to the digital economy, the results could increase our tax payments or other obligations, prospectively or retrospectively, subject us to interest and penalties, decrease the demand for our products and services if we pass on such costs to the consumer, result in increased costs to update or expand our technical or administrative infrastructure or effectively limit the scope of our business activities if we decided not to conduct business in particular jurisdictions. As a result, these changes could have an adverse effect on our business or financial performance.

In addition, in the past U.S. and foreign governments have introduced proposals for tax legislation, or have adopted tax laws, that could have a significant adverse effect on our tax rate, or increase our tax liabilities, the carrying value of deferred tax assets, or our deferred tax liabilities. For example, in October 2015, the Organization for Economic Co-Operation and Development (“OECD”) released a final package of suggested measures to be implemented by member nations in response to a 2013 action plan calling for a coordinated multi-jurisdictional approach to “base erosion and profit shifting” (“BEPS”) by multinational companies. Multiple member jurisdictions, including countries in which we operate, have begun implementing recommended changes such as country by country reporting (“CBCR”). The CBCR standards require multinationals to disclose certain financial and economic indicators across geographies. The CBCR disclosure is expected to result in increased global tax audit activity. Additional legislative changes are anticipated in upcoming years. Certain countries have adopted unilateral changes increasing the risk of double taxation. Any changes to U.S. or international tax laws or interpretation of current or existing law could impact the tax treatment of our earnings and adversely affect our profitability. Our tax liabilities in the future could also be adversely affected by changes to our operating structure, changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, or the discontinuance of beneficial tax arrangements in certain jurisdictions.

We continue to work with relevant authorities and legislators to clarify our obligations under existing, new and emerging tax laws and regulations.

We are involved in various legal proceedings and may experience unfavorable outcomes, which could adversely affect our business and financial condition.

We are involved in various legal proceedings and claims involving taxes, property, personal injury, contract, alleged infringement of third-party intellectual property rights, antitrust, consumer protection, securities laws, and other claims, including, but not limited to, the legal proceedings described in Part I, Item 3, Legal Proceedings. These matters may involve claims for substantial amounts of money or for other relief that might necessitate changes to our business or operations. The defense of these actions is and will likely continue to be both time consuming and expensive and their outcomes cannot be predicted with certainty. Determining reserves for pending litigation is a complex, fact-intensive process that requires significant legal judgment. It is possible that unfavorable outcomes in one or more such proceedings could result in substantial payments that could adversely affect our business, consolidated financial position, results of operations, or cash flows in a particular period.

We are subject to payments-related and fraud risks.

We have agreements with companies that process customer credit and debit card transactions, the volume of which are very large and continue to grow, for the facilitation of customer bookings of travel services from our travel suppliers. These agreements allow these processing companies, under certain conditions, to hold an amount of our cash (referred to as a “holdback”) or require us to otherwise post security equal to a portion of bookings that have been processed by that company. These processing companies may be entitled to a holdback or suspension of processing services upon the occurrence of specified events, including material adverse changes in our financial condition. An imposition of a holdback or suspension of processing services by one or more of our processing companies could materially reduce our liquidity. Moreover, there can be no assurances that the interchange rates or the fees we pay for the processing of customer credit and debit card transactions will not increase which could reduce our revenue thereby adversely

affecting our business and financial performance.

In addition, credit card networks, such as Visa, MasterCard and American Express, have adopted rules and regulations that apply to all merchants who process and accept credit cards and include payment card association operating rules, the Payment Card Industry Data Security Standards, or the PCI DSS. Under these rules, we are required to adopt and implement internal controls over the use, storage and security of card data. We assess our compliance with the PCI DSS rules on a periodic basis and make necessary improvements to our internal controls. Failure to comply may subject us to fines, penalties, damages and civil liability and could prevent us from processing or accepting credit cards.

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Our results of operations and financial positions have been negatively affected by our acceptance of fraudulent bookings made using credit and debit cards or fraudulently obtained loyalty points. We are sometimes held liable for accepting fraudulent bookings on our websites or other bookings for which payment is subsequently disputed by our customers both of which lead to the reversal of payments received by us for such bookings (referred to as a “charge back”). Accordingly, we calculate and record an allowance for the resulting credit and debit card charge backs. Our ability to detect and combat fraudulent schemes, which have become increasingly common and sophisticated, may be negatively impacted by the adoption of new payment methods, the emergence and innovation of new technology platforms, including smartphones and tablet computers, and our global expansion, including into markets with a history of elevated fraudulent activity. In addition, for existing and future payment options we offer to our customers, we may become subject to additional regulations and compliance requirements (including obligations to implement enhanced authentication processes that could result in significant costs and reduce the ease of use of our payments products), as well as fraud. If we are unable to effectively combat fraudulent bookings on our websites or mobile applications or if we otherwise experience increased levels of charge backs, our results of operations and financial positions could be materially adversely affected.

In addition, when onboarding suppliers to our websites, we may fail to identify falsified or stolen supplier credentials, which may result in fraudulent bookings or unauthorized access to personal or confidential information of users of our websites and mobile applications. A fraudulent supplier scheme could also result in negative publicity, damage to our reputation, and could cause users of our websites and mobile applications to lose confidence in the quality of our services. Any of these events would have a negative effect on the value of our brands, which could have an adverse impact on our financial performance.

We have foreign exchange risk.

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

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

Depending on the size of the exposures and the relative movements of exchange rates, if we choose not to hedge or fail to hedge effectively our exposure, we could experience a material adverse effect on our financial statements and financial condition. As we have seen in some recent periods, in the event of severe volatility in exchange rates these exposures can increase, and the impact on our results of operations can be more pronounced. In addition, the current environment and the increasingly global nature of our business have made hedging these exposures more complex. We have increased and plan to continue increasing the scope, complexity and duration of our foreign exchange risk management. We make a number of estimates in conducting hedging activities including in some cases cancellations and payments in foreign currencies. In addition, an effective exchange rate hedging program is dependent upon effective systems, accurate and reliable data sources, controls and change management procedures. In the event our estimates differ significantly from actual results or if we fail to adopt effective hedging processes, we could experience greater volatility as a result of our hedging activities.

Our stock price is highly volatile.

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

- Quarterly variations in our operating and financial results;
- Operating and financial results that vary from the expectations of securities analysts and investors, including failure to deliver returns on technology or emerging market marketing investments;
- Changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;

- Rating agency credit rating actions or pronouncements;
- Reaction to our earnings releases and conference calls, or presentations by executives at investor and industry conferences;
- Worldwide macro-economic conditions and fluctuations in currency exchange rates;
- Changes in our capital or governance structure;

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- Changes in market valuations of other internet or online service companies;
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- Changes in search industry dynamics, such as key word pricing and traffic, or other changes that negatively affect our ability to generate traffic to our websites;
- Announcements of dividends or changes in the amount or frequency of our dividends;
- Announcements of technological innovations or new services by us or our competitors;
- Announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- Loss of a major travel supplier, such as an airline, hotel or car rental chain;
- Changes in the status of our intellectual property rights;
- Lack of success in the expansion of our business model geographically;
- Significant claims or proceedings against us or adverse developments or decisions in pending proceedings;
- Significant security breaches;
- Additions or departures of key personnel;
- Rumors or public speculation about any of the above factors; and
- Price and volume fluctuations in the stock markets in general.

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

We may experience constraints in our liquidity and may be unable to access capital when necessary or desirable, either of which could harm our financial position.

Due to our increasing international presence, we may continue to accumulate a greater portion of our cash flows in certain foreign jurisdictions than previously and any repatriation of such funds for use in the United States, including for corporate purposes such as acquisitions, stock repurchases, dividends or debt refinancings, would likely result in additional U.S. income tax expense. In addition, we have experienced, and may experience in the future, declines in seasonal liquidity and capital provided by our merchant hotel business, which has historically provided a meaningful portion of our operating cash flow and is dependent on several factors, including the rate of growth of our merchant hotel business and the relative growth of businesses which consume rather than generate working capital, such as our agency hotel, advertising and managed corporate travel businesses and payment terms with suppliers. We also continued to see growth in both our merchant (Expedia Collect) and our agency (Hotel Collect) hotel products. To the extent our merchant hotel business stopped growing or began to decline, it would likely result in pressure on our working capital cash balances, cash flow over time and liquidity.

The availability of funds depends in significant measure on capital markets and liquidity factors over which we exert no control. In light of periodic uncertainty in the capital and credit markets, we can provide no assurance that sufficient financing will be available on desirable or even any terms to fund investments, acquisitions, stock repurchases, dividends, debt refinancing or extraordinary actions or that our counterparties in any such financings would honor their contractual commitments. In addition, any downgrade of our debt ratings by Standard & Poor's, Moody's Investor Service, Fitch or similar ratings agencies, increases in general interest rate levels and credit spreads or overall weakening in the credit markets could increase our cost of capital.

We process, store and use personal information, payment card information and other consumer data, which subjects us to risks stemming from possible failure to comply with governmental regulation and other legal obligations.

We may acquire personal or confidential information from users of our websites and mobile applications. There are numerous laws regarding privacy and the storing, sharing, use, processing, disclosure and protection of personal information, payment card information and other consumer data, the scope of which are changing, subject to differing interpretations, and may be inconsistent between countries or conflict with other rules. We strive to comply with all applicable laws, policies, legal obligations and industry codes of conduct relating to privacy and data protection. It is possible, however, that these obligations may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or the practices of the companies. Any failure or perceived

failure by us, or our service providers, to comply with the privacy policies, privacy-related obligations to users or other third parties, or privacy related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personally identifiable information, payment card information or other consumer data, may result in governmental enforcement actions, litigation or public statements against the company by consumer advocacy groups or others and could cause our customers and members to lose trust in the company, as

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well as subject us to bank fines, penalties or increased transaction costs, all of which could have an adverse effect on our business.

The regulatory framework for privacy issues worldwide is currently in flux and is likely to remain so for the foreseeable future. Practices regarding the collection, use, storage, transmission and security of personal information by companies operating over the internet have recently come under increased public scrutiny. The U.S. Congress and federal agencies, including the Federal Trade Commission and the Department of Commerce, are reviewing the need for greater regulation for the collection and use of information concerning consumer behavior on the internet, including regulation aimed at restricting certain targeted advertising practices. U.S. courts are also considering the applicability of existing federal and state statutes, including computer trespass and wiretapping laws, to the collection and exchange of information online. In addition, the European Court of Justice's invalidation of the U.S.-EU Safe Harbor Framework could make it more difficult for us to transfer data outside of the European Union for processing and the European Union's reforms to its existing data protection legal framework, which may result in a greater compliance burden for companies, including Expedia, with users in Europe and increased costs of compliance. Finally, countries in other regions, most notably Asia, Eastern Europe and Latin America, are increasingly implementing new privacy regulations, resulting in additional compliance burdens and uncertainty as to how some of these laws will be interpreted.

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

Our performance is largely dependent on the talents and efforts of highly skilled individuals. Our future success depends on our continuing ability to identify, hire, develop, motivate and retain highly skilled personnel for all areas of our organization. In particular, the contributions of Barry Diller, our Chairman and Senior Executive, and Dara Khosrowshahi, our Chief Executive Officer, are critical to the overall management of the company. Our future success will depend on the performance of our senior management and key employees. Expedia cannot ensure that it will be able to retain the services of Mr. Diller, Mr. Khosrowshahi or any other member of our senior management or key employees, the loss of whom could seriously harm our business. We do not maintain any key person life insurance policies.

Competition for well-qualified employees in certain aspects of our business, including software engineers, developers, product management personnel, development personnel, and other technology professionals, also remains intense. Our continued ability to compete effectively depends on our ability to attract new employees and to retain and motivate our existing employees. For example, additional barriers to or restricts on travel for professional or personal purposes, such as those in the United States in early 2017, may cause significant disruption to our businesses or negatively affect our ability to attract and retain employees on a global basis. If we do not succeed in attracting well-qualified employees or retaining or motivating existing employees, our business would be adversely affected.

In addition, we have in the past and may again in the future, restructure portions of our global workforce to simplify and streamline our organization, improve our cost structure and strengthen our overall businesses. These changes could affect employee morale and productivity and be disruptive to our business and financial performance.

Mr. Diller currently effectively controls Expedia. If Mr. Diller ceases to control the company, Liberty Expedia Holdings, Inc. may effectively control the company.

Subject to the terms of a Stockholders Agreement between Mr. Diller and Liberty Expedia Holdings, Mr. Diller holds an irrevocable proxy to vote shares of Expedia stock held by Liberty Expedia Holdings, which proxy has been assigned by Mr. Diller to Liberty Expedia Holdings until the earlier of May 4, 2018 or the occurrence of certain termination events. By virtue of the agreements between Mr. Diller and Liberty Expedia Holdings and their respective holdings in Expedia, the voting power of an irrevocable proxy granted to Mr. Diller by John C. Malone and Leslie Malone over their shares in Liberty Expedia Holdings and the governance arrangements at Liberty Expedia Holdings, during the period the assignment of the Diller Proxy and the proxy granted him by the Malones are in effect, Mr. Diller is effectively able to control the outcome of nearly all matters submitted to a vote or for the consent of our stockholders (other than with respect to the election by the holders of common stock of 25% of the members of our Board of Directors and matters as to which Delaware law requires a separate class vote). Upon Mr. Diller's permanent

departure from Expedia, the irrevocable proxy would terminate and depending on the capitalization of Expedia at such time, Liberty Expedia Holdings could effectively control the voting power of our capital stock. As a result of their agreements and respective holdings in Expedia, Mr. Diller and Liberty Expedia Holdings may be deemed to share voting power over securities representing approximately 54% of the combined voting power of the outstanding Expedia capital stock as of December 31, 2016.

In addition, under a Governance Agreement among Mr. Diller, Liberty Expedia Holdings, Inc. and Expedia, Inc., as amended, each of Mr. Diller and Liberty Expedia Holdings generally has the right to consent to limited matters in the event that we incur debt such that our ratio of total debt to EBITDA, as defined in the Governance Agreement, equals or exceeds 8:1 over a continuous 12-month period. We cannot assure you that Mr. Diller and Liberty Expedia Holdings will consent to any such

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matter at a time when we are highly leveraged, in which case we would not be able to engage in such transactions or take such actions.

As a result of Mr. Diller's and Liberty Expedia Holdings' ownership interests and voting power, the agreements between Mr. Diller and Liberty Expedia Holdings and between Mr. Diller and the Malones, and the governance structure at Liberty Expedia Holdings, Mr. Diller is currently in a position to control or influence, and Liberty Expedia Holdings is in a position to influence, significant corporate actions, including, corporate transactions such as mergers, business combinations or dispositions of assets. As a result of Liberty Expedia Holdings' ownership interests and voting power upon Mr. Diller's permanent departure from Expedia, in the future Liberty Expedia Holdings may be in a position to control or influence such corporate actions. This concentrated control could discourage others from initiating any potential merger, takeover or other change of control transaction that may otherwise be beneficial to us. Actual or potential conflicts of interest may develop between Expedia management and directors, on the one hand, and the management and directors of IAC, on the other.

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

Our certificate of incorporation provides that no officer or director of Expedia who is also an officer or director of IAC be liable to Expedia or its stockholders for breach of any fiduciary duty by reason of the fact that any such individual directs a corporate opportunity to IAC instead of Expedia, or does not communicate information regarding a corporate opportunity to Expedia because the officer or director has directed the corporate opportunity to IAC. This corporate opportunity provision may have the effect of exacerbating the risk of conflicts of interest between the companies because the provision effectively shields an overlapping director/executive officer from liability for breach of fiduciary duty in the event that such director or officer chooses to direct a corporate opportunity to IAC instead of Expedia.

We work closely with various business partners and rely on third-parties for many systems and services, and therefore could be harmed by their activities.

We could be harmed by the activities of third parties that we do not control. We work closely with business partners, including in connection with significant commercial arrangements and joint ventures, and through our Expedia Affiliate Network business. We also rely on third-party service providers for certain customer care, fulfillment, processing, systems development, technology and other services, including, increasingly, travel care and information technology services. If these partners or third-party service providers experience difficulty or fail to meet our requirements or standards or the requirements or standards of governmental authorities, it could damage our reputation, make it difficult for us to operate some aspects of our business, or expose us to liability for their actions which could have an adverse impact on our business and financial performance. Likewise, if the third-party service providers on which we rely were to cease operations, temporarily or permanently, face financial distress or other business disruption, we could suffer increased costs and delays in our ability to provide similar services until an equivalent service provider could be found or we could develop replacement technology or operations, any of which could also have an adverse impact on our business and financial performance.

We are exposed to various counterparty risks.

We are exposed to the risk that various counterparties, including financial entities, will fail to perform. This creates risk in a number of areas, including with respect to our bank deposits and investments, foreign exchange risk management, insurance coverages, and letters of credit. As it relates to deposits, as of December 31, 2016, we held cash in bank depository accounts of approximately \$1.3 billion (primarily in Bank of America, Bank of Tokyo-Mitsubishi UFJ, BNP Paribas, HSBC, and JPMorgan Chase) and held time deposits of approximately \$324 million at financial institutions including, BNP Paribas, JPMorgan Chase, Mizuho Bank Ltd., National Australia Bank, and Standard Chartered Bank. Additionally, majority-owned subsidiaries held cash of approximately \$313

million (primarily in Deutsche Bank and National Australia Bank). As it relates to foreign exchange, as of December 31, 2016, we were party to forward contracts with a notional value of approximately \$1.9 billion, the fair value of which was a liability of approximately \$4 million. The counterparties to these contracts were Barclays Bank, BNP Paribas, Bank of America, The Bank of Tokyo-Mitsubishi UFJ, Citibank, Credit Suisse International, Goldman Sachs, HSBC, JPMorgan Chase, Mizuho, Royal Bank of Canada, Standard Chartered Bank, The Bank of Nova Scotia, Societe Generale, and Wells Fargo. We employ forward contracts to hedge a portion of our exposure to foreign currency exchange rate fluctuations. At the end of the deposit term or upon the maturity of the forward contracts, the counterparties are obligated, or potentially obligated in the case of forward contracts, to return our funds or pay us net settlement values. If any of these counterparties

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were to liquidate, declare bankruptcy or otherwise cease operations, it may not be able to satisfy its obligations under these time deposits or forward contracts.

In addition, due to instability in the economy we also face increased credit risk and payment delays from our non-financial contract counterparties.

We have significant indebtedness, which could adversely affect our business and financial condition.

