

Expedia, Inc.  
Form 10-K  
February 11, 2016  
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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, 2015

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**  
*(State or other jurisdiction of*  
incorporation or organization)

333 108th Avenue NE

**20-2705720**  
*(I.R.S. Employer*  
Identification No.)

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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:
Common stock, \$0.0001 par value	The Nasdaq Global Select Market

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.

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, 2015, the aggregate market value of the registrant's common equity held by non-affiliates was approximately \$10,856,875,000. For the purpose of the foregoing calculation only, all directors and executive officers of the registrant are assumed to be affiliates of the registrant.

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<b>Class</b>	<b>Outstanding Shares at January 29, 2016 were approximately,</b>
Common stock, \$0.0001 par value per share	137,780,456 shares
Class B common stock, \$0.0001 par value per share	12,799,999 shares

**Documents Incorporated by Reference**

<b>Document</b>	<b>Parts Into Which Incorporated</b>
Portions of the definitive Proxy Statement for the 2015 Annual Meeting of Stockholders (Proxy Statement)	Part III

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**For the Year Ended December 31, 2015**

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**For the Year Ended December 31, 2015**

**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 269,000 properties and 1.2 million live vacation rental listings in 200 countries, 400 airlines, packages, rental cars, cruises, as well as destination services and activities. Travel suppliers distribute and market products via our traditional desktop offerings, as well as through alternative distribution channels including mobile and 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<sup>®</sup>, the world's largest full service online travel company with localized sites in 33 countries;

Hotels.com<sup>®</sup>, the hotel specialist that offers Hotels.com<sup>®</sup> Rewards and Secret Prices through its mobile booking apps and localized websites in more than 65 countries;

Hotwire.com<sup>®</sup>, leading discount travel site that offers Hot Rate<sup>®</sup> Hotels, Hot Rate<sup>®</sup> Cars and Hot Rate<sup>®</sup> Airfares, as well as vacation packages;

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Orbitz Worldwide, a global travel portfolio including Orbitz, ebookers, HotelClub and CheapTickets, brands and business-to-business offerings, including Orbitz Partner Network and Orbitz for Business;

Travelocity, a pioneer in online travel and a leading online travel brand in the United States and Canada;

Expedia® Affiliate Network ( EAN ), which powers bookings for some of the world's leading airlines and hotels, top consumer brands, high traffic websites, and thousands of active affiliates;

HomeAway, an online market-place 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;

trivago GmbH ( trivago ), a leading online hotel metasearch company with sites in 55 countries;

Venere.com , an online hotel reservation specialist in Europe;

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

CarRentals.com , the premier car rental booking company on the web;

Classic Vacations®, a top luxury travel specialist;

Expedia Local Expert® ( LX ), a provider of online and in-market concierge services, activities, experiences and ground transportation in hundreds of destinations worldwide; and

Expedia® CruiseShipCenters®, a provider of exceptional value and expert advice for travelers booking cruises and vacations through its network of 200 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. We refer to this transaction as the spin-off. 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

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EXPE on The Nasdaq Global Select Market.

### ***Equity Ownership and Voting Control***

As of December 31, 2015, there were 137,459,353 shares of Expedia common stock, including approximately 20 million shares issued in connection with the HomeAway acquisition, 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, 2015, Liberty Interactive Corporation ( Liberty ), through a wholly-owned subsidiary, held approximately 8% of Expedia s outstanding common stock and 100% of Expedia s outstanding Class B common stock (or, assuming

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conversion of all shares of Class B common stock into shares of common stock, held 16% of Expedia's outstanding common stock). As of such date, Barry Diller, Chairman and Senior Executive of Expedia (through his own holdings and holdings of Liberty, over which Mr. Diller generally has voting control pursuant to an irrevocable proxy granted by Liberty under the Stockholders Agreement described below) controlled approximately 54% of the outstanding total voting power of Expedia.

Pursuant to the Amended and Restated Stockholders Agreement, dated as of December 20, 2011 between Liberty and Mr. Diller, 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). In addition, pursuant to the Amended and Restated Governance Agreement, dated as of December 20, 2011, among Expedia, Liberty and Mr. Diller, each of Mr. Diller and Liberty 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.

### ***Market Opportunity & Business Strategy***

Expedia is one of the world's largest online travel companies, yet our gross bookings represent only about 4% of total worldwide travel spending. Phocuswright estimates global travel spending at approximately \$1.3 trillion in 2015, 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 269,000 properties, 400 airlines and numerous car rental companies, cruise companies and other travel suppliers, as well as 1.2 million live vacation rental listings.

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.

*Brand Expedia.* As one of the world's leading full-service online travel brands, our Expedia-branded websites in 33 countries, including Expedia.com in the United States, make a large variety of travel products and services available directly to travelers. Brand Expedia aims to provide the latest technology and the widest selection of travel options for many different types of travelers, from families booking a summer vacation to



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individual travelers arranging a quick weekend getaway, as well as unmanaged business travelers. Travelers can search for, compare information about (including pricing, availability and verified traveler reviews) and book travel products and services on Expedia-branded websites and mobile apps, including airline tickets, lodging, car rentals, cruises, insurance and many local expert services such as airport transfers, local attractions, activities and tours from a large number of suppliers, on both a stand-alone and package basis.

*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.

*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 Rate® Hotels, Hot Rate® Cars and Hot Rate® Flights offer travelers an extra low price but the supplier name is revealed 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.

*Orbitz.* In September 2015, Expedia acquired Orbitz Worldwide, Inc., including all of its brands and assets. Orbitz Worldwide is a global travel portfolio including Orbitz, ebookers, CheapTickets, Orbitz Partner Network and Orbitz for Business.

*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, Expedia, Inc. announced in January 2015 that it had acquired the Travelocity brand and associated assets from Sabre Corporation ( Sabre ) and had terminated the strategic marketing and other related agreements.

*HomeAway.* In December 2015, Expedia 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; Aritel.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; and travelmob.com in Singapore. HomeAway also owns a majority interest in Bookabach.com.nz, a vacation rental site in New Zealand, and 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.

*Expedia Affiliate Network.* Our private label, business-to-business brand EAN makes hotel bookings available to travelers through third-party branded websites, call centers and in-person locations. Some of EAN's largest partners include airline suppliers, loyalty programs, leading regional online travel companies and major retailers. EAN offers an Application Programming Interface ( API ) and template solution and generally compensates partners on a gross profit-share basis.

*Egencia.* Our full-service travel management company offers travel products and services to businesses and their corporate travelers. Egencia maintains a global presence in 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

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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.

*trivago.* trivago is our majority-owned hotel metasearch company, based in Dusseldorf, Germany, featuring price comparison from more than one million hotels. Officially launched in 2005, trivago is one of the best known travel brands in Europe and is expanding globally with sites in 55 countries.

*Wotif Group.* In November 2014, Expedia, Inc. 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 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.

*Venere.* The Venere website, www.venere.com, lists hotel properties in hundreds of locations around the world and provides hotel partners with geographically diverse sources of demand.

*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 websites, www.classicforagents.com and www.classicvacations.com.

*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 thousands of tours and adventures, LX can be found on more than 40 Expedia, Orbitz, Travelocity and Wotif websites, and operates more than 100 concierge and activity desks in major resort destinations.