We have outstanding long-term indebtedness with a face value of \$3.2 billion and we have a \$1.5 billion unsecured revolving credit facility. Risks relating to our indebtedness include:

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

The agreements governing our indebtedness contain various covenants that may limit our ability to effectively operate our businesses, including those that restrict our ability to, among other things:

- Borrow money, and guarantee or provide other support for indebtedness of third parties including guarantees;
- Pay dividends on, redeem or repurchase our capital stock;
- Enter into certain asset sale transactions, including partial or full spin-off transactions;
- Enter into secured financing arrangements;
- Enter into sale and leaseback transactions; and
- Enter into unrelated businesses.

In addition, our credit facility requires that we meet certain financial tests, including an interest coverage test and a leverage ratio test.

Any failure to comply with the restrictions of our credit facility or any agreement governing our other indebtedness may result in an event of default under those agreements. Such default may allow the creditors to accelerate the related debt, which acceleration may trigger cross-acceleration or cross-default provisions in other debt. In addition, lenders may be able to terminate any commitments they had made to supply us with further funds (including periodic rollovers of existing borrowings). In addition, it is possible that we may need to incur additional indebtedness in the future in the ordinary course of business. The terms of our credit facility and the indentures governing our outstanding senior notes allow us to incur additional debt subject to certain limitations. If new debt is added to current debt levels, the risks described above could intensify.

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

Our websites and mobile applications rely on content, brands, domain names and technology, much of which is proprietary. We establish and protect our intellectual property by relying on a combination of trademark, domain name, copyright, trade secret and patent laws in the U.S. and other jurisdictions, license and confidentiality agreements, and internal policies and procedures. In connection with our license agreements with third parties, we seek to control access to, and the use and distribution of, our proprietary information and intellectual property. Even with these precautions, however, it may be possible for another party to copy or otherwise obtain and use our intellectual property without our authorization or to develop similar intellectual property independently. Effective trademark, domain name, copyright, patent and trade secret protection may not be available in every jurisdiction in which our services are made available, and policing unauthorized use of our intellectual property is difficult and expensive. We cannot be sure that the steps we have taken will prevent misappropriation or infringement of intellectual property. Any misappropriation or violation of our rights could have a material adverse effect on our business. Furthermore, we may need to go to court or other tribunals to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. These proceedings

might result in substantial costs and diversion of resources and management attention.

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

Part I. Item 1B. Unresolved Staff Comments

None.

Part I. Item 2. Properties

We lease approximately 3.3 million square feet of office space worldwide, pursuant to leases with expiration dates through November 2026.

We lease approximately 562,000 square feet for our headquarters in Bellevue, Washington, pursuant to leases with expiration dates through December 2019. We also lease approximately 1.1 million square feet of office space for our domestic operations in various other cities and locations pursuant to leases with expiration dates through March 2026. We also lease approximately 1.6 million square feet of office space for our international operations in various cities and locations pursuant to leases with expiration dates through November 2026.

In addition to our leased space, on April 30, 2015, we acquired our future corporate headquarters for \$229 million, consisting of multiple office and lab buildings located in Seattle, Washington. The build out of the headquarters is expected to be significant as we convert lab facilities into office space. We expect employees to be moved to the new location during 2019.

Part I. Item 3. Legal Proceedings

In the ordinary course of business, Expedia and its subsidiaries are parties to legal proceedings and claims involving property, personal injury, contract, alleged infringement of third-party intellectual property rights and other claims. The amounts that may be recovered in such matters may be subject to insurance coverage.

Rules of the SEC require the description of material pending legal proceedings, other than ordinary, routine litigation incident to the registrant's business, and advise that proceedings ordinarily need not be described if they primarily involve damages claims for amounts (exclusive of interest and costs) not individually exceeding 10% of the current assets of the registrant and its subsidiaries on a consolidated basis. In the judgment of management, none of the pending litigation matters that the Company and its subsidiaries are defending, including those described below, involves or is likely to involve amounts of that magnitude. The litigation matters described below involve issues or claims that may be of particular interest to our stockholders, regardless of whether any of these matters may be material to our financial position or results of operations based upon the standard set forth in the SEC's rules.

Litigation Relating to Occupancy and Other Taxes

A number of jurisdictions in the United States have filed lawsuits against online travel companies, including Expedia companies, such as Hotels.com, Expedia, Hotwire, Orbitz and HomeAway, claiming that such travel companies have failed to collect and/or pay taxes (e.g., occupancy taxes, excise taxes, sales taxes, etc.), as well as related claims such as unjust enrichment, restitution, interest, and penalties. In addition, we may file complaints contesting tax assessments made by states, counties and municipalities seeking to obligate online travel companies, including certain Expedia companies, to collect and remit certain taxes, either retroactively or prospectively, or both. Moreover, certain jurisdictions may require us to pay tax assessments prior to contesting any such assessments. This requirement is commonly 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.

Actions Filed by Individual States, Cities and Counties

City of Los Angeles Litigation. On December 30, 2004, the city of Los Angeles filed a purported class action in California state court against a number of online travel companies, including Hotels.com, Expedia, Hotwire and Orbitz. City of Los Angeles, California, on Behalf of Itself and All Others Similarly Situated v. Hotels.com, L.P. et al., No. BC326693 (Superior Court, Los Angeles County). The complaint alleged that the defendants failed to pay hotel occupancy taxes, and sought certification of a statewide class of all California cities and counties that have enacted uniform transient occupancy-tax ordinances effective on or after December 30, 1990. The complaint alleged violation of those ordinances, violation of Section 17200 of the California Business and Professions Code, and common-law conversion; it also sought a declaratory

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judgment that the defendants are subject to hotel occupancy taxes on the hotel rate charged to consumers and imposition of a constructive trust, disgorgement, restitution, interest and penalties. On April 18, 2013, the trial court held that the online travel companies are not liable to remit hotel occupancy taxes to the city of Los Angeles. On January 8, 2014, the court entered final judgment in favor of the online travel companies. In the administrative process preceding the litigation, the city of Los Angeles had issued assessments in September 2009 totaling \$29.5 million against certain Expedia companies (Expedia, Hotels.com and Hotwire). On March 21, 2014, the city of Los Angeles filed a notice of appeal. The California Court of Appeals has lifted the stay for this case and the appeal will proceed in light of the California Supreme Court's decision in the San Diego litigation.

City of Chicago Litigation. On November 1, 2005, the city of Chicago, Illinois filed an action in state court against a number of online travel companies, including Expedia, Hotels.com and Hotwire. City of Chicago, Illinois v. Hotels.com, L.P., et al., No. 2005 L051003 (Circuit Court of Cook County). The complaint alleged that the defendants failed to pay hotel accommodations taxes as required by municipal ordinance. The complaint asserted claims for violation of that ordinance, conversion, imposition of a constructive trust and demanded a legal accounting. It also sought damages, restitution, disgorgement, fines, penalties and other relief in an unspecified amount. On June 21, 2013 and subsequently on June 28, 2013, the court entered an order and a supplemental order resolving the parties' pending cross motions for summary judgment. The court denied the defendant online travel companies' motion for summary judgment and granted in part and denied in part the city of Chicago's motion for summary judgment, holding the online travel companies liable for hotel occupancy taxes. On May 7, 2015, the court granted in part and denied in part the city's motion for summary judgment on damages and penalties. On October 27, 2015, the court entered final judgment in the city's favor. Expedia, Hotels.com and Hotwire filed a notice of appeal on November 25, 2015. That appeal remains pending.

City of San Diego, California Litigation. On February 9, 2006, the city of San Diego, California filed an action in state court against a number of online travel companies, including Expedia, Hotels.com and Hotwire. City of San Diego v. Hotels.com, L.P. et al., Judicial Council Coordination Proceeding No. 4472 (Superior Court for the County of San Diego). The complaint alleged that the defendants failed to pay hotel accommodations taxes as required by municipal ordinance. The complaint included claims for violation of that ordinance, for violation of Section 17200 of the California Business and Professions Code, conversion, imposition of a constructive trust and declaratory judgment, and sought damages and other relief in an unspecified amount. On September 6, 2011, the court granted the online travel companies' motion for judgment granting writ of mandate, denied the city's motion for judgment, and held that the online travel companies are not liable for hotel occupancy taxes. The city appealed. In the administrative hearing process preceding the lawsuit, the online travel companies were held liable for hotel accommodations taxes, including assessments totaling \$16.5 million for the Expedia companies. On March 5, 2014, the California Court of Appeals ruled in favor of the online travel companies. The city filed a petition for review by the California Supreme Court and, on July 30, 2014, the California Supreme Court accepted review. The Court heard oral argument on September 29, 2016. On December 12, 2016, the California Supreme Court affirmed the Court of Appeals' decision, concluding that the defendant online travel companies do not operate hotels, and therefore, they are not liable for hotel taxes. While not part of the court's reasoning for its decision, the court commented that under the San Diego ordinance hotel taxes would be due on amounts that hotels require online travel companies to charge consumers under specific contractual rate parity clauses.

City of San Antonio, Texas Litigation. On May 8, 2006, the city of San Antonio filed a putative statewide class action in federal court against a number of online travel companies, including Expedia, Hotels.com, Hotwire, and Orbitz. See City of San Antonio, et al. v. Hotels.com, L.P., et al., SA06CA0381 (United States District Court, Western District of Texas, San Antonio Division). The complaint alleged that the defendants failed to pay hotel accommodations taxes as required by municipal ordinance. The complaint asserted claims for violation of that ordinance, common-law conversion, and declaratory judgment, and sought damages in an unspecified amount, restitution and disgorgement. On October 30, 2009, a jury verdict was entered finding that defendant online travel companies "control hotels," and awarding approximately \$15 million for historical damages against the Expedia companies. The jury also found that defendants were not liable for conversion or punitive damages. On April 4, 2013, the court entered a final judgment holding the online travel companies liable for hotel occupancy taxes to counties and cities in the statewide class. The

online travel companies filed a motion for judgment as a matter of law or, in the alternative, for a new trial. The cities filed a motion to amend the judgment regarding calculation of penalties. On February 20, 2014, the court denied the online travel companies' motion. On January 22, 2015, the court granted in part and denied in part the cities' motion regarding penalties. On April 11, 2016, the court entered an amended judgment including approximately \$68 million in tax, interest and penalty amounts for the Expedia companies, including Orbitz. The online travel companies filed a notice of appeal to the U.S. Fifth Circuit Court of Appeals on May 6, 2016. Plaintiffs filed a notice of cross appeal on May 12, 2016. Those appeals remain pending. On July 25, 2016, plaintiffs filed a request for attorneys' fees and costs in the trial court; the defendant online travel companies opposed that request and it remains pending.

Nassau County, New York Litigation. On October 24, 2006, the county of Nassau, New York filed a putative statewide class action in federal court against a number of online travel companies, including Expedia, Hotels.com, Hotwire, and

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Orbitz, Nassau County, New York, et al. v. Hotels.com, L.P., et al., (United States District Court, Eastern District of New York). The complaint alleged that the defendants failed to pay hotel accommodation taxes as required by local ordinances to certain New York cities, counties and local governments in New York. The complaint asserted claims for violations of those ordinances, as well as claims for conversion, unjust enrichment, and imposition of a constructive trust, and sought unspecified damages. The county subsequently dismissed its case on May 13, 2011 on the basis that the court lacked jurisdiction and refiled in state court. County of Nassau v. Expedia, Inc., et al., (In the Supreme Court of the State of New York, County of Nassau). The defendants filed a motion to dismiss the refiled state court case. On June 13, 2012, the court denied the online travel companies' motion to dismiss. On November 27, 2012, plaintiff filed a motion for class certification. On April 11, 2013, the court granted plaintiff's motion for class certification. The online travel company defendants appealed both the court's certification order and its prior order denying their motion to dismiss. On September 10, 2014, the New York Supreme Court Appellate Division reversed the trial court's order granting the plaintiff's motion for class certification. In a separate opinion, the Appellate Division also affirmed in part and reversed in part the trial court's denial of the online travel companies' motion to dismiss. On September 11, 2015, the parties filed cross motions for summary judgment. On September 25, 2015, Erie County, Orange County, Rensselaer County and Saratoga County, New York filed a motion seeking leave to intervene as plaintiffs in the lawsuit; the defendant online travel companies opposed the motion. On February 23, 2016, the court granted the counties' motion to intervene. The defendants filed their notice of appeal from the February 23, 2016 Order on April 26, 2016. On July 20, 2016, the court entered a stipulated order permitting the addition of another group of taxing jurisdictions — the Counties of Chautauqua, Oswego, Steuben, Westchester, and the City of Saratoga Springs — as Intervenor-Plaintiffs in the lawsuit and agreeing that these Intervenor-Plaintiffs will be bound by the disposition of the defendants' appeal from the Supreme Court's February 23, 2016 Order granting intervention. On December 2, 2016, the court granted defendants' motion for summary judgment and denied plaintiff Nassau County's motion for summary judgment. The court concluded that the enabling statute for plaintiff's tax ordinance did not impose a tax on defendants' fees. The court further invited defendants to file a successive motion for summary judgment against intervenors Orange County, Rensselaer County, Saratoga County and Erie County on similar grounds. The court also vacated its July 19, 2016 stipulation granting the Counties of Chautauqua, Oswego, Steuben, Westchester, and the City of Saratoga Springs permission to intervene. On December 23, 2016, defendants filed a motion for summary judgment against intervenors Orange County, Rensselaer County, Saratoga County and Erie County; that motion remains pending.

City and County of San Francisco, California Litigation. On May 13, 2008, San Francisco instituted an audit of a number of online travel companies, including Expedia, Hotels.com, Hotwire and Orbitz, for hotel occupancy taxes claimed to be due from 2000 through the third quarter of 2007. During an administrative hearing process, the hearing examiner upheld the tax assessments. Thereafter, the online travel companies proceeded to the California superior court to vacate the decision of the hearing examiner and for a declaratory judgment that the online travel companies are not subject to San Francisco's hotel occupancy tax. Expedia, Inc. v. City and County of San Francisco, ET. al.; Hotels.com, Inc. v. City and County of San Francisco, ET. al.; Hotwire, Inc. v. City and County of San Francisco, ET. al., (Superior Court of the State of California, County of San Francisco). San Francisco also filed a lawsuit against hotels in the city for the recovery of hotel occupancy taxes on the online travel companies' services. The hotel suit was consolidated with the case relating to the online travel companies. On June 19, 2009, the court granted the city's demurrer on the "pay first" issue relating to pay-to-play provisions. Expedia and Hotwire's appeal of the "pay first" decision was denied, as was Hotels.com's appeal. The total assessed amount paid by the Expedia companies was approximately \$48 million. On February 6, 2013, the court held that the online travel companies are not liable to remit hotel occupancy taxes to San Francisco. On October 10, 2013, the court entered judgment in favor of the online travel companies. On December 9, 2013, San Francisco filed a notice of appeal. San Francisco also has issued additional tax assessments against the Expedia companies in the amount of \$22 million for the time period from the fourth quarter of 2007 through the fourth quarter of 2011. These subsequent tax assessments are pending before the court, and on August 24, 2013, the court held that these subsequent assessments against the online travel companies as well as the lawsuit against the hotels should be stayed pending the appeal of San Francisco's first assessment. On January 21, 2014, the city notified the Expedia companies that despite proceeding in court on its assessments that it now intended

to proceed against the Expedia companies in the administrative process to recover the assessment amount of \$22 million. On May 14, 2014, the court heard oral argument on the Expedia companies' contest of the prepayment requirement for the additional assessments and held that the Expedia companies were required to prepay in order to litigate the legality of the assessments. On May 26, 2014, the Expedia companies paid \$25.5 million under protest in order to contest the additional assessments. In addition, Orbitz in total has paid \$4.6 million to the city of San Francisco in prepayment of taxes to contest these assessments issued against it by the city. The California Court of Appeals has lifted the stay for this case and the appeal will proceed in light of the California Supreme Court's decision in the San Diego litigation.

Pine Bluff, Arkansas Litigation. On September 25, 2009, Pine Bluff Advertising and Promotion Commission and Jefferson County filed a class action against a number of online travel companies, including Expedia, Inc., Hotels.com, Hotwire and Orbitz. Pine Bluff Advertising and Promotion Commission, Jefferson County, Arkansas, and others similarly situated v. Hotels.com LP, et al. CV-2009- 946-5 (In the Circuit Court of Jefferson, Arkansas). The complaint alleged that defendants have failed to collect and/or pay taxes under hotel tax occupancy ordinances. The court denied defendants'

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motion to dismiss. Plaintiffs filed a motion for class certification, which the court granted on February 19, 2013. Defendants appealed the class certification decision, and on October 10, 2013 the Arkansas Supreme Court affirmed that decision.

Town of Breckenridge, Colorado Litigation. On July 25, 2011, the Town of Breckenridge, Colorado brought suit on behalf of itself and other home rule municipalities against a number of online travel companies, including Expedia, Hotels.com, Hotwire and Orbitz. Town of Breckenridge, Colorado v. Colorado Travel Company, LLC, Case No. 2011CV420 (District Court, Summit County, Colorado). The complaint included claims for declaratory judgment, violations of municipal ordinances, conversion, civil conspiracy and unjust enrichment. The online travel companies filed a motion to dismiss. On June 8, 2012, the court granted in part and denied in part the online travel companies' motion to dismiss. On March 26, 2014, the court denied the plaintiffs' motion for class certification. The parties filed cross-motions for summary judgment and, on April 20, 2016, the court granted the online travel companies' motion for summary judgment, and denied the town's motion for summary judgment, holding that the Breckenridge Accommodations Tax does not apply to the online travel companies or the amounts they charge for their services. On June 8, 2016, the Town of Breckenridge filed a notice of appeal from the court's order on the parties' cross motions for summary judgment, as well as the court's prior rulings denying class certification and dismissing claims for state sales tax. On June 8, 2016, the Town of Breckenridge filed a notice of appeal from the trial court's order on the parties' cross motions for summary judgment, as well as the trial court's prior rulings denying class certification and dismissing claims for state sales tax. On September 8, 2016, the Colorado Court of Appeals dismissed the Town of Breckenridge's appeal without prejudice for lack of a final appealable judgment on the ground that the Town had failed to demonstrate that the trial court had disposed of claims against two non-online travel company defendants. On September 22, 2016, the trial court granted the Town's motion to dismiss one of the non-online travel company defendants and entered final judgment for all other remaining defendants. On November 7, 2016, the Town again filed notice of appeal. The appeal remains pending.

State of Mississippi Litigation. On December 29, 2011, the State of Mississippi brought suit against a number of online travel companies, including Expedia, Hotels.com, Hotwire and Orbitz. State of Mississippi v. Priceline.com, et al., Case No. G-2011-002211 (Chancery Court, Hinds County, Mississippi). The complaint included claims for declaratory judgment, injunctive relief, violations of state sales tax statute and local ordinances, violation of Consumer Protection Act, conversion, unjust enrichment, constructive trust, money had and received and joint venture liability. On March 23, 2012, the defendant online travel companies filed a motion to dismiss. On September 20, 2012, the court denied the defendants' motion to dismiss.