*Expedia CruiseShipCenters.* Expedia CruiseShipCenters is a leading seller of cruises and vacations. The franchise company has over 200 retail locations across North America, a team of over 4,100 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 the Company's 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 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

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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. 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, EAN, and Hotwire brands operate both domestically and through international points of sale, including in Europe, Asia Pacific, Canada and Latin America. We own Venere, a European brand, which focuses on marketing hotel rooms in Southern Europe; Wotif Group, which has sites in Australia and New Zealand; and ebookers, which operates in a number of international countries. Egencia, our corporate travel business, operates in 65 countries around the world and continues to expand, including its 2012 acquisition of VIA Travel. The HomeAway portfolio has 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 2015, approximately 37% of our worldwide gross bookings excluding eLong and 44% 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 acquired a controlling interest in a joint venture with AirAsia, a low cost carrier serving the Asia-Pacific region, as a result of the purchase of an additional 25% equity interest in the joint venture we formed with them in July 2011. Brand Expedia partners with low-cost airline AirAsia allowing Expedia sites to be an official third party online distribution channel for AirAsia content. 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

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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 paid 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 look forward to partnering with HomeAway 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.* Today, the majority of online travel bookings are generated through typical desktop and laptop computers. However, technological innovations and developments are creating new opportunities including travel bookings made through mobile devices. In the past few years, each of our brands made significant progress creating new mobile websites and mobile/tablet applications that are receiving strong reviews and solid download trends. We believe mobile bookings via smartphones 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 have historically experienced via more traditional online booking methods. During the last few years, customers' behaviors and preferences on tablet devices began to show differences from trends seen on smartphones. For example, the booking window on a smartphone typically is much shorter than the emerging trend on the tablet device and historical average on a desktop or laptop. 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 in the future mobile is likely to represent 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, 2015, one in four 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 on December 15, 2015, we also earn revenue related to subscription-based vacation rental listing and other ancillary services provided to property owners and managers.

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

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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 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.

Our HomeAway brand offers subscription-based vacation rental listing products and services to property owners or managers where property owners or managers purchase in advance online advertising services related to the listing of their properties for rent over a fixed term (typically one year), and on a transaction-basis where a commission is earned on traveler bookings completed on our websites. Going forward, we expect to transition over time to more transaction-based service offerings, including the introduction of a consumer booking fee.

### ***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 with the closing of the HomeAway acquisition 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

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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.

Our marketing channels primarily include online advertising including search engine marketing and optimization as well as meta-search, 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 25 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 financial statements.

We also make use of affiliate marketing. The Expedia.com, Hotels.com, Hotwire, Travelocity, HomeAway, Wotif, lastminute.com.au and Venere-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 and Orbitz Partner Network businesses 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 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.

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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 meta-search 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 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, and allow travelers to combine products and services from multiple providers in one transaction. We face competition from airlines, hotels, 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

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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 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. 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.



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Beginning in the first quarter of 2015, we had four reportable segments: Core OTA, trivago, Egencia and eLong through its disposal on May 22, 2015. The change from two reportable segments, Leisure and Egencia, resulted in our previously disclosed Leisure reportable segment being disaggregated into three segments as a result of the Company's focus on providing additional information to reflect the unique market opportunities and competitive dynamics inherent in our eLong and trivago businesses. The acquisition of HomeAway on December 15, 2015 resulted in the creation of an additional segment. 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](http://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 our code of business conduct and ethics, which applies to all employees, including all executive officers, senior financial officers and directors, on our corporate website at [www.expediainc.com](http://www.expediainc.com). Our code of business conduct and ethics complies with Item 406 of SEC Regulation S-K and the rules of NASDAQ. We intend to disclose any changes to the code 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, 2015, we employed approximately 18,730 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,

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corporate travel management service providers,

mobile platform travel applications,

social media websites,

eCommerce websites and group buying websites;

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. 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:* Some of our competitors, including 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. 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. 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 us. 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

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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. For example, during 2015 TripAdvisor continued to expand its instant book feature that allows visitors to book directly on the TripAdvisor website, which could have a negative impact on our unit volume growth in the future. In addition, as a result of our acquisition of a 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.

*Mobile platform travel applications:* Mobile platforms, including smartphones and tablet computers, have rapidly emerged and continue to grow significantly. The emergence and 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 for our travel services, along with effective marketing and advertising, or if our mobile applications 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.

*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 which was acquired by Expedia on December 15, 2015. 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.

*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.

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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, inadequate return on investments, difficulties and expenses associated with the integration of acquired brands and their inventory onto our platforms, as well as limiting our ability to develop new site innovations. 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, alter its search algorithms or results causing a website to place lower in 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 and 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, 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

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information or otherwise take actions that would increase our operating expenses. Any of actions, or other similar actions, could reduce our revenue and margins thereby adversely affecting our business and financial performance.

### **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 2015, 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. 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 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 for such platforms have, and will continue to, require new and costly investments in technology. We may not be successful, or we 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.

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We are also in the early stages of a multi-year effort to increase our utilization of cloud computing services. 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 innovations. In addition, during the migration process the sites have in the past, and may continue in the future, to experience reduced functionality and decreases in conversion rates. 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:

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;

Diversion of management's attention or other resources from our existing businesses;

Difficulties and expenses in assimilating the operations, products, technology, privacy protection systems, information systems or personnel of the acquired company;

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;

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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;

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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.

For example during 2015, we expended significant resources in acquiring, investing or otherwise entering into significant commercial arrangements with a number of companies, including Orbitz Worldwide, Inc., Decolar.com, Inc. and HomeAway, Inc. and certain assets of Travelocity.com LP.

In connection with our acquisition of HomeAway, we are subject to legal, financial and competitive risk associated with HomeAway's transition to a primarily transaction-based business. HomeAway historically has generated revenues primarily when owners or managers of vacation rentals pay HomeAway subscription fees for the listing of their properties on the HomeAway family of sites. While subscription fees are the predominant source of revenue for HomeAway today, a minority of HomeAway's revenue is generated from a commission-based business model, where the owner or manager of the property pays HomeAway a commission on a transactional basis for each booking of the property by a traveler and the traveler pays a service fee for the use of the HomeAway platform. HomeAway has announced its intention to transition to a business model where the primary source of its revenues would be generated on a per booking basis by instituting a service fee to the traveler each time a property is booked and expanding its practice of charging a commission to the owner or manager of such property in connection with such booking. This 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;



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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;

Search engine optimization, or SEO, risks;

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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.

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

A large portion of our revenue is derived from our international operations. 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 44% in 2015. In foreign jurisdictions, we face complex, dynamic and varied risk landscapes. As we enter countries and markets that are new to us, 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.

We also earn an increasing portion of our income, and accumulate a greater portion of our cash flow, in foreign jurisdictions. As a result, any repatriation of funds currently held by our subsidiaries in foreign jurisdictions 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 international and local tax laws;

Weaker enforcement of our contractual and intellectual property rights;

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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;

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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, 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 and trade regulations and anti-corruption laws, across industries. U.S. trade sanctions relate to transactions with designated foreign countries, including Cuba, Iran, Sudan and Syria, and nationals and others of those countries, as well as certain specifically targeted individuals and entities. We believe that our activities comply with OFAC 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

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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 at 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.

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. Some states and local jurisdictions also have fair housing or other laws governing whether and how properties may be rented, which they assert apply to vacation rentals. 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.

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, brought lawsuits and have levied assessments asserting that we are required to collect and remit hotel occupancy or other taxes, including, but not limited to, the legal

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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. While we believe we comply with applicable tax laws, rules and regulations in the jurisdictions we operate, tax authorities may determine that 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, on January 9, 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. The state of Hawaii has also issued additional assessments for general excise tax, penalties and interest against Expedia, Hotels.com and Hotwire, including: an assessment of \$20.5 million for 2012 tax year non-commissioned hotel reservations, an assessment of \$29.2 million (including a duplicative assessments) for tax years 2000 through 2012 non-commissioned travel agency services relating to rental cars, and an assessment of \$28.5 million for non-commissioned travel agency services relating to hotel reservations and car rental for the tax year 2013 and for which we have requested additional support from the state of Hawaii but have not received any response to date.

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. Although we believe our tax estimates are reasonable, 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.

**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 internet and e-commerce. If the tax or other laws, rules or regulations were amended, or if new unfavorable laws, rules or regulations were enacted, particularly with respect to occupancy, sales, value-added taxes, or unclaimed property, 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 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 the United States, have begun implementing recommended changes such as proposed country by country reporting beginning as early as 2016. Additional multilateral changes are anticipated in upcoming years. Any changes to national or international tax laws could impact the tax treatment of our earnings and adversely affect our profitability. Our effective tax rate in the future could also be adversely

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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.