State of Kentucky Litigation. On July 15, 2013, the Department of Revenue, Finance and Administration Cabinet, Commonwealth of Kentucky, filed a lawsuit in Kentucky state court against a number of online travel companies, including Expedia, Hotels.com, Hotwire and Orbitz. Department of Revenue, Finance and Administration Cabinet, Commonwealth of Kentucky, v. Expedia, Inc. et al., Case No. 13-CI-912 (Franklin Circuit Court, Commonwealth of Kentucky). The complaint allege claims for declaratory judgment, injunctive relief, violations of state sales tax laws, breach of fiduciary duty requiring an accounting, conversion, assumpsit for money had and received imposition of a constructive trust, damages and punitive damages. On September 23, 2013, the defendant online travel companies filed a motion to dismiss, which the court denied on January 15, 2014. On March 4, 2015, the plaintiff filed a motion for partial summary judgment on liability issues. On April 10, 2015, the defendant online travel companies' filed an opposition and cross-motion for partial summary judgment. On March 17, 2015, the court granted in part and denied in part the plaintiff's motion for summary judgment, finding that the OTCs' compensation is subject to state sales tax but that Plaintiff's common law claims are preempted. The court denied the OTCs' motion for partial summary judgment. On April 20, 2016, the court clarified its earlier order by granting the OTCs' motion for summary judgment as to the plaintiff's common law claims. The parties reached a settlement and, on January 31, 2017, the court entered an order dismissing the case.

Village of Bedford Park, Illinois Litigation. On April 5, 2013, a group of Illinois municipalities (City of Warrenville, Village of Bedford Park, City of Oakbrook Terrace, Village of Oak Lawn, Village of Orland Hills, City of Rockford and Village of Willowbrook) filed a putative class action in Illinois federal court against a number of online travel companies, including Expedia, Hotels.com, Hotwire and Orbitz. City of Warrenville, et al. v. Priceline.com,

Incorporated, et al., Case No. 1:13-cv-02586 (USDC, D. Ill., Eastern Division). The complaint sought certification of a class of all Illinois municipalities (broken into four alleged subclasses) that have enacted and collect a tax on the percentage of the retail rate that each consumer occupant pays for lodging, including service costs, denominated in any manner, including but not limited to occupancy tax, a hotel or motel room tax, a use tax, a privilege tax, a hotel or motel tax, a licensing tax, an accommodations tax, a rental receipts tax, a hotel operator's tax, a hotel operator's occupation tax, or a room rental, lease or letting tax. The complaint alleged claims for relief for declaratory judgment, violations of municipal ordinances, conversion, civil conspiracy, unjust enrichment, imposition of a constructive trust, damages and punitive damages. On July 8, 2013, the plaintiff municipalities voluntarily dismissed their federal court lawsuit and filed a similar putative class action lawsuit in Illinois state court. City of Bedford Park, et al. v. Expedia, Inc., et al. (Circuit Court of Cook County, Illinois, Chancery Division). The online travel companies removed the case to federal district court. On September 13, 2013, the

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online travel companies filed a motion to dismiss plaintiffs' common law claims. On March 13, 2014, the court granted the defendant online travel companies' motion and dismissed the plaintiffs' common law claims. On October 3, 2014, plaintiffs filed a motion for class certification, which the court denied without prejudice on January 6, 2015. Plaintiffs filed a renewed motion for class certification, which the court denied on September 28, 2015. The case proceeded only on the claims brought by the individual plaintiff municipalities named in the suit. On February 1, 2016, the plaintiffs filed a motion for summary judgment. On February 29, 2016, the defendant online travel companies filed a cross motion for summary judgment. The Expedia and Orbitz defendants reached a settlement with one of the plaintiff municipalities -the city of Oakbrook Terrace, Illinois and on March 4, 2016, those parties filed a stipulation for voluntary dismissal of the city's claims. On June 20, 2016, the court granted the defendant online travel companies' motion for summary judgment as to 12 of the 13 plaintiff municipalities, finding no liability for occupancy taxes in those jurisdictions. The court granted the plaintiffs' motion for summary judgment, and denied the defendants' motion, as to the Village of Lombard. On October 19, 2016, the trial court entered a stipulated judgment on plaintiff Village of Lombard's claims. The parties filed cross notices of appeal from the trial court's summary judgment ruling in November, 2016. These appeals remain pending.

State of New Hampshire Litigation. On October 16, 2013, the State of New Hampshire filed a lawsuit against a number of online travel companies, including Expedia, Hotels.com, Hotwire, Orbitz and Egencia. State of New Hampshire v. Priceline.com, et al., Case No. 217-2013-CV-00613 (Merrimack Superior Court, New Hampshire). The complaint alleged claims for declaratory judgment, injunctive relief, violation of state meals and room tax law, violation of Consumer Protection Act, breach of fiduciary duty, accounting, conversion, unjust enrichment, assumpsit for money had and received, civil conspiracy, and constructive trust. On December 23, 2013, the defendant online travel companies filed a motion to dismiss, which the court granted in part and denied in part on June 30, 2014. On February 19, 2015, the plaintiff filed a motion to amend its complaint. On May 5, 2015, the court issued an order denying the motion to amend except as to "housekeeping changes." On May 27, 2015, plaintiff filed its amended complaint, which the Expedia defendants answered on June 26, 2015. On December 21, 2015, the parties filed cross motions for summary judgment. The court heard oral argument on the parties' motions on May 5, 2016. At the request of the Court, the Parties subsequently embarked on a process designed to explore the possibility of agreement upon a Statement of Facts and, if there can be an agreement, to prepare an Agreed Statement of Facts for submission to the Court on or before August 1, 2016. The court indicated that if the parties were unable to agree, it would deny all pending motions and set the case for trial. The parties were unable to agree on an Agreed Statement of Facts for submission to the Court by August 1, 2016. On August 1, 2016, the defendants filed a motion for leave of court to submit a renewed motion for summary judgment as to the plaintiffs' consumer protection act claims. On October 3, 2016, the court denied the motion and scheduled a trial date of May 1, 2017.

Arizona Cities Litigation. Tax assessments were issued in 2013 by 12 Arizona cities (Apache Junction, Chandler, Flagstaff, Glendale, Mesa, Nogales, Peoria, Phoenix, Prescott, Scottsdale, Tempe and Tucson) against a group of online travel companies including Expedia, Hotels.com, Hotwire and Orbitz. The OTCs petitioned for redetermination of the assessments. On May 28, 2014, the Municipal Tax Hearing Officer granted the online travel companies' protests to the assessments and ordered the cities to abate the assessments. On August 26, 2014, the cities appealed the Hearing Officer's decision by filing complaints and notices of appeal against the online travel companies in Arizona Tax Court. (See, City of Phoenix, et al. v. Expedia, Inc., Case No. TX2014-00471). On August 31, 2015, the cities filed a motion for summary judgment. On September 30, 2015, the online travel companies filed a response to the cities' motion and their own cross motion for summary judgment. On April 20, 2016, the Arizona Tax Court granted the plaintiff cities' motion for summary judgment in part and denied it in part; the court also denied the defendant online travel companies' motion for summary judgment. On June 6, 2016, the Arizona Tax Court entered judgment. On June 21, 2016, the plaintiff cities filed a motion to amend or alter that judgment on the grounds that the court's ruling that the online travel companies do not owe past taxes based upon prior administrative guidance should be reversed. The defendant online travel companies opposed the motion. On October 17, 2016, the court denied the motion. On November 10, 2016, the plaintiff cities filed a notice of appeal. On November 16, 2016, the defendants filed a notice of appeal. These appeals remain pending.

Village of Matteson, Illinois Litigation. On December 3, 2015, the Villages of Matteson, Bloomington and Oakbrook, Illinois filed a lawsuit in Illinois state court against a number of online travel companies, including Expedia, Hotels.com, Hotwire, Egencia and Orbitz. Village of Matteson, et al. v. Expedia, Inc. (WA), et al., Case No. 2015CHI7598 (Cook County Chancery Court, State of Illinois). The complaint alleged claims for declaratory judgment, violation of municipal tax ordinances, fraud, conversion, civil conspiracy, unjust enrichment, imposition of a constructive trust, breach of fiduciary duty requiring an accounting, damages and punitive damages. On April 4, 2016, the defendant online travel companies filed a motion to dismiss plaintiffs' common law claims. On July 29, 2016, the court granted the motion and dismissed plaintiffs' common law claims.

State of Louisiana/City of New Orleans Litigation. On August 24, 2016, the State of Louisiana Department of Revenue and the City of New Orleans filed a lawsuit in Louisiana state court against a number of online travel companies, including Expedia, Hotels.com, Hotwire, Orbitz and Egencia. See Kimberly L. Robinson, Secretary of the Department of Revenue for the State of Louisiana and City of New Orleans Department of Finance v. Priceline.com, Inc. et al., Case No.

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650894 (19th Judicial District Court, Parish of East Baton Rouge, Louisiana). The complaint alleged claims for declaratory judgment, violation of state and city tax laws, unfair trade practices, breach of fiduciary duty, and imposition of a constructive trust. On November 30, 2016, the defendant online travel companies filed a motion for judgment on the pleadings seeking dismissal of plaintiffs' common law and unfair trade practices claims. The court has scheduled a hearing on that motion for February 13, 2016.

In addition, Orbitz is a party in the following proceedings:

State of Indiana Litigation. On March 3, 2009, Orbitz filed an appeal to Indiana Tax Court for review of the Indiana Department of Revenue's assessment of hotel taxes against it. *Orbitz, LLC v. State of Indiana*, Case No. 49T10-0903-TA-10 (Indiana Tax Court 2009). Both Orbitz and the Department of Revenue filed cross motions for summary judgment on August 2013. On December 20, 2016, the court granted Orbitz's motion and denied plaintiff's, holding that Orbitz was not liable for tax.

In addition, HomeAway is a party in the following proceedings:

Palm Beach, Florida Litigation. On January 13, 2014, Palm Beach County, Florida filed a lawsuit in Florida state court against HomeAway and other vacation rental listing businesses seeking tourist development taxes imposed by Palm Beach County. *Palm Beach County v. AirBnb, Inc., et al.*, Case No. 502014CA000428XXXXMBAO (15th Judicial Circuit Court, Palm Beach County, Florida). On July 1, 2014, plaintiff filed an amended complaint. On September 16, 2014, the defendants filed a motion to dismiss the complaint. On December 12, 2014, the court denied the motion. On December 22, 2015, plaintiff filed its second amended complaint. On July 20, 2015, the defendants filed a motion for judgment on the pleadings. On November 5, 2015, the court denied defendants' motion. The parties are in discovery, and the Court has set a trial date of July 31, 2017.

Portland, Oregon Litigation. On October 21, 2015, the City of Portland, Oregon filed a lawsuit in federal district court against HomeAway. *City of Portland, Oregon v. Homeaway.com, Inc., et al.*, Case No. 3:15-cv-01984-MO (D. Or.). The complaint alleges claims for declaratory judgment, injunctive relief, taxes and fines for alleged violations of the Portland Transient Lodgings Tax ordinance, including alleged failures to register, collect and remit tax and display certain information in advertisements and websites. On November 13, 2015, HomeAway filed a motion to dismiss the complaint. The court heard oral argument on the motion on May 17, 2016. The court granted the defendants' motion to dismiss plaintiffs' claims, some with prejudice and some without. On July 11, 2016, the City of Portland filed an amended complaint. HomeAway responded by filing a motion to dismiss the amended complaint on August 5, 2016. The City of Portland opposed the motion. The court heard argument on the motion on December 16, 2016 and the parties await a ruling.

The City of Portland amended its ordinance on short-term rentals, which took effect on January 20, 2017. On January 19, 2017, HomeAway filed two lawsuits challenging the amended ordinance. The first was filed in federal district court and sought a declaration that certain of the amendments violated the Communications Decency Act of 1996, the First, Fourth, Fifth, and Fourteenth Amendments of the U.S. Constitution, the dormant commerce clause, and the Stored Communications Act. *HomeAway.com, Inc. v. City of Portland*, Case No. 3:17-cv-00091 (U.S. District Court, District of Oregon). HomeAway also sought to enjoin enforcement of the amended ordinance. In response to the lawsuit, the city agreed to stay enforcement of the ordinance against HomeAway pending the court's decision on HomeAway's preliminary injunction motion. The hearing on that motion is scheduled for March 20, 2017. The second lawsuit was filed in state court and sought an injunction and declaration that the amended ordinance improperly seeks to impose transient lodging taxes on HomeAway even though the imposition of such taxes is not authorized by the City Charter or the state transient lodging statute applicable to localities. *HomeAway.com, Inc. v. City of Portland*, MCCC No. 17cv01894 (Multnomah County Circuit Court).

Notices of Audit or Tax Assessments

At various times, the Company has also received notices of audit, or tax assessments from over 15 states or counties and over 80 municipalities concerning our possible obligations with respect to state and local occupancy or other taxes.

Actions Filed by Expedia

Indiana State Sales Tax and County Innkeeper Tax Assessments. On March 2, 2009, Travelscape, LLC, Hotels.com and Hotwire filed petitions in Indiana Tax Court appealing the final determination of the Indiana State Department of Revenue and seeking to enjoin the collection of the tax. Travelscape, LLC v. Indiana State Department of Revenue, Cause No. 49TJ 0-0903-TA-11; Hotels.com LP v. Indiana State Department of Revenue, Cause No. 49TJ 0-0903-TA-1 3; Hotwire, Inc. v. Indiana State Department of Revenue, Cause No. 49T1 0-0903-TA-1 2.

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Denver, Colorado Litigation. On February 3, 2012, the City and County of Denver's Hearing Officer issued a final decision on tax assessments against the online travel companies. On March 7, 2012, the online travel companies filed a timely notice of appeal and complaint in state court seeking relief under two separate procedural bases of appeal. Expedia, Inc., et al. v. City and County of Denver, Colorado, et al. (Case No. 2012cv1446, District Court for the City and County of Denver, Colorado). On March 12, 2013, the trial court held that the online travel companies are liable for hotel occupancy taxes to the city and county of Denver, but held that taxes may not be collected for periods prior to April 2007 due to the bar of the statute of limitations. Both the city and county of Denver and the online travel companies appealed from the trial court's decision. On July 3, 2014, the Colorado Court of Appeals held that the online travel companies are not liable for hotel occupancy taxes. On August 14, 2014, the City and County of Denver filed a petition for writ of certiorari seeking discretionary review by the Colorado Supreme Court of the Court of Appeals' decision. On September 8, 2015, the Colorado Supreme Court granted the petition. The Colorado Supreme Court heard argument on March 2, 2016 and the parties await a ruling.

Minnesota Cities Litigation. In July 2015, the Minnesota Commissioner of Revenue assessed Travelscape, Hotels.com and Egencia for local lodging taxes administered by the Commissioner that are imposed by the cities of Minneapolis (including the Minneapolis Entertainment Tax), St. Paul and Rochester, Minnesota. On October 19, 2015, the Expedia Companies filed an appeal from the orders of assessment with the Minnesota Tax Court. The parties reached a settlement and, on January 11, 2017, the court dismissed the appeals, thereby ending the case.

State of Maine Litigation. In 2015, the Maine Revenue Services assessed the Expedia Companies, including Travelscape, Hotels.com, Hotwire, and Orbitz for sales and use taxes. The Expedia Companies' requests for redetermination of the assessments were declined. On May 13, 2016, the Expedia Companies filed their petitions for review of the assessments with the Maine Superior Court. The parties have reached a settlement in principle.

Hawaii Tax Court Litigation (General Excise Tax). During 2013, the Expedia companies were required to “pay-to-play” and paid a total of \$171 million in advance of litigation relating to general excise taxes for merchant model hotel reservations in the State of Hawaii. In September 2015, following a ruling by the Hawaii Supreme Court, the State of Hawaii refunded the Expedia companies \$132 million of the original “pay-to-play” amount. Orbitz also received a similar refund of \$22 million from the State of Hawaii in September 2015. The amount paid, net of refunds, by the Expedia companies and Orbitz to the State of Hawaii in satisfaction of past general excise taxes on their services for merchant model hotel reservations was \$44 million. The parties reached a settlement relating to Orbitz merchant model hotel tax liabilities, and on October 5, 2016, the Expedia companies paid the State of Hawaii for the tax years 2012 through 2015. The Expedia companies and Orbitz have now resolved all assessments by the State of Hawaii for merchant model hotel taxes through 2015.

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

Final assessments by the Hawaii Department of Taxation for general exercise taxes against the Expedia companies, including Orbitz, relating to merchant car rental transactions during the years 2000 to 2014 are also under review in the Hawaii tax courts. With respect to merchant model car rental transactions at issue for the tax years 2000 through 2013, the Hawaii tax court held on August 5, 2016 that general excise tax is due on the online travel companies' services to facilitate car rentals. The court further ruled that for merchant model car rentals in Hawaii, the online travel companies are required to pay general excise tax on the total amount paid by consumers, with no credit for tax amounts already remitted by car rental companies to the State of Hawaii for tax years 2000 through 2013, thus resulting in a double tax on the amount paid by consumers to car rental companies for the rental of the vehicle. The court, however, ruled that when car rentals are paid for as part of a vacation package, tax is only due once on the amount paid by consumers to the car rental company for the rental of the vehicle. In addition, the court ruled that the online travel companies are required to pay interest and certain penalties on the amounts due. The Expedia companies intend to appeal, and will be expected to pay under protest the full amount claimed due, or approximately \$16.5 million, as a condition of appeal. The Hawaii tax court's decision did not resolve “merchant model” car rental transactions for the tax year 2014, which also remain under review.

Non-Tax Litigation and Other Legal Proceedings

Putative Class Action Litigation

Buckeye Tree Lodge Lawsuit. On August 17, 2016, a putative class action suit was filed in federal district court in the Northern District of California against Expedia, Hotels.com, Orbitz, Expedia Australia Investments Pty Ltd. and trivago relating to alleged false advertising. Buckeye Tree Lodge and Sequoia Village Inn, LLC v. Expedia, Inc., et al, Case No. 3:16-cv-04721-SK (U.S. District Court, Northern District of California). Plaintiff has not effected service of process as to trivago. The putative class is comprised of hotels and other providers of overnight accommodations whose names appeared

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on the Expedia defendants' websites with whom the Expedia defendants did not have a booking agreement during the relevant time period. The complaint asserts claims against the Expedia defendants for violations of the Lanham Act, the California Business & Professions Code, intentional and negligent interference with prospective economic advantage, unjust enrichment and restitution. On January 12, 2017, the court granted the Expedia defendants' motion to dismiss plaintiff's claims for intentional and negligent interference with prospective economic advantage without prejudice.

Israeli Putative Class Action Lawsuit. In or around September 2016, a putative class action lawsuit was filed in the District Court in Tel Aviv, Israel against Hotels.com. *Silis v. Hotels.com*, (Case No. 23241-09-16CA). The plaintiff generally alleges that Hotels.com violated Israeli consumer protection laws in various ways by failing to calculate and display VAT charges in pricing displays shown to Israeli consumers.

Cases against HomeAway.com, Inc. On March 15, 2016, a putative class action suit was filed in federal district court in Texas against HomeAway.com, Inc. related to its recent implementation of a service fee. *Arnold v.*

HomeAway.com, Inc., Case No. 1-16-cv-00374 (U.S. District Court, Western District of Texas). The putative class is comprised of homeowners that list their properties on HomeAway's websites for rent. The complaint asserts claims against HomeAway for breach of contract, breach of the duty of good faith and fair dealing, fraud, fraudulent concealment, and violations of the Texas Deceptive Trade Practices Act, the California Consumer Legal Remedies Act, and the California Unfair Competition Law. On April 15, 2016, another putative class action suit was filed against HomeAway, also related to the implementation of a service fee. *Seim v. HomeAway, Inc.*, Case No. 1:16-cv-00479 (U.S. District Court, Western District of Texas). The putative class is comprised of homeowners that list their properties on HomeAway's websites. The complaint asserts claims against HomeAway for breach of contract, breach of the duty of good faith and fair dealing, fraud, fraudulent concealment, unjust enrichment, and violations of the Texas Deceptive Trade Practices Act, the Kentucky Consumer Protection Act, and other state consumer protection statutes. HomeAway moved to compel arbitration and dismissal in both of these cases on July 11, 2016; a hearing on both motions to compel took place on August 24, 2016. On January 10, 2017, the court denied HomeAway's motion in *Arnold*. On January 18, 2017, the court granted HomeAway's motion in *Seim* and entered final judgment dismissing the case. On February 2, 2017, *Seim* filed a notice of appeal. On June 23, 2016, another putative class action was filed against HomeAway.com, Inc., also related to the implementation of a service fee. *Brickman v. HomeAway, Inc.*, Case No. 1:16-cv-00733 (U.S. District Court, Western District of Texas). This putative class is comprised of homeowners from nine different states that list their properties on HomeAway's websites. The complaint asserts claims against HomeAway for breach of contract, breach of the duty of good faith and fair dealing, fraud, fraudulent concealment, unjust enrichment, restitution, and violations of various state consumer protection statutes. On October 28, 2016, Plaintiffs filed an amended complaint dismissing certain named Plaintiffs and adding two new named Plaintiffs. On December 6, 2016, HomeAway filed a motion to dismiss the amended complaint, which plaintiffs opposed. The motion remains pending. On November 7, 2016, another putative class action was filed against HomeAway.com, Inc., also related to the implementation of a service fee. *May v. Expedia, Inc., et al.*, Case No. 1:16-cv-01211 U.S. District Court, Western District of Texas). The complaint asserts claims against HomeAway for breach of contract, fraud, fraudulent concealment, and violation of the Oregon Unlawful Trade Practices Act. It also names Expedia as a defendant.

Other Legal Proceedings

HRC of San Francisco Litigation. On February 2, 2015, the Housing Rights Committee of San Francisco ("HRC") and two individuals filed a lawsuit against HomeAway, Inc. alleging that HomeAway is liable for violations of Chapters 41 and 41A of the San Francisco Administrative Code, for allegedly renting, offering to rent, or allowing rentals of those properties. *Housing Rights Committee of San Francisco v. HomeAway, Inc.*, Case No. CGC-15-543932 (Superior Court of the County of San Francisco, California). The plaintiffs also alleged that HomeAway "aids and abets" violations of the ordinances, violates California's Unfair Competition Law, causes public and private nuisances, and breaches a landlord's covenant of quiet enjoyment. On April 12, 2015, HomeAway demurred to the Complaint. HRC did not oppose the demurrer, but instead filed an Amended Complaint. HRC was the sole plaintiff in the Amended Complaint. In response to this Amended Complaint, HomeAway again filed a demurrer, which the trial court sustained. HRC appealed to the California Court of Appeals. The appeal remains pending.

San Francisco, California Litigation. On July 12, 2016, HomeAway intervened in a pending lawsuit against the City and County of San Francisco requesting a declaration that certain amendments to San Francisco's administrative code violate the Communications Decency Act of 1996, the First and Fourteenth Amendments of the U.S. Constitution, and the Stored Communications Act. Airbnb and HomeAway.com, Inc. v. City and County of San Francisco, Case No. 3:16-cv-03615 (U.S. District Court, Northern District of California). HomeAway also sought to enjoin enforcement of the amendments. In response to the lawsuit, the City and County of San Francisco moved to stay the case to consider amending the ordinance in response to the lawsuits. On July 19, 2016, the court granted the stay. The city amended its law again. On September 6, 2016, HomeAway filed an amended complaint and motion for preliminary injunction to declare the new amended law invalid. The city opposed the motion. On November 8, 2016, the court denied HomeAway's motion for an injunction but ordered the parties into settlement discussions. The parties are engaged in those proceedings.

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Santa Monica, California Litigation. On September 2, 2016, HomeAway filed a lawsuit against the City of Santa Monica requesting a declaration that certain sections of a Santa Monica ordinance violate the Communications Decency Act of 1996, the Storage Communications Act, and the First, Fourth, and Fourteenth Amendments of the U.S. Constitution. HomeAway.com, Inc. v. City of Santa Monica, Case Nos. 2:16-cv-6645-ODW-AFM; 2:16-cv-06641-ODW-AFM (U.S. District Court, Central District of California). On the same day, HomeAway filed a motion for preliminary injunction, seeking to enjoin enforcement of the ordinance. In response, the city requested a stay of proceedings to prepare and consider amendments to the Ordinance to address the legal challenges raised by Plaintiffs' actions. The court granted the city's motion to stay the case until the effective date of any new Santa Monica ordinance. The city has passed an amended ordinance that takes effect February 23, 2017.

Derivative Litigation

In Re Orbitz Worldwide, Inc. Consolidated Stockholder Litigation, Case No. 10711-VCP (Court of Chancery of the State of Delaware). On April 8, 2015, an amended class action complaint was brought against Expedia, Inc. and Orbitz Worldwide, Inc. relating to the merger agreement signed by the parties. Plaintiffs assert claims for breach of fiduciary duty by the Orbitz Board of Directors and claims against Expedia for aiding and abetting in the Orbitz directors' breach of their duties. Plaintiffs specifically claim that the Orbitz Board breached their fiduciary duties by agreeing to an inadequate price for the transaction and unreasonable deal protection devices. On May 20, 2015, Orbitz, its Board of Directors, and the plaintiffs entered into an agreement in principle to settle the lawsuit. On August 29, 2016, plaintiffs filed a notice of dismissal and reserved their rights to seek an award of attorneys' fees.

Competition Reviews, Litigation and Legislation Regarding Parity Clauses

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

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

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

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

The Italian competition authority's case closure decision against Booking.com and Expedia has subsequently been appealed by two Italian hotel trade associations, i.e., Federalberghi and AICA. These appeals remain at an early stage

and no hearing date has been fixed.

On November 6, 2015, the Swiss competition authority announced that it had issued a final decision finding certain parity terms existing in previous versions of agreements between Swiss hotels and each of Expedia, Booking.com and HRS to be prohibited under Swiss law. The decision explicitly notes that Expedia's current contract terms with Swiss hotels are not subject to this prohibition. The Swiss competition authority imposed no fines or other sanctions against Expedia and did not find an abuse of a dominant market position by Expedia. The FCO's case against Expedia's contractual parity provisions with

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accommodation providers in Germany remains open but is still at a preliminary stage with no formal allegations of wrong-doing having been communicated to Expedia to date.

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

Hotelverband Deutschland (IHA) e.V. (a German hotel association) brought proceedings before the Cologne regional court against Expedia, Inc., Expedia.com GmbH and Expedia Lodging Partner Services Sàrl. IHA has 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.

A working group of 10 European NCAs (Belgium, Czech Republic, Denmark, France, Hungary, Ireland, Italy, Netherlands, Sweden and the UK) 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) in relation to certain parity provisions in their contracts with hotels. The working group has issued questionnaires to online travel agencies including Expedia, meta-search sites and hotels in 2016, and is expected to report its results early in 2017.

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

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

Outside of Europe, a number of NCAs have also opened investigations or inquired about contractual parity provisions in contracts between hotels and online travel companies in their respective territories, including Expedia. A Brazilian hotel sector association — Forum de Operadores Hoteleiros do Brasil — filed a complaint with the Brazilian Administrative Council for Economic Defence (“CADE”) against a number of online travel companies, including Booking.com, Decolar.com and Expedia, on July 27, 2016 with respect to parity provisions in contracts between hotels and online travel companies. On September 13, 2016, Expedia submitted its response to the complaint to CADE. Expedia recently 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. Expedia is in ongoing discussions with a limited number of NCAs in other countries in relation to its contracts with hotels. Expedia is currently unable to predict the impact the implementation of the waivers both in Europe and elsewhere will have on Expedia's business, on investigations or inquiries by NCAs in other countries, or on industry practice more generally.

The Company is unable to predict how any pending appeals of administrative decisions and the remaining open investigations and inquiries by NCAs will ultimately be resolved, or whether further action in Europe will be taken as a result of the ECN’s working group's assessment and findings (once published). Possible outcomes include requiring

Expedia to amend or remove certain parity clauses from its contracts with accommodation providers in those jurisdictions and/or the imposition of fines.

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

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Part I. Item 4. Mine Safety Disclosures

Not applicable.

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

Market Information

Our common stock is quoted on the Nasdaq Global Select Market under the ticker symbol "EXPE." Our Class B common stock is not listed and there is no established public trading market. As of January 27, 2017, there were approximately 2,360 holders of record of our common stock and the closing price of our common stock was \$122.00 on Nasdaq. As of January 27, 2017, all of our Class B common stock was held by a subsidiary of Liberty Expedia Holdings.

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

	High	Low
Year ended December 31, 2016		
Fourth Quarter	\$133.55	\$112.63
Third Quarter	119.77	104.44
Second Quarter	118.00	96.58
First Quarter	122.13	88.40

	High	Low
Year ended December 31, 2015		
Fourth Quarter	\$140.51	\$116.55
Third Quarter	130.99	104.00
Second Quarter	115.00	92.60
First Quarter	96.45	76.34

Dividend Policy

In 2016 and 2015, the Executive Committee, acting on behalf of the Board of Directors, declared the following dividends:

	Declaration Date	Dividend Per Share	Record Date	Total Amount (in thousands)	Payment Date
Year ended December 31, 2016:					
	February 8, 2016	\$ 0.24	March 10, 2016	\$ 36,174	March 30, 2016
	April 26, 2016	0.24	May 26, 2016	35,773	June 16, 2016
	July 27, 2016	0.26	August 25, 2016	39,062	September 15, 2016
	October 24, 2016	0.26	November 17, 2016	39,150	December 8, 2016
Year ended December 31, 2015					
	February 4, 2015	\$ 0.18	March 10, 2015	\$ 22,895	March 26, 2015
	April 29, 2015	0.18	May 28, 2015	23,096	June 18, 2015
	July 29, 2015	0.24	August 27, 2015	31,182	September 17, 2015
	October 29, 2015	0.24	November 19, 2015	31,354	December 10, 2015

In February 2017, the Executive Committee, acting on behalf of the Board of Directors, declared a quarterly cash dividend of \$0.28 per share of outstanding common stock payable on March 30, 2017 to the stockholders of record as of the close of business on March 9, 2017.

Declaration and payment of future dividends, if any, is at the discretion of the Board of Directors and will depend on, among other things, our results of operations, cash requirements and surplus, financial condition, share dilution management, legal risks, tax policies, capital requirements relating to research and development, investments and acquisitions, challenges to

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our business model and other factors that the Board of Directors may deem relevant. In addition, our credit agreement limits our ability to pay cash dividends under certain circumstances.

Unregistered Sales of Equity Securities

During the quarter ended December 31, 2016, we did not issue or sell any shares of our common stock or other equity securities pursuant to unregistered transactions in reliance upon an exemption from the registration requirements of the Securities Act of 1933, as amended.

Issuer Purchases of Equity Securities

A summary of the repurchase activity for the fourth quarter of 2016 is as follows:

Period	Total Number of Shares Purchased	Number of Shares Repurchased	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under Plans or Programs
	(In thousands, expect per share data)			
October 1-31, 2016	—	\$ —	—	7,998
November 1-30, 2016	35	126.71	35	7,963
December 1-31, 2016	702	118.47	702	7,261
Total	737		737	

In 2015, the Executive Committee, acting on behalf of the Board of Directors, authorized a repurchase of up to 10 million outstanding shares of our common stock. As of December 31, 2016, 7.3 million shares remain authorized for repurchase under the 2015 authorization. There is no fixed termination date for the repurchases.

Performance Comparison Graph

The graph shows a five-year comparison of cumulative total return, calculated on a dividend reinvested basis, for Expedia common stock, the NASDAQ Composite Index, the RDG (Research Data Group) Internet Composite Index and the S&P 500. The graph assumes an investment of \$100 in each of the above on December 31, 2011. The stock price performance shown in the graph is not necessarily indicative of future price performance.

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Part II. Item 6. Selected Financial Data

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

SELECTED FINANCIAL DATA

	Year Ended December 31,				
	2016	2015	2014	2013	2012
	(in thousands, except per share data)				
Consolidated Statements of Operations Data:					
Revenue	\$8,773,564	\$6,672,317	\$5,763,485	\$4,771,259	\$4,030,347
Operating income	461,702	413,566	517,764	366,060	431,724
Net income from continuing operations ⁽¹⁾	261,285	722,748	372,950	216,358	302,979
Discontinued operations, net of taxes ⁽²⁾	—	—	—	—	(22,539)
Net income attributable to Expedia, Inc. ⁽¹⁾	281,848	764,465	398,097	232,850	280,171
Earnings per share from continuing operations attributable to Expedia, Inc. available to common stockholders:					
Basic	\$1.87	\$5.87	\$3.09	\$1.73	\$2.26
Diluted	1.82	5.70	2.99	1.67	2.16
Earnings per share attributable to Expedia, Inc. available to common stockholders:					
Basic	\$1.87	\$5.87	\$3.09	\$1.73	\$2.09
Diluted	1.82	5.70	2.99	1.67	2.00
Shares used in computing earnings per share:					
Basic	150,367	130,159	128,912	134,912	134,203
Diluted	154,517	134,018	133,168	139,593	139,929
Dividends declared per common share	\$1.00	\$0.84	\$0.66	\$0.56	\$0.96
	December 31,				
	2016	2015	2014	2013	2012
Consolidated Balance Sheet Data:					
Working deficit	\$(2,676,947)	\$(2,949,756)	\$(1,263,283)	\$(1,075,817)	\$(368,967)
Total assets	15,777,546	15,485,675	9,012,299	7,734,689	7,126,796
Long-term debt	3,159,336	3,183,140	1,738,548	1,244,620	1,243,395
Non-redeemable non-controlling interest ⁽³⁾	1,560,802	65,373	109,462	113,521	109,129
Total stockholders' equity	5,693,103	4,929,767	1,893,729	2,258,985	2,389,388

(1) On May 22, 2015, we completed the sale of our 62.4% ownership stake in eLong, Inc. We recognized an after tax gain of \$395 million (or \$509 million pre-tax gain) during 2015.

On December 20, 2011, we completed the spin-off of TripAdvisor. Immediately prior to the spin-off, we effected a one-for-two reverse stock split. In order to complete the spin-off, we were required to redeem the \$400 million principal of our 8.5% senior notes due 2016, which were legally extinguished in the first quarter of 2012.

(2) Accordingly, the related debt extinguishment losses was presented in discontinued operations for 2012.

On December 16, 2016, our majority-owned subsidiary, trivago, completed its IPO. In conjunction with the IPO, Expedia and trivago's founders entered into an Amended and Restated Shareholders' Agreement under which the

(3) original put/call rights were no longer effective and, as such, we reclassified the redeemable non-controlling interest into non-redeemable non-controlling interest on the consolidated balance sheet. See NOTE 12 —

Redeemable Non-controlling Interests in the notes to consolidated financial statements for further information.

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

Overview

Expedia, Inc. is an online travel company, empowering business and leisure travelers with the tools and information they need to efficiently research, plan, book and experience travel. We have created a global travel marketplace used by a broad range of leisure and corporate travelers, offline retail travel agents and travel service providers. We make available, on a stand-alone and package basis, travel products and services provided by numerous lodging properties, airlines, car rental companies, destination service providers, cruise lines, vacation rental property owners and managers, and other travel product and service companies. We also offer travel and non-travel advertisers access to a potential source of incremental traffic and transactions through our various media and advertising offerings on our transaction-based websites. For additional information about our portfolio of brands, see the disclosure set forth in Part I, Item 1, Business, under the caption "Management Overview."

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

Trends

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

Online Travel

Increased usage and familiarity with the internet have driven rapid growth in online penetration of travel expenditures. According to Phocuswright, an independent travel, tourism and hospitality research firm, in 2016, over 50% of U.S. and European leisure, unmanaged and corporate travel expenditures occurred online. Online penetration rates in the emerging markets, such as Asia Pacific and Latin American regions, are lagging behind that of the United States and Europe, and are estimated to be in the range of 30% to 40%. These penetration rates have increased over the past few years, and are expected to continue growing, which has attracted many competitors to online travel. This competition intensified in recent years, and the industry is expected to remain highly competitive for the foreseeable future. In addition to the growth of online travel agencies, airlines and lodging companies have aggressively pursued direct online distribution of their products and services. Competitive entrants such as "metasearch" companies, including Kayak.com (owned by The Priceline Group), trivago (in which Expedia owns a majority interest) as well as TripAdvisor, introduced differentiated features, pricing and content compared with the legacy online travel agency companies, as well as various forms of direct or assisted booking tools, the impact of which is currently uncertain. In addition, the increasing popularity of the "sharing economy," accelerated by online penetration, has had a direct impact on the travel and lodging industry. Players such as Airbnb and HomeAway (which Expedia acquired in December 2015) have emerged as the leaders, bringing incremental alternative accommodation and vacation rental inventory to the market. Many other competitors, including vacation rental metasearch players, continue to emerge in this space, which is estimated to account for approximately \$100 billion of annual travel spend and expected to continue to grow as a percentage of the global accommodation market. Furthermore, we have seen increased interest in the online travel industry from search engine companies as evidenced by recent innovations including direct booking functionality, as well as licensing deals and proposed and actual acquisitions by companies such as Google. Finally, traditional consumer e-commerce and group buying websites have been expanding their local offerings into the travel market by adding hotel offers to their sites.