### **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. 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.

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;

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Incidents of actual or threatened terrorism;

Periods of political instability or geopolitical conflict in which travelers become 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.

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 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 rates 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 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.

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. 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.



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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;

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Changes in our capital or governance structure;

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.**

We are accumulating a greater portion of our cash flows in 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. Moreover, we expended significant resources in 2015 in acquiring and investing in a number of companies, including Orbitz Worldwide, Inc., Decolar.com, Inc. and HomeAway, Inc. ( HomeAway ) and certain assets of Travelocity.com LP and we may be obligated to expend significant additional resources in 2016 in connection with certain put rights associated with our majority investment in

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trivago, which rights are exercisable by trivago's current shareholders in 2016.

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.

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**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 significant resources to protect against security breaches or to address problems caused by breaches, and reductions in 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, often are not recognized until launched against a target and may originate from less regulated and 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. Remediation may be costly and we may not have adequate insurance to cover such 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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### **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 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. 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. If we do not succeed in attracting well-qualified employees or retaining or motivating existing employees, our business would be adversely affected. We do not maintain any key person life insurance policies.

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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 controls Expedia. If Mr. Diller ceases to control the company, Liberty Interactive Corporation may effectively control the company.**

Subject to the terms of a Stockholders Agreement between Mr. Diller and Liberty Interactive Corporation, Mr. Diller holds an irrevocable proxy to vote shares of Expedia stock held by Liberty. Accordingly, Mr. Diller effectively controls the outcome of 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 could effectively control the voting power of our capital stock. Mr. Diller, through shares he owns beneficially as well as those subject to the irrevocable proxy, controlled approximately 54% of the combined voting power of the outstanding Expedia capital stock as of December 31, 2015.

In addition, under a Governance Agreement among Mr. Diller, Liberty Interactive Corporation and Expedia, Inc., as amended, each of Mr. Diller and Liberty 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 will consent to any such 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 ownership interests and voting power, and Liberty's ownership interests and voting power upon Mr. Diller's permanent departure from Expedia, Mr. Diller is currently, and in the future Liberty may be, in a position to control or influence significant corporate actions, including, corporate transactions such as mergers, business combinations or dispositions of assets and determinations with respect to our significant business direction and policies. 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.

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### **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, 2015, we held cash in bank depository accounts of approximately \$1.6 billion (primarily in Bank of America, BNP Paribas, HSBC, JPMorgan Chase, Royal Bank of Canada and Standard Chartered Bank) and held time deposits of approximately \$29 million at financial institutions including, JPMorgan Chase and Nordea. Additionally, majority-owned subsidiaries held cash of approximately \$71 million (primarily in Deutsche Bank and Citibank). As it relates to foreign exchange, as of December 31, 2015, we were party to forward contracts with a notional value of approximately \$1.9 billion, the fair value of which was approximately \$8 million. The counterparties to these contracts were Credit Suisse International, Standard Chartered Bank, Goldman Sachs Bank, JPMorgan Chase, Bank of America, US Bank, Barclays Bank PLC, BNP Paribas, Wells Fargo, Royal Bank of Canada, Societe Generale, Bank of Tokyo-Mitsubishi, Citibank and HSBC. 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 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;



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Placing us at a competitive disadvantage compared to our competitors that have less debt; and

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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 and technology, much of which is proprietary. We establish and protect our intellectual property by relying on a combination of trademark, 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, 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.

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.



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### **Part I. Item 2. *Properties***

We lease approximately 2.9 million square feet of office space worldwide, pursuant to leases with expiration dates through December 2026.

We lease approximately 510,000 square feet for our headquarters in Bellevue, Washington, pursuant to leases with expiration dates through October 2018. We also lease approximately 890,000 square feet of office space for our domestic operations in various other cities and locations pursuant to leases with expiration dates through December 2022.

We also lease approximately 1.5 million square feet of office space for our international operations in various cities and locations pursuant to leases with expiration dates through December 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 certain Expedia companies. *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). On April 18, 2013, the trial court held that the online

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travel companies are not liable to remit hotel occupancy taxes to the city of Los Angeles. The city of Los Angeles filed a notice of appeal. The California Court of Appeals has stayed this case pending review and decision by the California Supreme Court in the *City of San Diego, California 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 certain Expedia companies. *City of Chicago, Illinois v. Hotels.com, L.P., et al.*, No. 2005 L051003 (Circuit Court of Cook County). On June 21, 2013 and subsequently on June 28, 2013, the court entered an order denying 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. After the city filed a motion for summary judgment on damages and penalties, the court granted in part and denied in part the city's motion, and 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. All claims against Orbitz were previously resolved through settlement.

*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 certain Expedia companies. *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). On September 6, 2011, the court held that the online travel companies are not liable for hotel occupancy taxes. The city appealed and 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.

*City of Atlanta, Georgia Litigation*. On March 29, 2006, the city of Atlanta, Georgia filed suit against a number of online travel companies, including certain Expedia companies. *City of Atlanta, Georgia v. Hotels.com, L.P., et al.*, 2006-CV-114732 (Superior Court of Fulton County, Georgia). On July 22, 2010, the court ruled on the parties' cross-motions for summary judgment and held that online travel companies are not innkeepers required to collect and remit taxes under the Atlanta ordinance. In addition, the court issued an injunction requiring the payment of taxes going forward on the grounds that the online travel companies are third-party tax collectors. Both parties appealed. On May 16, 2011, the Georgia Supreme Court affirmed the trial court decision. On September 30, 2013, the court granted summary judgment in favor of the online travel companies on the city's remaining common law claims for recovery of taxes, and maintained its ruling that online travel companies are not liable for past occupancy taxes. On July 9, 2015, the Georgia Court of Appeals affirmed the trial court's decision granting summary judgment in favor of the online travel companies. On July 29, 2015, the city filed a petition for a writ of certiorari from that ruling to the Georgia Supreme Court. On October 5, 2015, the Georgia Supreme Court denied the city's petition, thereby ending the case.

*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 certain Expedia companies. 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). On October 30, 2009, a jury verdict was entered finding that defendant online travel companies' control hotels, and awarded historical damages against the Expedia companies, and found that defendants were not liable for conversion or punitive damages. On April 4, 2013, the court entered a final judgment holding the defendants liable for hotel occupancy taxes to counties and cities in the statewide class. The defendants online travel companies filed a motion for judgment as a matter of law or, in the alternative, for a new trial, and 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.

*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 certain Expedia companies. *Nassau County, New York, et al. v. Hotels.com, L.P., et al.*, (United States District Court, Eastern District of New York). The county subsequently dismissed its case on May 13, 2011 on the basis that the court

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lacked jurisdiction and re-filed 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 October 20, 2014, the online travel companies filed a motion for leave to appeal the Appellate Division's denial of their motion to dismiss. The plaintiff filed a motion for reargument or for leave to appeal the Appellate Division's reversal of the trial court's certification order. These motions were denied on February 10, 2015. On April 6, 2015, plaintiff filed a motion for leave to renew in the Appellate Division, seeking either affirmance of the trial court's certification decision or leave to appeal the reversal of certification to the New York Court of Appeals, which the Appellate Division denied on June 1, 2015. Thereafter, the parties filed cross motions for summary judgment, and 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 have opposed the motion. Oral argument on the intervention motion was heard for February 3, 2016. A decision by the court is 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 certain Expedia companies, for hotel occupancy taxes claimed to be due from 2000 through the third quarter of 2007. The city completed its audit and issued assessments against the online travel companies. The online travel companies challenged those assessments through an administrative process. The hearing examiner upheld those assessments. On May 9, 2009, the online travel companies, including the Expedia companies, filed a petition for writ of mandate in the California Superior Court seeking to vacate the decision of the hearing examiner and asking for declaratory relief 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). 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, Hotels.com and Hotwire 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 these Expedia companies in the amount of \$2 million for the time period from the fourth quarter of 2007 through the fourth quarter of 2011. On May 14, 2014, the court held that the online travel companies were required to prepay in order to litigate the legality of the assessments. On May 26, 2014, these Expedia companies paid \$25.5 million under protest in order to contest the additional assessments. In addition, Orbitz has paid in total \$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 stayed this case pending the California Supreme Court's decision in the *City of San Diego, California 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 certain Expedia companies. *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 trial court denied defendants' motion to dismiss. Plaintiffs filed a motion for class certification, which was granted on February 19, 2013. Defendants appealed the class certification decision, and on October 10, 2013 the Arkansas Supreme Court affirmed that decision.

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*Leon County, Florida et. al. Litigation.* On November 3, 2009, Leon County and a number of other counties in Florida filed an action against a number of online travel companies, including certain Expedia companies. *Leon County, et. al. v. Expedia, Inc., et. al.* Case No: 2009CA4319 (Circuit Court of the Second Judicial Circuit, Leon County, Florida). Flagler, Alachua, Nassau, Okaloosa, Seminole, Pasco, Pinellas, Hillsborough, Lee, Charlotte, Escambia, Manatee, Saint Johns, Polk, Walton and Wakulla counties were added as plaintiffs. On April 19, 2012, the court granted the defendant online travel companies' motion for summary judgment, denied the plaintiffs' motion and held that online travel companies have no obligation to remit hotel occupancy taxes. On February 23, 2013, the court of appeals affirmed the trial court decision. On April 16, 2013, the court of appeals denied the counties' request for rehearing en banc, but granted its petition for certification to the Florida Supreme Court. On September 10, 2013, the Florida Supreme Court informed the parties that it would review the decision of the court of appeals. On June 11, 2015, the Florida Supreme Court affirmed the court of appeals' decision holding that online travel companies have no obligation to remit hotel occupancy taxes. On June 26, 2015, the counties filed a motion for rehearing. On September 22, 2015, the Florida Supreme Court denied the counties' motion for rehearing, thereby ending the case.

*Leon County v. Expedia, Inc., Florida Department of Revenue Litigation, et al. Litigation.* On December 14, 2009, Leon County filed an action against a number of online travel companies and the State of Florida Department of Revenue for recovery of state taxes for hotel occupancy. *Leon County v. Expedia, Inc., et al.*, Case No. 2009CA4882 (Circuit Court of the Second Judicial Circuit, Leon County, Florida). Leon County sued the online travel companies and the Florida State Department of Revenue for failure to collect state hotel occupancy taxes. On September 19, 2012, the court granted the online travel companies' and the Florida Department of Revenue's motions for summary judgment dismissing all claims in the case on the basis that Leon County does not have the right to seek recovery of state sales taxes. On August 16, 2013, the court of appeals affirmed the trial court's decision. On October 9, 2013, plaintiff's motion for rehearing en banc, for certified question of great public importance and for written opinion was denied. On October 21, 2013, plaintiffs filed a petition to invoke discretionary review of the Florida Supreme Court. On December 31, 2013, the Florida Supreme Court stayed this case pending review and decision in the *Leon County, Florida et. al. Litigation*. On September 25, 2015, the Florida Supreme Court ordered the county to show cause why the Court's June 11, 2015 decision in the Leon County case is not controlling and why the Court should not decline to accept jurisdiction in this case. On December 3, 2015, the Court issued an order declining to accept jurisdiction and denying Leon County's petition for discretionary review, thereby ending the case.

*State of Montana Litigation.* On November 8, 2010, the state of Montana filed suit against a number of online travel companies, including certain Expedia companies. *State of Montana Department of Revenue v. Priceline.com, Inc., et al.* Case No. CD-2010-1056 (Montana First Judicial District, Lewis and Clark County). On December 1, 2011, the court denied defendants' motion to dismiss. The parties filed cross-motions for summary judgment on both lodging and car rental taxes. On March 6, 2014, the court granted the online travel companies' motion for summary judgment and denied the State of Montana's motion for summary judgment, holding that the online travel companies are not liable for tax on their services. The State of Montana appealed to the Montana Supreme Court. On August 12, 2015, the Montana Supreme Court held that the online travel companies' compensation is not subject to the Montana Lodging Use Tax but is subject to the Montana Sales Tax, on both hotel and car rental transactions.

*Volusia County, Florida Litigation.* On April 28, 2011, Volusia County brought suit against a number of online travel companies, including certain Expedia companies. *Volusia County v. Expedia, et al.*, Case No. 2011-10834-CIDL (In the Circuit Court, Seventh Judicial Circuit, in and for Volusia County, Florida). On September 31, 2011, the court denied the online travel companies' motion to dismiss the county's claim for recovery of state hotel occupancy taxes. On December 16, 2015, the parties filed a joint stipulation of dismissal.

*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 certain Expedia companies. *Town of Breckenridge, Colorado v. Colorado Travel Company, LLC*,

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Case No. 2011CV420 (District Court, Summit County, Colorado). 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 December 12, 2012, the plaintiff moved for class certification; that motion was denied by the court on March 26, 2014. The parties have filed cross-motions for summary judgment. These motions remain pending.

*State of Mississippi Litigation.* On December 29, 2011, the State of Mississippi brought suit against a number of online travel companies, including certain Expedia companies. *State of Mississippi v. Priceline.com, et al.*, Case No. G-2011-002211 (Chancery Court, Hinds County, Mississippi). On March 23, 2012, the defendant online travel companies filed a motion to dismiss. On September 20, 2012, the court denied 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 certain Expedia companies. *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). On September 23, 2013, the defendant online travel companies filed a motion to dismiss. On January 15, 2014, the court denied the defendants' motion. On March 4, 2015, the plaintiff filed a motion for partial summary judgment on liability issues. The defendant online travel companies' opposition and cross-motion for partial summary judgment was filed on April 10, 2015. The court heard oral argument on the parties' summary judgment motions on October 28, 2015. A decision by the court is pending.

*City of Bedford Park 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 certain Expedia companies. *City of Warrenville, et al. v. Priceline.com, Incorporated, et al.*, Case No. 1:13-cv-02586 (USDC, N. D. Ill., Eastern Division). 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 and filed a motion to dismiss plaintiffs' common law claims, which the court granted on March 13, 2014. The plaintiffs filed a motion for class certification, which the court denied, without prejudice, on January 6, 2015. The plaintiffs filed a second motion for class certification, which the court denied on September 28, 2015. The case will now proceed 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.

*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 certain Expedia companies. *State of New Hampshire v. Priceline.com, et al.*, Case No. 217-2013-CV-00613 (Merrimack Superior Court, New Hampshire). 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 December 21, 2015, the parties filed cross motions for summary judgment. The previous trial date of February 22, 2016 has been stricken and a new trial date has not been scheduled.

*Arizona Cities Litigation.* Business activity privilege 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 number of online travel companies including certain Expedia companies. 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. Those motions remain pending.



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*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 certain Expedia companies. *Village of Matteson, et al. v. Expedia, Inc. (WA), et al.*, Case No. 2015CHI7598 (Cook County Chancery Court, State of Illinois).

*State of Wisconsin Litigation.* On August 6, 2008, the Wisconsin Department of Revenue assessed Orbitz for hotel taxes. Orbitz timely filed a Petition for Redetermination, which the Department denied on May 5, 2009. Orbitz appealed the denial to the Wisconsin Tax Appeals Commission on July 6, 2009. On May 14, 2014, the Commission held that hotel taxes are not due on Orbitz's travel services. On June 13, 2014, the Wisconsin Department of Revenue filed an appeal of the Commission's decision. *State of Wisconsin v. Orbitz*, Case No. 14-CV-1708 (2014). On December 11, 2014, the Circuit Court of Dane County affirmed the Wisconsin Tax Appeal Commission's ruling in favor of Orbitz. On January 2, 2015, the Wisconsin Department of Revenue filed an appeal to the court of appeals.