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

Intense competition also historically led to aggressive marketing efforts by the travel suppliers and intermediaries, and a meaningful unfavorable impact on our overall marketing efficiencies and operating margins. We manage our selling and marketing spending on a brand basis at the local or regional level, making decisions in each market that we think are appropriate based on the relative growth opportunity, the expected returns and the competitive environment. In certain cases, particularly in emerging markets, we are pursuing and expect to continue to pursue long-term growth opportunities for which our marketing efficiency is less favorable than that for our consolidated business, but for which we still believe the opportunity

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to be attractive. The crowded online travel environment is now driving certain secondary and tertiary online travel companies to establish marketing agreements with global players in order to leverage distribution and technology capabilities while focusing resources on capturing consumer mind share.

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

Hotel

We generate the majority of our revenue through the facilitation of hotel reservations (stand-alone and package bookings). Although our relationships with our hotel supply partners have remained broadly stable in the past few years, as part of the global rollout of ETP, we reduced negotiated economics in certain instances to compensate for hotel supply partners absorbing expenses such as credit card fees and customer service costs, which has negatively impacted the margin of revenue we earn per booking. In addition, as we continue to expand the breadth and depth of our global hotel offering, in some cases we have reduced and expect to continue to reduce our economics in various geographies based on local market conditions. These impacts are due to specific initiatives intended to drive greater global size and scale through faster overall room night growth. Additionally, increased promotional activities such as growing loyalty programs contribute to declines in revenue per room night. Lastly, currency exchange rate fluctuations have had a negative effect on unit economics due to unfavorable book-to-stay as well as translation impacts. Based on these dynamics, our average revenue per room night declined in each quarter of 2014, 2015, and 2016 and we expect it to remain under pressure in the future.

Since our hotel supplier agreements are generally negotiated on a percentage basis, any increase or decrease in ADRs has an impact on the revenue we earn per room night. Over the course of the last several years, occupancies and ADRs in the lodging industry have generally increased on a currency-neutral basis in a gradually improving overall travel environment. However, U.S. dollar-denominated ADRs declined in 2016 due to the currency translation impact. Current occupancy rates remain at record highs; however, U.S. hotel supply growth has been accelerating, which may put additional pressure on ADRs. In international markets, hotel supply is being added at a faster rate as hotel owners and operators try to take advantage of opportunities in faster growing regions such as China and India, among others. Companies like Airbnb have also added incremental global supply in the alternative accommodations space. In addition, while the global lodging industry remains very fragmented, there has been consolidation in the hotel space among chains as well as ownership groups. In the meantime, certain hotel chains have been focusing on driving direct bookings on their own websites and mobile applications by advertising lower rates than those available on third-party websites as well as incentives such as loyalty points, increased or exclusive product availability and complimentary Wi-Fi. We have had success adding supply to our marketplace with over 350,000 properties on our global websites as of December 31, 2016, including certain HomeAway vacation rental properties now available on other Expedia, Inc. sites. In addition, our room night growth has been healthy, with room nights excluding eLong growing 24% in 2014, 36% in 2015, and 21% in 2016. ADRs for rooms booked on Expedia sites excluding eLong increased 3% in 2014, declined 5% in 2015, and declined 1% in 2016. As a percentage of our total worldwide revenue in 2016, hotel accounted for 61%.

HomeAway

With our acquisition of HomeAway and all of its brands in December 2015, we have expanded into the fast growing \$100 billion alternative accommodations market. HomeAway is a leader in this market and represents an attractive growth opportunity for Expedia. HomeAway has been undergoing a transition from a listings-based classified advertising model to an online transactional model that optimizes for both travelers and homeowner and property manager partners, with a goal of increasing monetization and driving growth through investments in marketing as well as in product and technology. In addition, HomeAway rolled out a traveler service fee in the United States and Europe during the first half of 2016, consistent with market practice. The fee is expected to continue to contribute to HomeAway’s revenue growth and help fund marketing investment, programs to better protect travelers and future growth initiatives. Furthermore, HomeAway moved to a single subscription option globally in July 2016. As a percentage of our total worldwide revenue in 2016, HomeAway accounted for 8%.

Air

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

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increasingly competitive airline pricing. We continue to encounter pressure on air remuneration as air carriers combine and as certain supply agreements renew.

Air ticket volumes excluding eLong increased 35% in 2015 and 32% in 2016 primarily due to the acquisition of Orbitz. As a percentage of our total worldwide revenue in 2016, air accounted for 9%.

Advertising & Media

Our advertising and media business is principally driven by revenue generated by trivago, a leading hotel metasearch site, in addition to Expedia Media Solutions, which is responsible for generating advertising revenue on our global online travel brands. In 2016, we generated a total of \$807 million of advertising and media revenue representing 9% of our total worldwide revenue, up from \$564 million (excluding eLong) in 2015.

Growth Strategy

Product Innovation. Each of our leading brands was a pioneer in online travel and has been responsible for driving key innovations in the space over the past two decades. Each Expedia technology platform is operated by a dedicated technology team, which drives innovations that make researching and shopping for travel increasingly easier and help customers find and book the best possible travel options. In the past several years, we made key investments in technology, including significant development of our technical platforms that makes it possible for us to deliver innovations at a faster pace. For example, we launched new global platforms for Hotels.com and Brand Expedia, enabling us to significantly increase the innovation cycle, thereby improving conversion and driving faster growth rates for those brands. In 2013, Expedia signed an agreement to power the technology, supply and customer service platforms for Travelocity-branded sites in the United States and Canada, enabling Expedia to leverage its investments in each of these key areas. The shift of Travelocity-branded sites to the Expedia technology platform was successfully completed over the course of 2014. In November 2014, Expedia completed the acquisition of Wotif Group and subsequently converted the Wotif.com site to the Expedia platform. In January 2015, we acquired the Travelocity brand and other associated assets from Sabre. The strategic marketing and other related agreements previously entered into were terminated. In September 2015, Expedia completed the acquisition of Orbitz Worldwide, including all of its brands. The migration of the Orbitz.com, CheapTickets.com and ebookers sites to the Expedia technology platform was completed in the first half of 2016, and Orbitz for Business customers were migrated to the Egencia technology platform as of July 2016. In December 2015, Expedia completed the acquisition of HomeAway, Inc., including all of its brands. We intend to continue leveraging these investments when launching additional points of sale in new countries, introducing new website features, adding supplier products and services including new business model offerings, as well as proprietary and user-generated content for travelers. In addition, while we aim to drive the top-line growth in our global brands, we are managing our regional brands, such as Travelocity, Orbitz.com, Wotif.com, ebookers and CheapTickets.com, with a greater focus on profitability.

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

In July 2014, we completed the acquisition of Auto Escape Group, one of Europe's leading online car rental reservation companies. Auto Escape Group has joined with the CarRentals.com brand, allowing it to expand internationally to provide our customers more choices across the globe and help our supply partners expand their

marketing reach.

In November 2014, we completed the acquisition of Wotif Group, an Australian online travel company. Wotif Group adds to our collection of travel's most trusted brands and enhances our supply in the Asia-Pacific region, while allowing Expedia to expose the Wotif Group to our world-class technology and its customers to our extensive global supply.

In January 2015, we acquired the Travelocity brand and other associated assets from Sabre. As a result of the acquisition, the strategic marketing agreement previously entered into during 2013, which joined Travelocity's strong brand with our best-in-class booking platform, supply base and customer service, was terminated. Evolving this relationship strengthens Expedia, Inc.'s ability to continue to innovate and deliver the best travel experiences to the widest set of travelers, all over the world.

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In March 2015, we completed the acquisition of an additional 25% equity interest of AAE Travel Pte. Ltd., the joint venture formed between Expedia and AirAsia Berhad in 2011. This investment increases our total ownership in the venture to 75% and we consider this business to be a key part of our Asia Pacific strategy. Following the close of the transaction in March 2015, the financial results of the AirAsia Expedia venture are included in Expedia's consolidated financial statements.

In March 2015, Expedia and Decolar.com, Inc., the Latin American online travel company that operates the Decolar.com and Despegar.com branded websites, announced that the two companies have expanded their partnership to include deeper cooperation on hotel supply and a minority equity investment by Expedia. Building on the commercial relationship the two companies have had since 2002, the expanded agreement broadens Expedia's powering of Decolar's hotel supply and introduces the opportunity for Decolar to provide Expedia access to its hotel supply in Latin America. The customers of both companies will benefit from the broad, shared selection of hotels, and hotel partners will gain increased access to travelers in Latin America and around the world.

In September 2015, we completed the acquisition of Orbitz Worldwide, a leading global portfolio of travel brands and business-to-business offerings. The addition of Orbitz Worldwide brings Expedia an attractive set of well-recognized brands built by a talented team that is passionate about travel.

In December 2015, we completed the acquisition of HomeAway, which operates an online marketplace for the vacation rental industry, with sites representing over one million online bookable listings of vacation rental homes in over 190 countries. With Expedia's expertise in powering global transactional platforms and our industry-leading technology capabilities, we are partnering with our HomeAway brand to accelerate their shift from a classified marketplace to an online, transactional model to create even better experiences for HomeAway's global traveler audience and the owners and managers of its properties around the world.

In expanding our global reach, we leverage significant investments in technology, operations, brand building, supplier relationships and other initiatives that we have made since the launch of Expedia.com in 1996. Our scale of operations enhances the value of technology innovations we introduce on behalf of our travelers and suppliers. We believe that our size and scale afford the company the ability to negotiate competitive rates with our supply partners, provide breadth of choice and travel deals to our traveling customers through an expanding supply portfolio and create opportunities for new value added offers for our customers such as our loyalty programs. The size of Expedia's worldwide traveler base makes our sites an increasingly appealing channel for travel suppliers to reach customers. In addition, the sheer size of our user base and search query volume allows us to test new technologies very quickly in order to determine which innovations are most likely to improve the travel research and booking process, and then roll those features out to our worldwide audience in order to drive improvements in conversion.

New Channel Penetration. Technological innovations and developments continue to create new opportunities for travel bookings made through mobile devices, in addition to more traditional methods like desktop and laptop computers. In the past few years, each of our brands made significant progress creating new mobile websites and mobile applications that are receiving strong reviews and solid download trends, and some of our brands now see more traffic via mobile devices than via traditional desktops. Mobile bookings via smartphones continue to present an opportunity for incremental growth as they are often completed within one or two days of the travel or stay, which is a much shorter booking window than we had historically experienced via more traditional online booking methods. In addition, we are seeing increasing cross-device usage among our customers, who connect to our websites and apps across multiple devices and platforms throughout their travel planning process. We also believe mobile represents an efficient marketing channel given the opportunity for direct traffic acquisition, increase in share of wallet and in repeat customers, particularly through mobile applications. During the year ended December 31, 2016, nearly one in three Expedia, Inc. transactions were booked globally on a mobile device.

Seasonality

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

impact is exacerbated with respect to income by the nature of our variable cost of revenue and direct sales and marketing costs, which we typically realize in closer alignment to booking volumes, and the more stable nature of our fixed costs. Furthermore, operating profits for our primary advertising business, trivago, are experienced in the second half of the year as selling and marketing costs offset revenue in the first half of the year as we aggressively market during the busy booking period for spring, summer and winter holiday travel. Additionally, trivago has historically earned a substantial portion of its operating profits in the fourth quarter. As a result on a consolidated basis, revenue and income are typically the lowest in the first quarter and highest in the third quarter. The continued growth of our international operations, advertising business or a change in our product mix, including the assimilation and growth of HomeAway, may influence the typical trend of the seasonality in the future. We expect that as

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HomeAway continues its shift to more of a transaction-based business model for vacation rental listings its seasonal trends will generally trend similar to our other traditional leisure businesses over time.

Critical Accounting Policies and Estimates

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

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

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

• Changes in the estimate or different estimates that we could have selected may have had a material impact on our financial condition or results of operations.

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

Accounting for Certain Merchant Revenue

We accrue the cost of certain merchant revenue based on the amount we expect to be billed by suppliers. In certain instances when a supplier invoices us for less than the cost we accrued, we generally recognize those amounts as revenue six months in arrears, net of an allowance, when we determine it is not probable that we will be required to pay the supplier, based on historical experience and contract terms. Actual revenue could be greater or less than the amounts estimated due to changes in hotel billing practices or changes in traveler behavior.

Loyalty Program Accruals

We offer certain internally administered traveler loyalty programs to our customers, such as our Hotels.com Rewards program, our Brand Expedia Expedia+ rewards program and our Orbitz rewards program. Hotels.com Rewards offers travelers one free night at any Hotels.com partner property after that traveler stays 10 nights, subject to certain restrictions. Expedia+ rewards enables participating travelers to earn points on all hotel, flight, package and activities made on over 30 Brand Expedia websites. Orbitz Rewards allows travelers to earn OrbucksSM, the currency of Orbitz Rewards, on flights, hotels and vacation packages and instantly redeem those Orbucks on future bookings at various hotels worldwide. As travelers accumulate points towards free travel products, we record a liability for the estimated future cost of redemptions. The cost of these loyalty points is recorded as a reduction to revenue in our consolidated financial statements. We determine the future redemption obligation based on judgment factors including: (i) the estimated cost of travel products to be redeemed, and (ii) an estimated redemption rate based on the overall accumulation and usage of points towards free travel products, which is determined through current and historical trends as well as statistical modeling techniques. The actual future cost and rate of redemptions could differ materially from our estimates.

Business Combinations

We assign the value of the consideration transferred to acquire a business to the tangible assets and identifiable intangible assets acquired and liabilities assumed on the basis of their fair values at the date of acquisition. Any excess purchase price over the fair value of the net tangible and intangible assets acquired is allocated to goodwill. When determining the fair values of assets acquired and liabilities assumed, management makes significant estimates and assumptions, especially with respect to intangible assets. Critical estimates in valuing certain intangible assets include but are not limited to future expected cash flows from customer relationships and trade names, and discount rates. Management’s estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently

uncertain and unpredictable and, as a result, actual results may differ from estimates.

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Recoverability of Goodwill and Indefinite and Definite-Lived Intangible Assets

Goodwill. We assess goodwill for impairment annually as of October 1, or more frequently, if events and circumstances indicate impairment may have occurred. In the evaluation of goodwill for impairment, we typically first perform a qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit is less than the carrying amount. If so, we perform a quantitative assessment and compare the fair value of the reporting unit to the carrying value. If the carrying value of a reporting unit exceeds its fair value, the goodwill of that reporting unit is potentially impaired and we proceed to step two of the impairment analysis. In step two of the analysis, we will record an impairment loss equal to the excess of the carrying value of the reporting unit's goodwill over its implied fair value should such a circumstance arise. Periodically, we may choose to forgo the initial qualitative assessment and perform quantitative analysis to assist in our annual evaluation.

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

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

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

Indefinite-Lived Intangible Assets. We base our measurement of fair value of indefinite-lived intangible assets, which primarily consist of trade name and trademarks, using the relief-from-royalty method. This method assumes that the trade name and trademarks have value to the extent that their owner is relieved of the obligation to pay royalties for the benefits received from them. This method requires us to estimate the future revenue for the related brands, the appropriate royalty rate and the weighted average cost of capital.

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

The use of different estimates or assumptions in determining the fair value of our goodwill, indefinite-lived and definite-lived intangible assets may result in different values for these assets, which could result in an impairment or,

in the period in which an impairment is recognized, could result in a materially different impairment charge.

Income Taxes

We record income taxes under the liability method. Deferred tax assets and liabilities reflect our estimation of the future tax consequences of temporary differences between the carrying amounts of assets and liabilities for book and tax purposes. We

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determine deferred income taxes based on the differences in accounting methods and timing between financial statement and income tax reporting. Accordingly, we determine the deferred tax asset or liability for each temporary difference based on the enacted tax rates expected to be in effect when we realize the underlying items of income and expense. We consider many factors when assessing the likelihood of future realization of our deferred tax assets, including our recent earnings experience by jurisdiction, expectations of future taxable income, and the carryforward periods available to us for tax reporting purposes, as well as other relevant factors. We may establish a valuation allowance to reduce deferred tax assets to the amount we believe is more likely than not to be realized. Due to inherent complexities arising from the nature of our businesses, future changes in income tax law, tax sharing agreements or variances between our actual and anticipated operating results, we make certain judgments and estimates. Therefore, actual income taxes could materially vary from these estimates.

We record liabilities to address uncertain tax positions we have taken in previously filed tax returns or that we expect to take in a future tax return. The determination for required liabilities is based upon an analysis of each individual tax position, taking into consideration whether it is more likely than not that our tax position, based on technical merits, will be sustained upon examination. For those positions for which we conclude it is more likely than not it will be sustained, we recognize the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with the taxing authority. The difference between the amount recognized and the total tax position is recorded as a liability. The ultimate resolution of these tax positions may be greater or less than the liabilities recorded.

Other Long-Term Liabilities

Various Legal and Tax Contingencies. We record liabilities to address potential exposures related to business and tax positions we have taken that have been or could be challenged by taxing authorities. In addition, we record liabilities associated with legal proceedings and lawsuits. These liabilities are recorded when the likelihood of payment is probable and the amounts can be reasonably estimated. The determination for required liabilities is based upon analysis of each individual tax issue, or legal proceeding, taking into consideration the likelihood of adverse judgments and the range of possible loss. In addition, our analysis may be based on discussions with outside legal counsel. The ultimate resolution of these potential tax exposures and legal proceedings may be greater or less than the liabilities recorded.

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

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

We note that there are more than 7,000 taxing jurisdictions in the United States, and it is not feasible to analyze the statutes, regulations and judicial and administrative rulings in every jurisdiction. Rather, we have obtained the advice of state and local tax experts with respect to tax laws of certain states and local jurisdictions that represent a large portion of our hotel revenue. Many of the statutes and regulations that impose hotel occupancy taxes were established

before the emergence of the internet and eCommerce. Certain jurisdictions have enacted, and others may enact, legislation regarding the imposition of occupancy taxes on businesses that arrange the booking of hotel accommodations. We continue to work with the relevant tax authorities and legislators to clarify our obligations under new and emerging laws and regulations. We will continue to monitor the issue closely and provide additional disclosure, as well as adjust the level of reserves, as developments warrant. Additionally, certain of our businesses are involved in occupancy tax related litigation, which is discussed in Part I, Item 3, Legal Proceedings. Recent occupancy tax developments are also discussed below under the caption "Occupancy and Other Taxes."