*Palm Beach, Florida Litigation.* On February 21, 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 September 16, 2014, the defendants filed a motion to dismiss the complaint. On December 12, 2014, the court denied the motion. On July 20, 2015, the defendants filed a motion for judgment on the pleadings. On November 5, 2015, the court denied defendants' motion.

*Portland, Oregon Litigation.* On October 21, 2015, the City of Portland, Oregon filed a lawsuit in federal district court against HomeAway. The complaint alleges claims for declaratory judgment, injunctive relief, taxes and fines for alleged violations of Portland Transient Lodgings Tax ordinance, including alleged failures to register, collect and remit tax, and display certain information in advertisements and websites. *City of Portland, Oregon v. Homeaway.com, Inc., et al.*, Case No. 3:15-cv-01984-MO (D. Or.). On November 13, 2015, HomeAway filed a motion to dismiss.

### ***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***

*Broward County, Florida Litigation.* On January 12, 2009, certain Expedia companies filed separate actions against Broward County, Florida and the Florida Department of Revenue. *Expedia, Inc. et al. v. Broward County Florida, et al.*, Case Nos., 37 2009 CA 000131, 37 2009 CA 000129, and 37 2009 000128 (Second Judicial Circuit Court, State of Florida, Leon County). On May 13, 2009, the court consolidated all cases brought by the online travel companies for all purposes except trial on any of Broward County's counterclaims. On July 13, 2012, the court held that the online travel companies have no obligation to collect and remit hotel occupancy taxes. The court denied Broward County's cross motion for summary judgment. Broward County filed a notice of appeal of the trial court's decision. On February 12, 2014, the Florida Court of Appeals affirmed the trial court decision in favor of the online travel companies. This case was stayed pending the Florida Supreme Court's decision in the *Leon County, Florida et. al. Litigation*. On September 25, 2015, the Florida Supreme Court ordered the county to show cause why the Court's decision in the Leon County case is not controlling in this case and why the Court should not decline to accept jurisdiction in this case. On December 9, 2015, the Court issued an order declining to accept jurisdiction and denying Broward County's petition for discretionary review, thereby ending the case.

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*Indiana State Sales Tax and County Innkeeper Tax Assessments.* On March 2, 2009, certain Expedia companies, and on March 3, 2009, Orbitz, filed petitions in Indiana Tax Court. *Travelscape, LLC v. Indiana State Department of Revenue*, Cause No. 49T10-0903-TA-11; *Hotels.com LP v. Indiana State Department of Revenue*, Cause No. 49T10-0903-TA-13; *Hotwire, Inc. v. Indiana State Department of Revenue*, Cause No. 49T10-0903-TA-12; *Orbitz, LLC v. State of Indiana*, Case No. 49T10-0903-TA-10 (Indiana Tax Court 2009). In the latter case, both Orbitz and the Department of Revenue filed cross motions for summary judgment on August 2013. A decision by the Tax Court on the cross-motions is pending.

*Miami-Dade County, Florida Litigation.* On December 18, 2009, certain Expedia companies filed actions against Miami-Dade County, Florida. *Expedia, Inc. v. Miami-Dade County, Florida and Florida Department of Revenue*, Cause No. 09CA4978 (In the Circuit Court of the Second Judicial Circuit in and for Leon County); *Hotwire, Inc. v. Miami-Dade County*, Cause No. 09CA4977 (In the Circuit Court of the Second Judicial Circuit in and for Leon County); *Hotels.com, L.P. v. Miami-Dade County, Florida and Florida Department of Revenue*, Cause No. 09CA4979 (In the Circuit Court of the Second Judicial Circuit in and for Leon County). The companies moved to dismiss Miami-Dade County's counterclaims. These cases were consolidated with the cases brought by other online travel companies for refund of hotel occupancy taxes. Miami-Dade County's claims were settled as a part of the Monroe class action settlement. The claims relating to tourist development tax were dismissed but the claims relating to convention development tax remained. On September 25, 2012, the court issued an order staying all further proceedings in the case pending a final appellate determination in the Leon County litigation. On October 21, 2015, Miami-Dade County and the online travel companies filed a joint stipulation of dismissal with prejudice, thereby ending the case.

*Osceola, Florida Litigation.* On January 24, 2011, certain Expedia companies along with other online travel companies, filed complaints against Osceola County, Florida and the Florida Department of Revenue. *Expedia, Inc. v. Osceola, Florida and Florida Department of Revenue*, Case No. 2011 CA 000206 (In the Circuit Court of the Second Judicial Circuit, Leon County); *Hotels.com, L.P. v. Osceola, Florida and Florida Department of Revenue*, Case No. 2011 CA 000196 (In the Circuit Court of the Second Judicial Circuit, Leon County); *Hotwire, Inc. v. Osceola, Florida and Florida Department of Revenue*, Case No. 2011 CA 000202 (In the Circuit Court of the Second Judicial Circuit, Leon County). The defendant online travel companies moved to dismiss the County's counterclaims and to strike certain affirmative defenses. On August 19, 2013, the court administratively closed the case pending appellate review in the *Leon County Litigation*.

*City of Portland Litigation.* On February 17, 2012, the online travel companies brought suit against the City of Portland or Multnomah County, Oregon. *Expedia, Inc. v. City of Portland*, Case No. 1202-02223 (Circuit Court of the State of Oregon for the County of Multnomah). On March 30, 2012, the city and county filed a motion to dismiss on the basis that the online travel companies should be required to exhaust their administrative remedies including the payment of any taxes allegedly owed before proceeding in a lawsuit. On June 15, 2012, the court denied the city and county's motion to dismiss and the case will proceed in court without the prepayment of the city and county's claims for taxes. After the court granted their motion for leave to amend, the city and county filed their amended answer, affirmative defenses and counterclaims on June 11, 2013. On February 28, 2014, the city and county moved to amend their answer to assert counterclaims based on amended state legislation, which motion the court denied on April 3, 2014. The online travel companies filed a motion for partial summary judgment, which the court granted in part and denied in part on July 29, 2014. The city and county's claims for hotel taxes were allowed to proceed to trial, however, their common law claims were dismissed. In late December 2014, the city and county assessed certain online travel companies, including certain Expedia companies and Orbitz, for hotel occupancy taxes for the period October 7, 2013 to December 31, 2014 based on amendments to state legislation. On January 9, 2015, as a pre-condition to challenging the assessments, the Expedia companies and Orbitz paid \$2.5 million under protest in alleged taxes, penalties and interest. In September 2015, the city and county assessed the online travel companies, including the Expedia companies and Orbitz, for hotel occupancy taxes for the period January 1, 2015 to June 30, 2015. On September 11, 2015, as a

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precondition to challenging the assessments, the Expedia companies and Orbitz paid \$1.3 million under protest in alleged taxes, penalties and interest. The parties have reached a settlement agreement, and on February 4, 2016, the court entered an order dismissing all claims and counterclaims.

*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. Oral argument has been scheduled for March 2, 2016.

*Minnesota Cities Litigation.* In July 2015, the Minnesota Commissioner of Revenue assessed certain Expedia companies 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, those companies filed an appeal from the orders of assessment with the Minnesota Tax Court.