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Stock-Based Compensation

Our primary form of employee stock-based compensation is stock option awards. We measure the value of stock option awards on the date of grant at fair value using the appropriate valuation techniques, including the Black-Scholes and Monte Carlo option-pricing models. We amortize the fair value over the remaining term on a straight-line basis. We account for forfeitures as they occur. The pricing models require various highly judgmental assumptions including volatility and expected option term. If any of the assumptions used in the models change significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period.

In addition, we classify certain employee option awards as liabilities when we deem it not probable that the employees holding the awards will bear the risk and rewards of stock ownership for a reasonable period of time. Such options are revalued at the end of each reporting period and upon settlement our total compensation expense recorded from grant date to settlement date will equal the settlement amount.

New Accounting Pronouncements

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

Occupancy and Other Taxes

We are currently involved in twenty lawsuits brought by or against states, cities and counties over issues involving the payment of hotel occupancy and other taxes. We continue to defend these lawsuits vigorously. With respect to the principal claims in these matters, we believe that the statutes and ordinances at issue do not apply to the services we provide, namely the facilitation of hotel reservations, and, therefore, that we do not owe the taxes that are claimed to be owed. We believe that the statutes and ordinances at issue generally impose occupancy and other taxes on entities that own, operate or control hotels (or similar businesses) or furnish or provide hotel rooms or similar accommodations.

Recent developments include:

City of San Diego, California Litigation. On December 12, 2016, the California Supreme Court affirmed the Court of Appeals' decision, concluding that the defendant online travel companies do not operate hotels, and therefore they are not liable for hotel taxes. As a result of this decision, the California Court of Appeals has lifted the stays for the City of Los Angeles Litigation and City of San Diego Litigation and these cases will proceed in light of this decision.

While not part of the court's reasoning for its decision, the court commented that under the San Diego ordinance hotel taxes would be due on amounts that hotels require online travel companies to charge consumers under specific contractual rate parity clauses.

Nassau County, New York Litigation. On December 2, 2016, the court granted the defendant online travel companies' motion for summary judgment and rejected Nassau County's attempt to tax the amounts the defendants charge for their services.

State of Kentucky Litigation. The parties reached a settlement and, on January 31, 2017, the court entered an order dismissing the case.

State of Indiana Litigation. On December 20, 2016, the Indiana Tax Court held that tax assessments against Orbitz were issued in error as a matter of law.

Minnesota Cities Litigation. The parties reached a settlement and, on January 11, 2017, the court dismissed the appeals filed by certain Expedia companies, thereby ending the case.

State of Maine Litigation. The parties have reached a settlement in principle.

For additional information on these and other legal proceedings, see Part I, Item 3, 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 \$71 million as of December 31, 2016 and \$43 million as of December 31, 2015.

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

jurisdictions, including to the states of New York, South Carolina, North Carolina, Minnesota, Georgia, Wyoming, Oregon, Rhode Island, Montana, and Maryland, the District of Columbia and the city of New York, as well as certain other county and local jurisdictions.

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Pay-to-Play

Certain jurisdictions may require us to pay tax assessments prior to contesting any such assessments. This requirement is commonly 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.

Hawaii (General Excise Tax). During 2013, the Expedia companies were required to “pay-to-play” and paid a total of \$171 million in advance of litigation relating to general excise taxes for merchant model hotel reservations in the State of Hawaii. In September 2015, following a ruling by the Hawaii Supreme Court, the State of Hawaii refunded the Expedia companies \$132 million of the original “pay-to-play” amount. As we had previously expensed the pay-to-play payments in prior periods, we recognized a gain in legal reserves, occupancy tax and other during the third quarter of 2015 related to this matter. Orbitz also received a similar refund of \$22 million from the State of Hawaii in September 2015. The amount paid, net of refunds, by the Expedia companies and Orbitz to the State of Hawaii in satisfaction of past general excise taxes on their services for merchant model hotel reservations was \$44 million. The parties reached a settlement relating to Orbitz merchant model hotel tax liabilities, and on October 5, 2016, the Expedia companies paid the State of Hawaii for the tax years 2012 through 2015. The Expedia companies and Orbitz have now resolved all assessments by the State of Hawaii for merchant model hotel taxes through 2015.

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

Final assessments by the Hawaii Department of Taxation for general exercise taxes against the Expedia companies, including Orbitz, relating to merchant car rental transactions during the years 2000 to 2014 are also under review in the Hawaii tax courts. With respect to merchant model car rental transactions at issue for the tax years 2000 through 2013, the Hawaii tax court held on August 5, 2016 that general excise tax is due on the online travel companies’ services to facilitate car rentals. The court further ruled that for merchant model car rentals in Hawaii, the online travel companies are required to pay general excise tax on the total amount paid by consumers, with no credit for tax amounts already remitted by car rental companies to the State of Hawaii for tax years 2000 through 2013, thus resulting in a double tax on the amount paid by consumers to car rental companies for the rental of the vehicle. The court, however, ruled that when car rentals are paid for as part of a vacation package, tax is only due once on the amount paid by consumers to the car rental company for the rental of the vehicle. In addition, the court ruled that the online travel companies are required to pay interest and certain penalties on the amounts due. The Expedia companies intend to appeal, and will be expected to pay under protest the full amount claimed due, or approximately \$16.5 million, as a condition of appeal. The Hawaii tax court’s decision did not resolve “merchant model” car rental transactions for the tax year 2014, which also remain under review.

San Francisco. During 2009, we were required to “pay-to-play” and paid \$48 million in advance of litigation relating to occupancy tax proceedings with the city of San Francisco. The city of San Francisco subsequently issued additional assessments of tax, penalties and interest for the time period from the fourth quarter of 2007 through the fourth quarter of 2011 against the online travel companies, including against certain Expedia companies. The additional assessments, including the prepayment of such assessments, were contested by the Expedia companies on the basis that the court has already ruled that taxes are not due from the online travel companies and that binding precedent by the California Court of Appeals precludes the city’s claim for taxes. On May 14, 2014, the court heard oral argument on the Expedia companies’ contest of the prepayment requirement for the additional assessments and held that the Expedia companies were required to prepay in order to litigate the legality of the assessments. On May 26, 2014, the Expedia companies paid \$25.5 million under protest in order to contest the additional assessments. The additional assessments were expensed during the second quarter of 2014. In addition, Orbitz in total has paid \$4.6 million to the city of San Francisco in prepayment of taxes to contest these assessments issued against it by the city. On August 6, 2014, the California Court of Appeals stayed this case pending review and decision by the California Supreme Court of the City of San Diego, California Litigation. The stay is now lifted and the appeal will proceed in light of the California Supreme Court’s decision in the San Diego litigation.

Other Jurisdictions. We are also in various stages of inquiry or audit with domestic and foreign tax authorities, some of which, including in the United Kingdom regarding the application of value added tax (“VAT”) to our European

Union related transactions, impose a pay-to-play requirement to challenge an adverse inquiry or audit result in court. 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.

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Segments

We have four reportable segments: Core OTA, trivago, Egencia and HomeAway upon its acquisition on December 15, 2015. In addition, eLong was a reportable segment through its disposal on May 22, 2015. Our Core OTA segment provides a full range of travel and advertising services to our worldwide customers through a variety of brands including: Expedia.com and Hotels.com in the United States and localized Expedia and Hotels.com websites throughout the world, Orbitz.com, Expedia Affiliate Network, Hotwire.com, Travelocity, Wotif Group, CarRentals.com, and Classic Vacations. Our trivago segment generates advertising revenue primarily from sending referrals to online travel companies and travel service providers from its hotel metasearch websites. Our Egencia segment, which also includes Orbitz for Business, provides managed travel services to corporate customers worldwide. Our HomeAway segment operates an online marketplace for the vacation rental industry.

Operating Metrics

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

Gross Bookings and Revenue Margin

	Year ended December 31,			% Change		
	2016	2015	2014	2016 vs 2015	2015 vs 2014	
	(\$ in millions)					
Gross Bookings						
Core OTA	\$66,063	\$54,252	\$42,869	22 %	27 %	%
trivago ⁽¹⁾	—	—	—	N/A	N/A	
Egencia	6,368	5,427	5,149	17 %	5 %	%
HomeAway ⁽²⁾	—	—	—	N/A	N/A	
eLong ⁽³⁾	—	1,151	2,429	N/A	N/A	
Total gross bookings	\$72,431	\$60,830	\$50,447	19 %	21 %	%
Revenue Margin						
Core OTA	10.7	% 10.8	% 11.4	%		
trivago ⁽¹⁾	N/A	N/A	N/A			
Egencia	7.3	% 7.4	% 7.8	%		
HomeAway ⁽²⁾	N/A	N/A	N/A			
eLong ⁽³⁾	N/A	3.6	% 7.3	%		
Total revenue margin	12.1	% 11.0	% 11.4	%		

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

Gross bookings from HomeAway, our online marketplace for the vacation rental industry acquired in December 2015, are also currently excluded from the above total gross bookings. Revenue from HomeAway is included in (2) revenue used to calculate total revenue margin. We have been in the process of determining comparable on-platform gross bookings and plan to begin disclosing this metric along with the historical comparable information in the first quarter of 2017.

(3) Includes results for eLong through its disposal on May 22, 2015.

The increase in worldwide gross bookings in 2016 as compared to 2015 was primarily driven by the inorganic impact from acquisitions of 13% and growth in the Core OTA segment, including growth at Brand Expedia and Hotels.com,

as well as in Egencia. The increase in worldwide gross bookings in 2015 as compared to 2014 was primarily driven by growth in the Core OTA segment, including strong performance at Brand Expedia and Hotels.com. Acquisitions added approximately 10% of inorganic gross bookings growth for 2015, excluding Travelocity due to the previously implemented commercial agreement.

Revenue margin increased in 2016 as compared to 2015 primarily due to the inclusion of HomeAway revenue without the additional gross bookings as well as the favorable impact of lower air ticket prices and a mix shift to higher margin products,

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including advertising and media revenue. These impacts were partially offset by the inclusion of a higher share of lower margin air gross bookings with the acquisition of Orbitz and lower revenue per room night. Revenue margin decreased in 2015 compared to 2014 primarily due to lower revenue per room night. These impacts were partially offset by a favorable impact of lower air ticket prices and a mix shift to higher margin products, including advertising and media revenue.

Results of Operations

On May 22, 2015, we completed the sale of our 62.4% ownership stake in eLong. The below discussion of the results of operations for 2015 include results for eLong through its disposal on May 22, 2015. Operating expense tables below present total expenses including eLong for the prior year periods as well as eLong specific amounts included within the consolidated total.

On September 17, 2015, we completed our acquisition of Orbitz. Orbitz was consolidated into our results of operations starting on the acquisition date and we recognized \$196 million in revenue and \$163 million in operating losses, including restructuring charges of \$92 million as well as fees related to the acquisition, from the acquisition date to December 31, 2015.

On December 15, 2015, we completed our acquisition of HomeAway. HomeAway was consolidated into our results of operations starting on the acquisition date and we recognized \$20 million in revenue and \$14 million in operating loss, including fees related to the acquisition, from the acquisition date to December 31, 2015.

Revenue

	Year ended December 31,			% Change		
	2016	2015	2014	2016 vs 2015	2015 vs 2014	
	(\$ in millions)					
Revenue by Segment						
Core OTA	\$7,084	\$5,877	\$4,904	21 %	20 %	%
trivago (Third-party revenue)	539	333	281	62 %	19 %	%
Egencia	462	400	400	16 %	0 %	%
HomeAway	689	20	—	N/A	N/A	
eLong	—	42	178	N/A	N/A	
Total revenue	\$8,774	\$6,672	\$5,763	31 %	16 %	%

In 2016, revenue increased primarily driven by 19% of inorganic impact from acquisitions, growth in the Core OTA segment, including growth at Brand Expedia and Hotels.com, as well as growth at trivago. In 2015, revenue increased primarily due to growth in the Core OTA segment, including strong performance at Brand Expedia, Hotels.com and EAN as well as growth at trivago, partially offset by a decrease in revenue due to the sale of eLong. Acquisitions added approximately 8% to the year-over-year growth rate in total revenue for 2015.

Worldwide hotel revenue increased 15% (16% excluding eLong) in 2016 primarily due to a 12% (21% excluding eLong) increase in room nights stayed driven by the inorganic impact of acquisitions as well as organic growth in Hotels.com, Brand Expedia and EAN, and a 3% increase (4% decrease excluding eLong) in revenue per room night in 2016. Absent eLong, revenue per room night decreased primarily due to margin reductions aimed at expanding the size and availability of our global hotel supply portfolio, unfavorable foreign exchange translation impacts as well as increased promotional activities such as growing loyalty programs. Absent impacts due to the sale of eLong, ADRs decreased by 1% primarily due to an unfavorable foreign exchange translation impact. Acquisitions added approximately 7% of inorganic hotel revenue growth in 2016 and 6% of room night growth. Worldwide hotel revenue increased 14% (17% excluding eLong) in 2015 primarily due to a 19% (36% excluding eLong) increase in room nights stayed driven by the inorganic impact of acquisitions as well as the healthy growth in Hotels.com and Brand Expedia, partially offset by a 4% decrease (14% excluding eLong) in revenue per room night in 2015. Absent eLong, revenue per room night decreased primarily due to strategic margin reductions aimed at expanding the size and availability of our global hotel supply portfolio, an unfavorable foreign exchange impact, both in translation and in book-to-stay, as well as increased promotional activities such as growing loyalty programs. Absent impacts due to the

sale of eLong, ADRs decreased by 5% primarily due to an unfavorable foreign exchange translation impact. Acquisitions added approximately 6% of inorganic hotel revenue growth in 2015 and 7% of room night growth. Worldwide air revenue increased 37% (39% excluding eLong) in 2016 due to a 29% (32% excluding eLong) increase in air tickets sold and a 6% (5% excluding eLong) increase in revenue per air ticket, driven by new contractual agreements and the addition of Orbitz. Acquisitions added approximately 28% of inorganic air revenue growth in 2016 and 21% of air ticket

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growth. Worldwide air revenue increased 21% (25% excluding eLong) in 2015 due to a 28% (35% excluding eLong) increase in air tickets sold, partially offset by a 6% (7% excluding eLong) decrease in revenue per air ticket.

Acquisitions added approximately 18% of inorganic air revenue growth in 2015 and 15% of air ticket growth.

The remaining worldwide revenue, other than hotel and air discussed above, which includes advertising and media, car rental, destination services, fees related to our corporate travel business and HomeAway revenue, increased by 79% in 2016 and 19% in 2015 primarily due to the acquisition of HomeAway and strong growth in advertising and media revenue as well as growth in our travel insurance and car rental products, including an inorganic contribution from Orbitz.

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

	Year ended December 31,			% Change		
	2016	2015	2014	2016 vs 2015	2015 vs 2014	
	(\$ in millions)					
Revenue by Business Model						
Merchant	\$4,852	\$4,204	\$3,749	15 %	12 %	%
Agency	2,425	1,882	1,535	29 %	23 %	%
Advertising and media ⁽¹⁾	807	566	479	43 %	18 %	%
HomeAway	689	20	—	N/A	N/A	
Total revenue	\$8,774	\$6,672	\$5,763	31 %	16 %	%

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

The increase in merchant revenue in 2016 and 2015 was primarily due to the increase in merchant hotel revenue driven by an increase in room nights stayed. The increase in agency revenue in 2016 and 2015 was primarily due to the growth in agency hotel and air. The increase in advertising and media revenue in 2016 and 2015 was primarily due to continued growth in trivago and Expedia Media Solutions.

Cost of Revenue

	Year ended December 31,			% Change		
	2016	2015	2014	2016 vs 2015	2015 vs 2014	
	(\$ in millions)					
Customer operations	\$727	\$569	\$536	28 %	6 %	%
Credit card processing	508	451	414	13 %	9 %	%
Data center and other	362	290	229	25 %	26 %	%
Total cost of revenue ⁽¹⁾	\$1,597	\$1,310	\$1,179	22 %	11 %	%
% of revenue	18.2 %	19.6 %	20.5 %			

(1) Includes the following eLong amounts: \$— \$37 \$58 N/A N/A

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 costs to support our websites, supplier operations, destination supply, and stock-based compensation.

In 2016, the increase in cost of revenue expense was driven by \$158 million of increased customer operations expenses, \$72 million of higher data center and other costs, as well as \$57 million of higher net credit card processing costs related to growth of our merchant bookings. Acquisitions added approximately 18% of year-on-year cost of revenue growth for 2016.

In 2015, the increase in cost of revenue expense was driven by \$61 million of higher data center and other costs as well as \$37 million of higher net credit card processing costs related to growth of our merchant bookings partially offset by a decrease in fraud and chargeback expenses. In addition, customer operation expenses increased \$33 million to support volume growth across the Company. Acquisitions added approximately 8% of year-on-year cost of revenue growth for 2015.

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Selling and Marketing

	Year ended December 31,			% Change		
	2016	2015	2014	2016 vs 2015	2015 vs 2014	
	(\$ in millions)					
Direct costs	\$3,530	\$2,718	\$2,256	30 %	20 %	%
Indirect costs	837	663	552	26 %	20 %	%
Total selling and marketing ⁽¹⁾	\$4,367	\$3,381	\$2,808	29 %	20 %	%
% of revenue	49.8 %	50.7 %	48.7 %			

(1) Includes the following eLong amounts: \$— \$54 \$124 N/A N/A

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 \$986 million during 2016 compared to 2015 driven by an increase of \$812 million of direct costs, including online and offline marketing expenses. trivago, Brand Expedia and Hotels.com as well as the added costs from our acquisitions of HomeAway and Orbitz accounted for the majority of the total direct cost increases. In addition, higher indirect costs of \$174 million also contributed to the increase and were driven by additional personnel due to an accelerated pace of hiring in the lodging supply organization in the first half of the year and additional headcount at HomeAway and Orbitz. Acquisitions added approximately 14% of year-on-year selling and marketing growth for 2016.

Selling and marketing expenses increased \$573 million during 2015 compared to 2014 driven by an increase of \$462 million of direct costs, including online and offline marketing expenses. Brand Expedia, trivago, Hotels.com and Hotwire accounted for the majority of the total direct cost increase. In addition, higher personnel expenses of \$111 million also contributed to the increase and were driven by the additional personnel due to an accelerated pace of hiring in the lodging supply organization as well as an increase of stock-based compensation of \$15 million.

Acquisitions added approximately 8% of year-on-year selling and marketing growth for 2015.

Technology and Content

	Year ended December 31,			% Change		
	2016	2015	2014	2016 vs 2015	2015 vs 2014	
	(\$ in millions)					
Personnel and overhead	\$627	\$434	\$370	45 %	17 %	%
Depreciation and amortization of technology assets	362	265	214	36 %	24 %	%
Other	246	131	102	88 %	29 %	%
Total technology and content ⁽¹⁾	\$1,235	\$830	\$686	49 %	21 %	%
% of revenue	14.1 %	12.4 %	11.9 %			

(1) Includes the following eLong amounts: \$— \$11 \$21 N/A N/A

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 licensing and maintenance expense and stock-based compensation.