*Hawaii Tax Court Litigation (General Excise Tax).* On January 31, 2011, the online travel companies received final notices of assessment for general excise taxes for the tax years 2000 to 2011 on their services relating to non-commissioned hotel room reservations. The companies appealed these assessments to the Hawaii tax court. On January 11, 2013, the Hawaii tax court ruled that the online travel companies are obligated to remit past Hawaii general excise taxes with interest on both the amount paid to the online travel companies for their services and the amount paid to the hotel for the room; thus subjecting the hotel’s charge for the room to double taxation because general excise taxes on the hotel room had already been paid for all of the years at issue. On March 15, 2013, the Hawaii tax court issued penalties against the online travel companies for their failure to file returns and pay general excise taxes. On August 12, 2013, the court further held that interest is due on such penalties. The case proceeded directly to the Hawaii Supreme Court for review and was not considered by the Hawaii Court of Appeals. On March 17, 2015, the Hawaii Supreme Court issued a decision on the pending appeal. The Court affirmed in part and reversed in part the Hawaii tax court’s decision. Specifically, the Court ruled that while the online travel companies are obligated to remit past Hawaii general excise taxes with interest on the amount paid to them for their services, along with penalties, the online travel companies are not liable for general excise taxes, interest or penalties on the amount paid to the hotel for the room. The Department of Taxation dismissed without prejudice its common law claims for the recovery of general excise taxes.

As a pre-condition to appealing the tax court rulings, the Expedia companies and Orbitz were required to pay an amount equal to taxes, penalties and interest. This requirement is commonly referred to as “pay-to-play.” Payment of these amounts, if any, is not an admission that we believe we are subject to the taxes in question. The total amount that the Expedia companies paid in 2013 to appeal the tax court ruling was \$171 million, comprised of \$78 million in taxes, \$41 million in penalties and \$52 million in interest. In light of the Hawaii Supreme Court decision, the State agreed to refund the Expedia companies \$132 million, which was subsequently paid to Expedia in September 2015. Also in September 2015, Orbitz received a similar refund of \$22 million from the State of Hawaii. 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 is \$44 million.

In addition, the Department of Taxation has issued final assessments for general excise taxes against the Expedia companies, including Orbitz, for (i) non-commissioned hotel reservations for the tax year 2012 totaling \$26 million, which includes \$6 million for Orbitz, (ii) non-commissioned travel agency services relating to rental cars for the tax years 2000 through 2012 totaling \$39 million, which includes \$10 million for Orbitz and a

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duplicative assessment for Expedia and Hotels.com totaling \$9.3 million and thus are overstated, and (iii) non-commissioned travel agency services relating to hotel reservations and car rental for the tax year 2013 totaling \$34 million, which includes \$5 million for Orbitz. Similar assessments also have been issued against other online travel companies. These assessments are currently under review in tax court.

The Department of Taxation has 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, and hotel and car rental revenue for merchant model transactions for 2014. These assessments total \$12 million, including tax, interest and penalties.

### **Non-Tax Litigation and Other Legal Proceedings**

#### **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, Orbitz Board of Directors, and the plaintiffs entered into an agreement in principle to settle the lawsuit.

#### **Hotel Booking Practices Proceedings and Litigation**

On July 31, 2012, the United Kingdom Office of Fair Trading (OFT) issued a Statement of Objections alleging that Expedia, Booking.com B.V. and InterContinental Hotels Group PLC (IHG) have infringed European Union and United Kingdom competition law in relation to the online supply of hotel room accommodations. The Statement of Objections alleged that Expedia and Booking.com entered into separate agreements with IHG that restricted each online travel company's ability to discount the price of IHG hotel rooms. The parties proposed to address the OFT's concerns by offering commitments, and on January 31, 2014, the OFT announced that it had formally accepted the commitments offered by the parties, with no finding of fault or liability. The commitments were intended to be binding on the parties through January 31, 2016. On April 2, 2014, Skyscanner Limited filed an appeal challenging the OFT's January 31, 2014 decision to accept the parties' commitments. On September 26, 2014, the United Kingdom's Competition Appeal Tribunal (CAT) granted Skyscanner Limited's appeal. This judgment required the Competition & Markets Authority (CMA), the United Kingdom's competition authority, to review the decision of its predecessor body, the OFT. The CMA did not appeal the CAT's decision and subsequently announced that it is considering next steps in the investigation in light of the CAT judgment and market developments, including developments relating to the investigations of other European competition authorities described below. On September 16, 2015, the CMA announced that it has closed its investigation without a finding of infringement on grounds of administrative priority and also that it is not opening a distinct new case into parity provisions in contracts between hotels and online travel companies, including Expedia.

In addition, 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. A number of competition authorities, such as those in Australia, Austria, Belgium, China, Czech Republic, Denmark, France, Germany, Greece, Hungary, Ireland, Italy, New Zealand, Poland, Sweden and Switzerland, have also inquired or initiated investigations into the travel industry and, in particular, in relation to parity provisions in contracts between hotels and online travel companies, including Expedia.

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While the ultimate outcomes of these lawsuits, inquiries or investigations are uncertain and our circumstances are distinguishable from those of other online travel agencies subject to similar lawsuits, inquiries or investigations, we note in this context that on April 21, 2015 the competition authorities in France, Italy and Sweden announced a proposed set of commitments offered by Booking.com to resolve the parity clause cases brought by these authorities against it. The German Federal Cartel Office ( FCO ) also has required another online travel company, Hotel Reservation Service ( HRS ), to remove certain clauses from its contracts with hotels. HRS appealed this decision, which the Higher Regional Court Düsseldorf rejected on January 9, 2015. On December 23, 2015, the FCO announced that it had also required Booking.com to remove certain clauses from its contracts with German hotels. Booking.com announced that it will appeal this decision. In addition, 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, Expedia considers that this waiver is a positive step towards facilitating the closure of the open investigations into such clauses on a harmonized pan-European basis. It is not certain what the outcome will be of the competition authorities' assessment of Expedia's announcement. Since Expedia's waivers were implemented, the competition authorities in Denmark, United Kingdom, Greece, Norway, Sweden, Poland and Ireland have announced either the closure of their investigation against Expedia or a decision not to open an investigation against Expedia, in each case having had regard to the changes implemented by Expedia. 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 Hotel Reservation Service 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.

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 European Union and French legal principles. Therefore Expedia has initiated a complaint with 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.

**Table of Contents****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 29, 2016, there were approximately 2,650 holders of record of our common stock and the closing price of our common stock was \$101.04 on Nasdaq. As of January 29, 2016, all of our Class B common stock was held by a subsidiary of Liberty.

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

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

	High	Low
<b>Year ended December 31, 2014</b>		
Fourth Quarter	\$ 92.08	\$ 70.91
Third Quarter	89.26	77.14
Second Quarter	80.49	66.93
First Quarter	81.78	62.76

**Dividend Policy**

In 2015 and 2014, 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
<b>Year ended December 31, 2015:</b>					
	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
<b>Year ended December 31, 2014:</b>					
	February 5, 2014	\$ 0.15	March 10, 2014	\$ 19,602	March 27, 2014
	April 30, 2014	0.15	May 30, 2014	19,231	June 19, 2014
	July 30, 2014	0.18	August 27, 2014	22,944	September 17, 2014
	October 27, 2014	0.18	November 20, 2014	22,920	December 11, 2014

In February 2016, the Executive Committee, acting on behalf of the Board of Directors, declared a quarterly cash dividend of \$0.24 per share of outstanding common stock payable on March 30, 2016 to the stockholders of record as of the close of business on March 10, 2016.

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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 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, 2015, 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**

We did not make any purchases of our outstanding common stock during the quarter ended December 31, 2015. In 2012, the Executive Committee, acting on behalf of the Board of Directors, authorized a repurchase of up to 20 million outstanding shares of our common stock. In February 2015, the Executive Committee, acting on behalf of the Board of Directors, authorized an additional repurchase of up to 10 million outstanding shares of our common stock. As of December 31, 2015, 11.2 million shares remain authorized for repurchase under the 2012 and 2015 authorizations. 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, 2010. The stock price performance shown in the graph is not necessarily indicative of future price performance.

**Table of Contents****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,				
	2015	2014	2013	2012 <sup>(1)</sup>	2011 <sup>(1)</sup>
	(in thousands, except per share data)				
<b>Consolidated Statements of Operations Data:</b>					
Revenue	\$ 6,672,317	\$ 5,763,485	\$ 4,771,259	\$ 4,030,347	\$ 3,449,009
Operating income	413,566	517,764	366,060	431,724	479,609
Net income from continuing operations <sup>(2)</sup>	722,748	372,950	216,358	302,979	326,341
Discontinued operations, net of taxes				(22,539)	148,262
Net income attributable to Expedia, Inc. <sup>(2)</sup>	764,465	398,097	232,850	280,171	472,294
<b>Earnings per share from continuing operations attributable to Expedia, Inc. available to common stockholders:</b>					
Basic	\$ 5.87	\$ 3.09	\$ 1.73	\$ 2.26	\$ 2.39
Diluted	5.70	2.99	1.67	2.16	2.34
<b>Earnings per share attributable to Expedia, Inc. available to common stockholders:</b>					
Basic	\$ 5.87	\$ 3.09	\$ 1.73	\$ 2.09	\$ 3.48
Diluted	5.70	2.99	1.67	2.00	3.41
<b>Shares used in computing earnings per share:</b>					
Basic	130,159	128,912	134,912	134,203	135,888
Diluted	134,018	133,168	139,593	139,929	138,702
<b>Dividends declared per common share</b>	\$ 0.84	\$ 0.66	\$ 0.56	\$ 0.96	\$ 0.56
	December 31,				
	2015	2014	2013	2012	2011
<b>Consolidated Balance Sheet Data:</b>					
Working deficit	\$ (2,947,256)	\$ (1,262,126)	\$ (1,075,094)	\$ (367,809)	\$ (278,928)
Total assets	15,503,812	9,020,538	7,739,481	7,132,746	6,505,258
Long-term debt	3,201,277	1,746,787	1,249,412	1,249,345	1,249,281
Non-redeemable noncontrolling interest	65,373	109,462	113,521	109,129	105,303
Total stockholders' equity	4,929,767	1,893,729	2,258,985	2,389,388	2,305,167

- (1) 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 ( 8.5% Notes ), which were legally extinguished in the first quarter of 2012. Accordingly, the results of operations and financial condition of TripAdvisor, and related debt extinguishment losses have been presented in discontinued operations for all periods presented. Further, all Expedia common stock information and related per share prices have been adjusted to reflect the reverse stock split.
- (2) 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.



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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, 2014 and 2015 represented years of continuing improvement for the travel industry. However, geopolitical conflicts, 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 2015, over 50% of U.S. and European leisure, unmanaged and corporate travel expenditures occur online. Online penetration rates in the emerging markets, such as Asia Pacific and Latin American regions, are lagging behind that of the United States and Europe, and are estimated to be in the range of 20% to 30%. 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 (which The Priceline Group acquired in May 2013), trivago (in which Expedia acquired a majority ownership interest in March 2013) as well as TripAdvisor (which completed its conversion to a metasearch site in June 2013), introduced differentiated features, pricing and content compared with the legacy online travel agency companies. In addition, certain metasearch companies adopted or intend to adopt various forms of direct or assisted-booking tools, the impact of which is currently uncertain. 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 eCommerce 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.

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

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

***Lodging***

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. 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 2013, 2014 and 2015 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 2015 due to the currency translation impact. Current occupancy rates are at record highs and there is very little new, net hotel supply being added in the U.S. lodging market with large chains focusing their development opportunities in international markets. This may help U.S. hoteliers with their objective of continuing to grow ADRs and tends to lead to pressure in our negotiations and terms with hoteliers. In international markets, hotel supply is being added at a much faster rate as hotel owners and operators try to take advantage of opportunities in faster growing regions such as China and India, among others. Many hotel chains have been focusing on driving direct bookings on their own websites and mobile applications by offering incentives such as loyalty points, increased or exclusive product availability and complimentary Wi-Fi. Companies like Airbnb have also added incremental global supply in the alternative accommodations space. We have had success adding supply to our marketplace with approximately 269,000 properties and 1.2 million live vacation rental listings on our global websites as of December 31, 2015. In addition, our room night growth has been healthy, with room nights excluding eLong growing 16% in 2013, 24% in 2014, and 36% in 2015. ADRs for rooms booked on Expedia sites excluding eLong increased 4% in 2013, 3% in 2014, and declined 5% in 2015.

***Air***

The airline sector in particular has historically experienced significant turmoil, including significant air carrier consolidation in the United States, which has generally resulted in lower overall capacity and higher fares.

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As the demand for travel continued to increase in 2014 and 2015, air carriers kept capacity growth relatively low. The significant decline in fuel prices that started in the second half of 2014 did not immediately translate into reduced air fares, resulting in record levels of profitability for the U.S. air carriers, further strengthening their position. However, in 2015, 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 increased 2% in 2013, declined 1% in 2014 and declined 11% in 2015 as short-haul traffic and low cost carriers grew alongside increasingly competitive airline pricing. We continue to encounter pressure on air remuneration as air carriers combine and as certain supply agreements renew.

Air ticket volumes excluding eLong increased 35% in 2015 primarily due to strong growth on Brand Expedia sites and the acquisition of Orbitz. Air volumes improved 30% in 2014 primarily due to volume driven by Brand Expedia's marketing agreement with Travelocity along with ongoing improvements for the Brand Expedia sites themselves.

From a product perspective in 2015, 69% of our revenue came from the booking of hotel reservations, with 8% of our revenue derived from the sale of airline tickets. We believe that the hotel product is the most profitable of the travel products we distribute and represents our best overall growth opportunity.

### ***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 2015, we generated a total of \$564 million of advertising and media revenue (excluding eLong) representing 9% of total revenue in 2015, up from \$469 million in 2014.

### ***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. 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, EAN, and Hotwire brands operate both domestically and through international points of sale, including in Europe, Asia Pacific, Canada and Latin America. We own Venere, a European brand, which focuses on marketing hotel rooms in Southern Europe; Wotif Group, which has sites in Australia and New Zealand; and ebookers, which operates in a number of international countries.

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Egencia, our corporate travel business, operates in 65 countries around the world and continues to expand, including its 2012 acquisition of VIA Travel. The HomeAway portfolio has 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 2015, approximately 37% of our worldwide gross bookings excluding eLong and 44% 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 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 paid 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 look forward to partnering with HomeAway 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.

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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.* Today, the majority of online travel bookings are generated through typical desktop and laptop computers. However, technological innovations and developments are creating new opportunities including travel bookings made through mobile devices. In the past few years, each of our brands made significant progress creating new mobile websites and mobile/tablet applications that are receiving strong reviews and solid download trends. We believe mobile bookings via smartphones 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 have historically experienced via more traditional online booking methods. During the last few years, customers' behaviors and preferences on tablet devices began to show differences from trends seen on smartphones. For example, the booking window on a smartphone typically is much shorter than the emerging trend on the tablet device and historical average on a desktop or laptop. 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 in the future mobile is likely to represent 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, 2015, one in four 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 holiday travel. The number of bookings typically decreases in the fourth quarter. Because revenue for most of our travel products, including merchant and agency hotel, is recognized when the travel takes place rather than when it is booked, revenue typically lags bookings by several weeks or longer. The seasonal revenue impact is exacerbated with respect to income by the nature of our variable cost of revenue and direct sales and marketing costs, which we typically realize in closer alignment to booking volumes, and the more stable nature of our fixed costs. Furthermore, operating profits for our primary advertising business, trivago, are experienced in the second half of the year as selling and marketing costs offset revenue in the first half of the year as we aggressively market during the busy booking period for summer travel. As a result, revenue and income are typically the lowest in the first quarter and highest in the third quarter. The continued growth of our international operations or a change in our product mix, including the assimilation, growth and shift to more of a transaction-based business model for the vacation rental listing business of HomeAway, may influence the typical trend of the seasonality in the future.