Technology and content expense increased \$405 million for 2016 compared to 2015 primarily due to increased personnel and overhead costs of \$193 million to support key technology projects primarily in Brand Expedia Group, the corporate technology function and trivago, as well as the addition of HomeAway personnel and overhead costs. Depreciation and amortization of technology assets also increased \$97 million year-over-year. Other costs increased \$115 million year-over-year primarily due to expansion into the cloud computing environment and higher licensing

and maintenance to support the growth of our technology platforms as well as higher stock-based compensation of \$37 million, including amounts related to the

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trivago employee stock option plan as described in NOTE 10 — Stock-Based Awards and Other Equity Instruments.

Acquisitions added approximately 20% to year-on-year technology and content growth for 2016.

Technology and content expense increased \$144 million for 2015 compared to 2014 primarily due to increased personnel and overhead costs of \$64 million to support key technology projects primarily for our corporate technology function and Brand Expedia, increased depreciation and amortization of technology assets of \$51 million as well as an increase in other costs of \$29 million due to higher licensing and maintenance and data center costs to support the growth of the technology platforms. Acquisitions added approximately 6% to year-on-year technology and content growth for 2015.

General and Administrative

	Year ended December 31,			% Change		
	2016	2015	2014	2016 vs 2015	2015 vs 2014	
	(\$ in millions)					
Personnel and overhead	\$411	\$330	\$277	24 %	19 %	
Professional fees and other	267	244	148	10 %	65 %	
Total general and administrative ⁽¹⁾	\$678	\$574	\$425	18 %	35 %	
% of revenue	7.7 %	8.6 %	7.4 %			
	\$—	\$23	\$24	N/A	N/A	

(1) Includes the following eLong amounts:

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 \$104 million in 2016 compared to 2015 due primarily to higher personnel and overhead expenses of \$81 million driven by the organic growth of the business and the inorganic addition of HomeAway and Orbitz. In addition, stock-based compensation increased \$28 million year-over-year, which included increases related to trivago as well as in general employee stock-based compensation that were partially offset by the absence of eLong related stock-based compensation in 2016. Acquisitions added approximately 7% of year-on-year general and administrative growth for 2016, which reflects the addition of a full year of expenses for HomeAway and Orbitz, partially offset by higher acquisition-related expenses in the prior year.

General and administrative expense increased \$149 million in 2015 compared to 2014 due primarily to higher professional fees and other of \$96 million driven mostly by higher stock-based compensation of \$39 million, which was primarily due to additional options granted during the current year as well as expense related to replacement awards issued in connection with acquisitions, as well as an increase of \$31 million due to higher consulting and legal fees related to heightened merger and acquisition activity. In addition, personnel and overhead expenses increased \$53 million in 2015 compared to 2014. Acquisitions, including acquisition-related expenses, added approximately 24% of year-on-year general and administrative growth for 2015.

Amortization and Impairment of Intangible Assets

	Year ended December 31,			% Change		
	2016	2015	2014	2016 vs 2015	2015 vs 2014	
	(\$ in millions)					
Amortization of intangible assets	\$317	\$156	\$77	103 %	104 %	
Impairment of intangible assets	35	7	3	N/A	N/A	

Amortization of intangible assets increased \$161 million in 2016 compared to 2015 primarily due to amortization related to new business acquisitions in the prior year, partially offset by the completion of amortization related to certain intangible assets. In 2015, amortization increased \$84 million primarily due to amortization related to new business acquisitions, including Orbitz and HomeAway.

In 2016, 2015 and 2014, we recorded impairment losses of \$35 million, \$7 million and \$3 million related to indefinite-lived trade names within our Core OTA segment due to changes in estimated future revenues of the related brands.

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Legal Reserves, Occupancy Tax and Other

	Year ended			% Change	
	December 31, 2016	2015	2014	2016 vs 2015	2015 vs 2014
	(\$ in millions)				

Legal reserves, occupancy tax and other	\$26	\$(105)	\$42	N/A	N/A
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Legal reserves, occupancy tax and other consists of increases in our reserves for court decisions and the potential and final settlement of issues related to hotel occupancy taxes, expenses recognized related to monies paid in advance of occupancy and other tax proceedings (“pay-to-play”) as well as certain other legal reserves.

During 2016, we recognized approximately \$12 million for amounts expected to be paid in advance of litigation related to “merchant model” car rental transactions in connection with Hawaii’s general excise tax litigation. The remaining expense in 2016 related to changes in our reserve related to hotel occupancy and other taxes.

During 2015, we received a refund of prepaid pay-to-play payments of \$132 million from the State of Hawaii in connection with the general excise tax litigation. In addition, during 2015, we recorded a \$24 million benefit in legal reserves, occupancy tax and other for the recovery of costs related to occupancy tax litigation matters. These gains were partially offset by charges for changes in our reserve related to hotel occupancy and other taxes.

During 2014, we recognized approximately \$25.5 million related to monies paid in advance of litigation in the San Francisco occupancy tax proceedings.

For additional information, see NOTE 17 — Commitments and Contingencies in the notes to the consolidated financial statements.

Restructuring and Related Reorganization Charges

In connection with the migration of technology platforms and centralization of technology, supply and other operations, primarily related to previously disclosed acquisitions, we recognized \$56 million, \$105 million and \$26 million in restructuring and related reorganization charges during 2016, 2015 and 2014. In 2016 and 2015, the charges were primarily related to employee severance and benefits as a part of the Orbitz integration and represents estimated severance amounts under pre-existing written plans and contracts Orbitz had with its employees, stock-compensation charges for acceleration of replacement awards pursuant to certain of these agreements as well as incremental retention compensation for exiting employees. In 2014, the charges primarily related to severance and related benefits as well as an Australian stamp duty tax that was payable to certain Australian jurisdictions related to business restructuring events. Based on current plans, which are subject to change, we expect to incur approximately \$10 to \$15 million in 2017 related to these integrations and estimates do not include any possible future acquisition integrations.

For additional information, see NOTE 15 — Restructuring and Related Reorganization Charges in the notes to the consolidated financial statements.

Operating Income

	Year ended December 31,			% Change	
	2016	2015	2014	2016 vs 2015	2015 vs 2014
	(\$ in millions)				
Operating income	\$462	\$414	\$518	12%	(20)%
% of revenue	5.3%	6.2%	9.0%		

In 2016, operating income increased primarily due to higher growth in revenue and the absence of eLong operating losses, partially offset by increased costs and expenses, including growth in technology and content expense in excess of revenue growth, higher amortization of intangible assets as well as the comparative impact of the prior year Hawaii pay-to-play gain of \$132 million.

In 2015, operating income decreased due to increased costs and expenses, including growth in selling and marketing expense in excess of revenue growth, growth in general and administrative expense in excess of revenue growth as well as an increase in restructuring and related reorganization charges, partially offset by the gain of \$132 million

related to the Hawaii pay-to-play refunds.

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Included in our consolidated operating income for 2015 are operating losses for eLong through its disposition date of May 22, 2015 of \$86 million. eLong had operating losses of \$51 million for 2014.

Interest Income and Expense

	Year ended			% Change		
	December 31,					
	2016	2015	2014	2016 vs 2015	2015 vs 2014	
	(\$ in millions)					

Interest income	\$20	\$17	\$27	18 %	(39)%	
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Interest expense	(173)	(126)	(98)	37 %	29 %	
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Interest income increased in 2016 compared to 2015 primarily due to higher rates of return, partially offset by lower invested balances. Interest income decreased in 2015 compared to 2014 primarily due to lower invested balances as well as lower rates of return due to a shift out of higher-yielding currencies due to the sale of eLong and funding U.S. dollar denominated acquisitions, and lower market rates in certain currencies.

Interest expense increased in 2016 compared to 2015 primarily as a result of additional interest on the Euro 650 million of senior unsecured notes issued in June 2015 and the \$750 million senior unsecured notes issued in December 2015. Interest expense increased in 2015 compared to 2014 primarily as a result of additional interest on the \$500 million senior unsecured notes issued in August 2014, the Euro 650 million of senior unsecured notes issued in June 2015 as well as the \$750 million senior unsecured notes issued in December 2015.

As of December 31, 2016 and 2015, our long-term indebtedness totaled \$3.2 billion. As of December 31, 2014, our long-term indebtedness totaled \$1.7 billion.

Gain on Sale of Business

On May 22, 2015, we completed the sale of our 62.4% ownership stake in eLong, Inc. for approximately \$671 million (or \$666 million net of costs to sell and other transaction expenses) to several purchasers, including Ctrip.com International, Ltd. As a result of the sale, we recognized a pre-tax gain of \$509 million (\$395 million after tax) during 2015 included in gain on sale of business in our consolidated statement of operations.

Other, Net

Other, net is comprised of the following:

	Year ended		
	December 31,		
	2016	2015	2014
	(\$ in millions)		
Foreign exchange rate gains (losses), net	\$(15)	\$25	\$ 6
Non-controlling interest basis adjustment	—	77	3
Other-than-temporary investment impairments	(12)	—	—
Other	(5)	11	9
Total other, net	\$(32)	\$113	\$ 18

Provision for Income Taxes

	Year ended December			% Change		
	31,					
	2016	2015	2014	2016 vs 2015	2015 vs 2014	
	(\$ in millions)					
Provision for income taxes	\$15	\$203	\$92	(92)%	122 %	
Effective tax rate	5.5 %	21.9 %	19.7%			

The decrease in our effective rate for 2016 compared to 2015 was primarily due to tax benefits from the adoption of new accounting guidance relating to stock-based compensation and the release of valuation allowances in the United Kingdom and Germany on cumulative foreign net operating losses for which it is more likely than not the tax benefit will be realized. As a result of lower pre-tax earnings in 2016, the impacts of these benefits create a significant effect on our effective tax rate. Our effective tax rate for 2016 was lower than the 35% federal statutory rate due to earnings in foreign jurisdictions outside of the

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United States, predominately Switzerland, where our statutory income tax rate is lower as well as the same factors impacting the year-over-year effective tax rate comparison.

The increase in the effective rate for 2015 compared to 2014 is primarily due to the gain on the sale of eLong during 2015, and the release of liabilities related to uncertain tax positions in 2014. Our effective tax rate for 2015 was lower than the 35% federal statutory rate due to earnings in foreign jurisdictions outside of the United States as well as the sale of eLong, which had a U.S. effective rate of less than 35%.

Our effective tax rate for 2014 was lower than the 35% federal statutory rate due to earnings in foreign jurisdictions outside of the United States as well as the release of liabilities related to uncertain tax positions.

For additional information, see NOTE 11 — Income Taxes in the notes to the consolidated financial statements.

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 \$1.9 billion and \$1.7 billion at December 31, 2016 and 2015, including \$1.1 billion and \$645 million of cash and short-term investment balances held in wholly-owned foreign subsidiaries (which includes \$737 million and \$441 million related to earnings indefinitely invested outside the United States) as well as \$313 million and \$72 million held in majority-owned subsidiaries, which is also indefinitely invested outside the United States; and our \$1.5 billion revolving credit facility, which is essentially untapped. Cumulative earnings related to undistributed earnings of certain foreign subsidiaries that we intend to indefinitely reinvest outside of the United States totaled \$1.8 billion as of December 31, 2016. To date, we have permanently reinvested the majority of these foreign earnings outside of the United States and we do not intend to repatriate these earnings to fund U.S. operations. Should we distribute earnings of foreign subsidiaries in the form of dividends or otherwise, we may be subject to U.S. income taxes.

The revolving credit facility, which was amended in the first quarter of 2016 to increase borrowing capacity to \$1.5 billion, extend the expiration to February 2021 and provide more favorable fees (as disclosed herein), bears interest based on the Company's credit ratings with the applicable interest rate on drawn amounts was LIBOR plus 137.5 basis points and the commitment fee on undrawn amounts was 17.5 basis points as of December 31, 2016.

Our credit ratings are periodically reviewed by rating agencies. As of December 31, 2016, Moody's rating was Ba1 with an outlook of "stable," S&P's rating was BBB- with an outlook of "stable" and Fitch's rating was BBB- with an outlook of "stable." Changes in our operating results, cash flows, financial position, capital structure, financial policy or capital allocations to share repurchase, dividends, investments and acquisitions could impact the ratings assigned by the various rating agencies. Should our credit ratings be adjusted downward, we may incur higher costs to borrow and/or limited to access to capital markets, which could have a material impact on our financial condition and results of operations.

As of December 31, 2016, we were in compliance with the covenants and conditions in our revolving credit facility and outstanding debt, which was comprised of \$500 million in registered senior unsecured notes due in August 2018 that bear interest at 7.456% (the "7.456% Notes"), \$750 million in registered senior unsecured notes due in August 2020 that bear interest at 5.95% (the "5.95% Notes"), \$500 million in registered senior unsecured notes due in August 2024 that bear interest at 4.5% (the "4.5% Notes"), Euro 650 million of registered senior unsecured notes due in June 2022 that bear interest at 2.5% (the "2.5% Notes") and \$750 million of registered senior unsecured notes due in February 2026 that bear interest at 5.0% (the "5.0% Notes").

Under the merchant model, we receive cash from travelers at the time of booking and we record these amounts on our consolidated balance sheets as deferred merchant bookings. We pay our airline suppliers related to these merchant model bookings generally within a few weeks after completing the transaction, but we are liable for the full value of such transactions until the flights are completed. For most other merchant bookings, which is primarily our merchant hotel business, we generally pay after the travelers' use and, in some cases, subsequent billing from the hotel suppliers. Therefore, generally we receive cash from the traveler prior to paying our supplier, and this operating cycle represents a working capital source of cash to us. As long as the merchant hotel business grows, we expect that changes in working capital related to merchant hotel transactions will positively impact operating cash flows. However, we are using both the merchant model and the agency model in many of our markets. If the merchant hotel model declines

relative to our other business models that generally consume working capital such as agency hotel, managed corporate travel, advertising or certain Expedia Affiliate Network relationships, or if there are changes to the merchant model, supplier payment terms, or booking patterns that compress the time period between our receipt of cash from travelers and our payment to suppliers, such as with mobile bookings via smartphones, our overall working capital benefits could be reduced, eliminated or even reversed. Our future working capital benefits could also be impacted by the transition of our recent HomeAway acquisition's shift to more of a transactional model from a subscription model.

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

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

As of December 31, 2016, we had a deficit in our working capital of \$2.7 billion, compared to a deficit of \$2.9 billion as of December 31, 2015. The slight change in deficit is primarily due to operating cash flows offset by financing and investing activities, including capital expenditures and share repurchases.

We continue to invest in the development and expansion of our operations. Ongoing investments include but are not limited to improvements in infrastructure, which include our servers, networking equipment and software, release improvements to our software code, platform migrations and consolidation and search engine marketing and optimization efforts. In addition, in 2016, we began our expansion into the cloud computing environment. While we expect our cloud computing expenses to increase significantly over the next few years, they are expected to result in lower overall capital expenditures related to our data centers over time. Our future capital requirements may include capital needs for acquisitions (including purchases of non-controlling interest), share repurchases, dividend payments or expenditures in support of our business strategy; thus reducing our cash balance and/or increasing our debt.

Excluding capital expenditures associated with the build out of our new corporate headquarters, we expect total capital expenditures for 2017 to decline slightly over 2016 spending levels. Our current estimates for the new headquarters total approximately \$650 million of which approximately \$30 million was spent in 2016 and less than \$100 million will be spent in 2017. The remainder will be split roughly evenly between 2018 and 2019.

Our cash flows are as follows:

	Year ended December 31,		\$ Change	
	2016	2015	2014	2016 vs 2015 vs 2014
	(In millions)			
Cash provided by (used in) operations:				
Operating activities	\$1,564	\$1,368	\$1,367	\$ 196 \$ 1
Investing activities	(718)	(2,371)	(924)	1,653 (1,447)
Financing activities	(691)	1,404	48	(2,095) 1,356
Effect of foreign exchange rate changes on cash and cash equivalents	(35)	(127)	(109)	92 (18)

In 2016, net cash provided by operating activities increased by \$196 million primarily due to higher operating income after adjusting for impacts of depreciation and amortization, partially offset by a decrease in benefits from working capital adjustments and a net refund of hotel occupancy and other taxes in 2015. In 2015, net cash provided by operating activities remained essentially flat as a net refund of hotel occupancy and other taxes was mostly offset by decreased benefits from working capital changes, including increases in income tax and interest payments.

In 2016, cash used in investing activities decreased by \$1.7 billion primarily due to a decrease of cash used for acquisitions of \$2.1 billion, partially offset by a decrease in net proceeds related to the sale of eLong of \$457 million in the prior year. In 2015, cash used in investing activities increased by \$1.4 billion primarily due to an increase of cash used for acquisitions of \$1.5 billion due primarily to our acquisition of Orbitz in September 2015 and HomeAway in December 2015 as well as higher capital expenditures of \$460 million, including amounts paid for our new corporate headquarters, partially offset by net proceeds from the sale of eLong of \$524 million.

Cash used in financing activities in 2016 primarily included cash paid to acquire shares of \$456 million, including the repurchased shares under the authorizations discussed below, the repayment of \$401 million of HomeAway Convertible Notes and \$150 million cash dividend payment, partially offset by \$215 million of net proceeds from the

initial public offering of trivago as well as \$141 million of proceeds from the exercise of options and employee stock purchase plans. Cash provided by financing activities in 2015 primarily included \$700 million of net proceeds for the issuance of 2.5% Notes in June 2015, \$741

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million in net proceeds for the issuance of the 5.0% Notes in December 2015, \$120 million of proceeds from the exercise of options and employee stock purchase plans as well as the issuance of treasury stock, and \$91 million in excess tax benefit on equity awards, of which approximately \$47 million related to the excess tax benefit associated with the stock options exercised by our Chairman and Senior Executive. These financing inflows were offset in part by \$85 million of withholding taxes for stock option exercises paid on behalf of our Chairman and Senior Executive in exchange for surrendering a portion of his vested shares, which were concurrently cancelled, as well as cash paid to acquire shares of \$61 million primarily under the repurchase authorizations discussed below, and \$109 million cash dividend payments. Cash provided by financing activities in 2014 primarily included \$493 million of net proceeds for the issuance of 4.5% Notes in August 2014 and \$129 million of proceeds from the exercise of options and employee stock purchase plans as well as the issuance of treasury stock, partially offset by cash paid to acquire shares of \$538 million, including the repurchased shares under the 2012 authorization discussed below, and \$85 million cash dividend payment.

During 2012, 2010, and 2006, our Board of Directors, or the Executive Committee, acting on behalf of the Board of Directors, authorized a repurchase of up to 20 million outstanding shares of our common stock during each of the respective years and during 2015 authorized a repurchase of up to 10 million shares of our common stock for a total of 70 million shares. Shares repurchased under the authorized programs were as follows:

	Year ended December 31,		
	2016	2015	2014
Number of shares repurchased	4.0	0.5	7.0
	million	million	million
Average price per share	\$109.64	\$85.27	\$76.26
Total cost of repurchases (in millions) ⁽¹⁾	\$436	\$45	\$537

(1) Amount excludes transaction costs.

As of December 31, 2016, 7.3 million shares remain authorized for repurchase under the 2015 authorization with no fixed termination date for the repurchases. Subsequent to December 31, 2016, we repurchased an additional 0.3 million shares for a total cost of \$30 million, excluding transaction costs, representing an average price of \$113.42 per share.

Our common stock dividend was \$1.00 per share for 2016, \$0.84 per share for 2015 and \$0.66 per share for 2014. See NOTE 13 — Stockholders' Equity in the notes to consolidated financial statements for a detail of the quarterly dividend payments by year. In addition, in February 2017, the Executive Committee, acting on behalf of the Board of Directors, declared a quarterly cash dividend of \$0.28 per share of outstanding common stock payable on March 30, 2017 to the stockholders of record as of the close of business on March 9, 2017. Future declarations of dividends are subject to final determination by our Board of Directors.

The effect of foreign exchange on our cash balances denominated in foreign currency in 2016 showed a net change of \$92 million reflecting lower depreciations in foreign currencies in 2016 compared to 2015. The effect of foreign exchange on our cash balances denominated in foreign currency in 2015 showed a net change of \$18 million reflecting higher depreciation in foreign currencies in the 2015 compared to 2014.

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 of availability of future borrowings, including refinancing, if any, will be available on terms acceptable to us.

Contractual Obligations and Commercial Commitments

The following table presents our material contractual obligations and commercial commitments as of December 31, 2016:

	By Period			
	Less than			More than
Total	1	1 to 3 years	3 to 5 years	5 years
	year			
(In millions)				

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Long-term debt ⁽¹⁾	\$4,253	\$159	\$ 818	\$ 993	\$ 2,283
Operating leases ⁽²⁾	514	120	212	92	90
Purchase obligations ⁽³⁾	268	239	29	—	—
Guarantees ⁽⁴⁾	150	150	—	—	—
Letters of credit ⁽⁴⁾	49	44	5	—	—
Total ⁽⁵⁾	\$5,234	\$712	\$ 1,064	\$ 1,085	\$ 2,373

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(1) Our 7.456% Notes, 5.95% Notes, 2.5% Notes, 4.5% Notes, and 5.0% Notes include interest payments through maturity in 2018, 2020, 2022, 2024, and 2026 respectively, based on the stated fixed rates. For the 2.5% Notes, the December 31, 2016 Euro exchange rate was used to convert the Euro 650 million to U.S. Dollars and calculate the related U.S. Dollar interest payments.

(2) The operating leases are for office space and related office equipment. We account for these leases on a monthly basis. Certain leases contain periodic rent escalation adjustments and renewal options. Operating lease obligations expire at various dates with the latest maturity in 2026.

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

(4) Guarantees and LOCs are commitments that represent funding responsibilities that may require our performance in the event of third-party demands or contingent events. We use our stand-by LOCs primarily for certain regulatory purposes as well as to secure payment for hotel room transactions to particular hotel properties. Of the outstanding balance of our stand-by LOCs, \$19 million directly reduces the amount available to us from our revolving credit facility. The LOC amounts in the above table represent the amount of commitment expiration per period. In

addition, we provide a guarantee to the aviation authorities of certain foreign countries to protect against potential non-delivery of our packaged travel services sold within those countries. These countries hold all travel agents and tour companies to the same standard. Our guarantees also include bonds relating to tax assessments that we are contesting and certain surety bonds related to various company performance obligations.

(5) Excludes \$221 million of unrecognized tax benefits for which we cannot make a reasonably reliable estimate of the amount and period of payment.

Other than the items described above, we do not have any off-balance sheet arrangements as of December 31, 2016.

Certain Relationships and Related Party Transactions

For a discussion of certain relationships and related party transactions, see NOTE 18 — Related Party Transactions in the notes to the consolidated financial statements.

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

Market Risk Management

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

Interest Rate Risk

In August 2006, we issued \$500 million senior unsecured notes with a fixed rate of 7.456%. In August 2010, we issued \$750 million senior unsecured notes with a fixed rate of 5.95%. In August 2014, we issued \$500 million senior unsecured notes with a fixed rate of 4.5%. In June 2015, we issued Euro 650 million of senior unsecured notes with a fixed rate of 2.5%. (See “Foreign Exchange Risk” below for further discussion of our 2.5% Notes.) In December 2015, we issued \$750 million of senior unsecured notes with a fixed rate of 5.0%. As a result, if market interest rates decline, our required payments will exceed those based on market rates. The fair values of our 7.456% Notes, 5.95% Notes, 2.5% Notes, 4.5% Notes and 5.0% Notes were approximately \$541 million, \$823 million, \$718 million, \$511 million and \$782 million as of December 31, 2016 as calculated based on quoted market prices in less active markets at year end. A 50 basis point increase or decrease in interest rates would decrease or increase the fair value of our 7.456% Notes by approximately \$4 million, our 5.95% Notes by approximately \$13 million, our 4.5% Notes by approximately \$16 million, our 2.5% Notes by approximately \$17 million and our 5.0% Notes by approximately \$28 million.

We maintain a \$1.5 billion revolving credit facility, which bears interest based on market rates plus a spread determined by our credit ratings. Because our interest rate is tied to a market rate, we will be susceptible to fluctuations in interest rates if, consistent with our practice to date, we do not hedge the interest rate exposure arising from any borrowings under our revolving credit facility. As of December 31, 2016 and 2015, we had no revolving credit facility borrowings outstanding.

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We invest in investment grade corporate debt securities and, as of December 31, 2016, we had \$64 million of available for sale investments. Based on a sensitivity analysis, we have determined that a hypothetical 1.00% (100 basis points) increase in bond prices would have resulted in a decrease in the fair values of our investments of less than \$1 million as of December 31, 2016. Such losses would only be realized if we sold the investments prior to maturity.

We did not experience any significant impact from changes in interest rates for the years ended December 31, 2016, 2015 or 2014.

Foreign Exchange Risk

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

To the extent practicable, we minimize our foreign currency exposures by maintaining natural hedges between our current assets and current liabilities in similarly denominated foreign currencies. Additionally, 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. These instruments are typically short-term and are recorded at fair value with gains and losses recorded in other, net. As of December 31, 2016, we had a net forward liability of \$4 million included in accrued expenses and other current liabilities. As of December 31, 2015, we had a net forward asset of \$8 million included in prepaid expenses and other current assets. We may enter into additional foreign exchange derivative contracts or other economic hedges in the future. Our goal in managing our foreign exchange risk is to reduce to the extent practicable our potential exposure to the changes that exchange rates might have on our earnings, cash flows and financial position. We make a number of estimates in conducting hedging activities including in some cases the level of future bookings, cancellations, refunds, customer stay patterns and payments in foreign currencies. In the event those estimates differ significantly from actual results, we could experience greater volatility as a result of our hedges.

In June 2015, we issued Euro 650 million of registered senior unsecured notes that are due in June 2022 and bear interest at 2.5%. 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). The Euro-denominated net assets of these subsidiaries are translated into U.S. Dollars at each balance sheet date, with effects of foreign currency changes also reported in accumulated other comprehensive income (loss). 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.

Future net transaction gains and losses are inherently difficult to predict as they are reliant on how the multiple currencies in which we transact fluctuate in relation to the U.S. dollar, the relative composition and denomination of current assets and liabilities each period, and our effectiveness at forecasting and managing, through balance sheet netting or the use of derivative contracts, such exposures. As an example, if the foreign currencies in which we hold net asset balances were to all weaken 10% against the U.S. dollar and foreign currencies in which we hold net liability balances were to all strengthen 10% against the U.S. dollar, we would recognize foreign exchange losses of approximately \$21 million based on our foreign currency forward positions (including the impact of forward positions economically hedging our merchant revenue exposures) and the net asset or liability balances of our foreign denominated cash and cash equivalents, accounts receivable, deferred merchant bookings and merchant accounts payable balances as of December 31, 2016. As the net composition of these balances fluctuate frequently, even daily, as do foreign exchange rates, the example loss could be compounded or reduced significantly within a given period. During 2016, 2015 and 2014, we recorded net foreign exchange rate losses of approximately \$15 million (\$30 million loss excluding the contracts economically hedging our forecasted merchant revenue), net foreign exchange rate gains of approximately \$25 million (\$15 million loss excluding the contracts economically hedging our forecasted merchant

revenue) and net foreign exchange rate gains of approximately \$6 million (\$14 million loss excluding the contracts economically hedging our forecasted merchant revenue). As we increase our operations in international markets, our exposure to fluctuations in foreign currency exchange rates increases. The economic impact to us of foreign currency exchange rate movements is linked to variability in real growth, inflation, interest rates, governmental actions and other factors. These changes, if material, could cause us to adjust our financing and operating strategies.

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

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

Part II. Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
None.

Part II. Item 9A. Controls and Procedures

Changes in Internal Control over Financial Reporting.

There were no changes to our internal control over financial reporting that occurred during the quarter ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Evaluation of Disclosure Controls and Procedures.

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

Management’s Report on Internal Control over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) of the Exchange Act. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with accounting principles generally accepted in the United States of America. Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria for effective control over financial reporting described in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has concluded that, as of December 31, 2016, the Company’s internal control over financial reporting was effective. Management has reviewed its assessment with the Audit Committee. Ernst & Young, LLP, an independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of December 31, 2016, as stated in their report which is included below.

Limitations on Controls.

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

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Expedia, Inc.

We have audited Expedia, Inc. and subsidiaries' (the Company's) internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), (the COSO criteria). Expedia, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Expedia, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2016 consolidated financial statements of Expedia, Inc. and subsidiaries and our report dated February 9, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Seattle, Washington

February 9, 2017

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Part II. Item 9B. Other Information

None.

Part III.

We are incorporating by reference the information required by Part III of this report on Form 10-K from our proxy statement relating to our 2017 annual meeting of stockholders (the “2017 Proxy Statement”), which will be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2016.

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

The information required by this item is included under the captions “Election of Directors — Nominees,” “Election of Directors — Board Meetings and Committees,” “Information Concerning Executive Officers” and “Section 16(a) Beneficial Ownership Reporting Compliance” in the 2017 Proxy Statement and incorporated herein by reference.

Part III. Item 11. Executive Compensation

The information required by this item is included under the captions “Election of Directors — Compensation of Non-Employee Directors,” “Election of Directors — Compensation Committee Interlocks and Insider Participation,” “Compensation Discussion and Analysis,” “Compensation Committee Report” and “Executive Compensation” in the 2017 Proxy Statement and incorporated herein by reference.

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

The information required by this item is included under the captions “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” in the 2017 Proxy Statement and incorporated herein by reference.

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

The information required by this item is included under the captions “Certain Relationships and Related Person Transactions” and “Election of Directors — Board Meetings and Committees” in the 2017 Proxy Statement and incorporated herein by reference.

Part III. Item 14. Principal Accounting Fees and Services

The information required by this item is included under the caption “Audit Committee Report” in the 2017 Proxy Statement and incorporated herein by reference.

Part IV. Item 15. Exhibits, Consolidated Financial Statements and Financial Statement Schedules

(a)(1) Consolidated Financial Statements

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

(a)(2) Financial Statement Schedules

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

(a)(3) Exhibits

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

Exhibit No.	Exhibit Description	Filed Herewith	Incorporated by Reference		
			Form	SEC File No.	Exhibit Filing Date
1.1	Underwriting Agreement, dated Expedia, Inc., as Issuer, the Guarantors party thereto, and BNP Paribas, Goldman, Sachs & Co., J.P. Morgan Securities plc, as Representatives of the several Underwriters (relating to the Fourth Supplemental Indenture on Exhibit 4.6)		8-K	000-51447	1.1 6/3/2015

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Exhibit No.	Exhibit Description	Filed Herewith	Incorporated by Reference Form SEC File No.	Exhibit	Filing Date
2.1	Separation Agreement by and between Expedia, Inc. and IAC/InterActiveCorp, dated as of August 9, 2005		10-Q 000-51447	2.1	11/14/2005
2.2	Separation Agreement by and between Expedia, Inc. and TripAdvisor, Inc., dated as of December 20, 2011		8-K 000-51447	2.1	12/27/2011
2.3	Share Purchase Agreement, dated as of December 21, 2012, by and among Expedia, Inc., trivago GmbH, a wholly owned subsidiary of Expedia and the shareholders of trivago GmbH party thereto.		8-K 000-51447	2.1	12/21/2012
2.4	Shareholders Agreement, dated as of December 21, 2012 by and among trivago GmbH, Expedia, Inc., a wholly owned subsidiary of Expedia and certain shareholders of trivago GmbH.		8-K 000-51447	2.2	12/21/2012
2.5	Agreement and Plan of Merger, dated as of February 12, 2015, by and among Expedia, Inc., Xeta, Inc., and Ortiz Worldwide, Inc.		8-K 000-51447	2.1	2/13/2015
2.6	Purchase and Sale Agreement (Cruise), dated March 10, 2015, by and between Immunex Corporation and Cruise, LLC		8-K 000-51447	10.1	4/2/2015
2.7	First Amendment to Purchase and Sale, dated March 25, 2015, by and between Immunex Corporation and Cruise, LLC		8-K 000-51447	10.2	4/2/2015
2.8	Share Purchase Agreement, dated May 22, 2015, by and among Expedia, Inc., Expedia Asia Pacific - Alpha Limited, Ctrip.com International, Ltd., C-Travel International Limited, Luxuriant Holdings Limited, Keystone Lodging Holdings Limited and Plateno Group Limited		8-K 000-51447	10.1	5/22/2015
2.9	Agreement and Plan of Reorganization, dated as of November 4, 2015, by and among Expedia, Inc., HMS 1 Inc. and HomeAway, Inc.		8-K 001-37429	2.1	11/5/2015
3.2	Amended and Restated Bylaws of Expedia, Inc. Indenture, dated as of August 21, 2006, among Expedia, Inc., as Issuer, the Subsidiary Guarantors from time to		8-K 000-51447	3.3	8/15/2005
4.1	time parties thereto and The Bank of New York Trust Company, N.A., as Trustee, relating to Expedia, Inc.'s 7.456% Senior Notes due 2018		10-Q 000-51447	4.1	11/14/2006
4.2	First Supplemental Indenture, dated as of January 19, 2007, among Expedia, Inc., as Issuer, the Subsidiary Guarantors party thereto and The Bank of New York Trust Company, N.A., as Trustee		S-4 333-140195	4.2	1/25/2007
4.3	Indenture, dated as of August 5, 2010, among Expedia, Inc., as Issuer, the Subsidiary Guarantors from time to time parties thereto and The Bank of New York Mellon Trust Company, N.A., as Trustee, governing Expedia, Inc.'s 5.95% Senior Notes due 2020		8-K 000-51447	4.1	8/10/2010
4.4	Ninth Supplemental Indenture, dated as of September 30, 2016, among Expedia, Inc., as Issuer, the Subsidiary		8-K 001-37429	4.1	10/3/2016

4.5	Guarantors party thereto and The Bank of New York Mellon Trust Company, N.A., as Trustee Indenture, dated as of August 13, 2014, among Expedia, Inc., as Issuer, the Subsidiary Guarantors from time to time parties thereto and The Bank of New York Mellon Trust Company, N.A., as Trustee	8-K	000-51447	4.1	8/18/2014
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Exhibit No.	Exhibit Description	Filed Herewith	Incorporated by Reference Form	SEC File No.	Exhibit	Filing Date
4.6	First Supplemental Indenture, dated as of August 18, 2014, among Expedia, Inc., the Subsidiary Guarantors party thereto and The Bank of New York Trust Company, N.A., as Trustee, governing Expedia, Inc.'s 4.500% Senior Notes due 2024		8-K	000-51447	4.2	8/18/2014
4.7	Fourth Supplemental Indenture, dated as of June 3, 2015, among Expedia, Inc., as Issuer, the Subsidiary Guarantors party thereto and The Bank of New York Mellon Trust Company, N.A., as Trustee, governing Expedia, Inc.'s 2.500% Senior Notes due 2022		8-K	000-51447	4.2	6/3/2015
4.8	Indenture, dated as of December 8, 2015, among Expedia, Inc., as Issuer, the Subsidiary Guarantors from time to time parties thereto and The Bank of New York Mellon Trust Company, N.A., as Trustee, governing Expedia, Inc.'s 5.000% Senior Notes due 2026		8-K	001-37429	4.1	12/8/2015
10.1	Amended and Restated Governance Agreement among Expedia, Inc., Liberty Interactive Corporation and Barry Diller, dated as of December 20, 2011		8-K	000-51447	10.10	12/27/2011
10.2	Assignment and Assumption of Governance Agreement, among Liberty Expedia holdings, Inc., LEXE Marginco, LLC, LEXEB, LLC, Liberty Interactive Corporation, Barry Diller and Expedia, Inc., dated as of November 4, 2016		8-K*†	001-37938	10.6	11/7/2016
10.3	Amended and Restated Stockholders Agreement between Liberty Interactive Corporation and Barry Diller, dated as of December 20, 2011		10-K	000-51447	10.1	2/10/2012
10.4	Assignment and Assumption of Stockholders Agreement, by and among Liberty Expedia Holdings, Inc., Liberty Interactive Corporation and Barry Diller, dated November 4, 2016		8-K*†	001-37938	10.7	11/7/2016
10.5	Amendment No. 1 to Stockholders Agreement, by and between Liberty Expedia Holdings, Inc. and Barry Diller, dated November 4, 2016		8-K*†	001-37938	10.8	11/7/2016
10.6	Amended and Restated Transaction Agreement, by and among Liberty Interactive Corporation, Liberty Expedia Holdings, Inc., Barry Diller, John C. Malone and Leslie Malone, dated as of September 22, 2016		S-4/A*†	333-210377	10.1	9/23/2016
10.7	Assignment Agreement, by and between Barry Diller and Liberty Expedia Holdings, Inc., dated November 4, 2016		8-K*†	001-37938	10.10	11/7/2016
10.8	Tax Sharing Agreement by and between Expedia, Inc. and IAC/InterActiveCorp, dated as of August 9, 2005					