### **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

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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 20 Brand Expedia websites. Orbitz Rewards allows travelers to earn Orbucks<sup>SM</sup>, 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. 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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**Table of Contents*****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

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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 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



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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 e-commerce. 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*.

### ***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, net of estimated forfeitures, over the remaining term on a straight-line basis. 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.

We record stock-based compensation expense net of estimated forfeitures. In determining the estimated forfeiture rates for stock-based awards, we periodically conduct an assessment of the actual number of equity awards that have been forfeited to date as well as those expected to be forfeited in the future. We consider many factors when estimating expected forfeitures, including the type of award, the employee class and historical experience. The estimate of stock awards that will ultimately be forfeited requires significant judgment and to the extent that actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period such estimates are revised.

### **New Accounting Pronouncements**

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

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**Occupancy and Other Taxes**

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

Recent developments include:

*City of Chicago, Illinois Litigation.* On November 25, 2015, Expedia, Hotels.com and Hotwire appealed from the judgment against them.

*City of San Antonio, Texas Litigation.* On January 22, 2015, the court granted in part and denied in part the cities' motion regarding penalties.

*Leon County v. Expedia, Inc., Florida Department of Revenue Litigation, et al. Litigation.* On December 3, 2015, the Florida Supreme Court issued an order declining to accept jurisdiction and denying Leon County's petition for discretionary review, thereby ending the case.

*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 certain Expedia companies alleging a variety of claims relating to local occupancy taxes.

*Broward County, Florida Litigation.* On December 9, 2015, the Florida Supreme Court issued an order declining to accept jurisdiction and denying Broward County's petition for discretionary review, thereby ending the case.

*City of Portland Litigation.* The parties reached a settlement, and on February 4, 2016, the court entered an order dismissing all claims and counterclaims.

*Hawaii Tax Court Litigation (General Excise Tax).* On December 23, 2015, the Department of Taxation issued final assessments totaling \$12 million for general excise taxes, interest and penalties against the Expedia companies (including Orbitz) for hotel and car rental revenue for agency model transactions from 2000 to 2014 and for hotel and car rental revenue for merchant model transactions for 2014.

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 tax litigation, consistent with applicable accounting principles and in light of all current facts and circumstances, in the amount of \$43 million as of December 31, 2015 and \$62 million as of December 31, 2014.

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.

*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.

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*Hawaii (General Excise Tax).* On January 31, 2011, the online travel companies received final notices of assessment for general excise taxes for the tax years 2000 to 2011 on their services relating to non-commissioned hotel room reservations. The companies appealed these assessments to the Hawaii tax court. On January 11, 2013, the Hawaii tax court ruled that the online travel companies are obligated to remit past Hawaii general excise taxes with interest on both the amount paid to the online travel companies for their services and the amount paid to the hotel for the room; thus subjecting the hotel's charge for the room to double taxation because general excise taxes on the hotel room had already been paid for all of the years at issue. On March 15, 2013, the Hawaii tax court issued penalties against the online travel companies for their failure to file returns and pay general excise taxes. On August 12, 2013, the court further held that interest is due on such penalties. The case proceeded directly to the Hawaii Supreme Court for review and was not considered by the Hawaii Court of Appeals. On March 17, 2015, the Hawaii Supreme Court issued a decision on the pending appeal. The court affirmed in part and reversed in part the Hawaii tax court's decision. Specifically, the court ruled that while the online travel companies are obligated to remit past Hawaii general excise taxes with interest on the amount paid to them for their services, along with penalties, the online travel companies are not liable for general excise taxes, interest or penalties on the amount paid to the hotel for the room. The Department of Taxation dismissed without prejudice its common law claims for the recovery of general excise taxes.

As a pre-condition to appealing the tax court rulings, the Expedia companies and Orbitz were required to pay-to-play. The total amount that the Expedia companies paid in 2013 to appeal the tax court ruling was \$171 million, comprised of \$78 million in taxes, \$41 million in penalties and \$52 million in interest. In light of the Hawaii Supreme Court decision, the State agreed to refund the Expedia companies \$132 million, which was subsequently paid to Expedia in September 2015. As a result, we recognized a gain in legal reserves, occupancy tax and other during 2015 related to this matter. Also in September 2015, Orbitz received a similar refund of \$22 million from the State of Hawaii. 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 is \$44 million.

In addition, the Department of Taxation has issued final assessments for general excise taxes against the Expedia companies, including Orbitz, for (i) non-commissioned hotel reservations for the tax year 2012 totaling \$26 million, which includes \$6 million for Orbitz, (ii) non-commissioned travel agency services relating to rental cars for the tax years 2000 through 2012 totaling \$39 million, which includes \$10 million for Orbitz and a duplicative assessment for Expedia and Hotels.com totaling \$9.3 million and thus are overstated, and (iii) non-commissioned travel agency services relating to hotel reservations and car rental for the tax year 2013 totaling \$34 million, which includes \$5 million for Orbitz. Similar assessments also have been issued against other online travel companies. These assessments are currently under review in tax court.

The Department of Taxation has 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, and hotel and car rental revenue for merchant model transactions for 2014. These assessments total \$12 million, including tax, interest and penalties.

*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

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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*.

*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.

## **Segments**

Beginning in the first quarter of 2015, we had four reportable segments: Core OTA, trivago, Egencia and eLong through its disposal on May 22, 2015. The change from two reportable segments, Leisure and Egencia, resulted in our previously disclosed Leisure reportable segment being disaggregated into three segments as a result of the Company's focus on providing additional information to reflect the unique market opportunities and competitive dynamics inherent in our eLong and trivago businesses. The acquisition of HomeAway on December 15, 2015 resulted in the creation of an additional segment. 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, Venere, 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.

**Table of Contents****Gross Bookings and Revenue Margin**

	Year ended December 31,			% Change	
	2015	2014	2013	2015 vs 2014	2014 vs 2013
	(\$ in millions)				
<b>Gross Bookings</b>					
Core OTA	\$ 54,252	\$ 42,869	\$ 32,971	27%	30%
trivago <sup>(1)</sup>				N/A	N/A
Egencia	5,427	5,149	4,533	5%	14%
HomeAway <sup>(1)</sup>				N/A	N/A
eLong <sup>(2)</sup>	1,151	2,429	1,939	N/A	25%
<b>Total gross bookings</b>	<b>\$ 60,830</b>	<b>\$ 50,447</b>	<b>\$ 39,443</b>	<b>21%</b>	<b>28%</b>
<b>Revenue Margin</b>					
Core OTA	10.8%	11.4%	12.3%		
trivago <sup>(1)</sup>	N/A	N/A	N/A		
Egencia	7.4%	7.8%	8.1%		
HomeAway <sup>(1)</sup>	N/A	N/A	N/A		
eLong <sup>(2)</sup>	3.6%	7.3%	8.5%		
<b>Total revenue margin</b>	<b>11.0%</b>	<b>11.4%</b>	<b>12.1%</b>		

(1) trivago, which is comprised of a hotel metasearch business that differs from our transaction-based websites, does not have associated gross bookings or revenue margin. In addition, gross bookings from HomeAway, our newly acquired online marketplace for the vacation rental industry, are also excluded from the above total gross bookings. However, third-party revenue from trivago and HomeAway is included in revenue used to calculate total revenue margin.

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

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. Impacts from acquisitions exclude Travelocity due to the previously implemented commercial agreement. The increase in worldwide gross bookings in 2014 as compared to 2013 was primarily driven by 26% growth in hotel room nights and 28% increase in air tickets.

Revenue margin decreased in 2015 as 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. Revenue margin decreased in 2014 compared to 2013 primarily due to lower revenue per room night, partially offset by the growth in 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 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 have 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, for 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 have recognized \$20 million in revenue and \$14 million in operating loss, including fees related to the acquisition, in 2015. The results of HomeAway did not have a material impact on our results of operations.



**Table of Contents****Revenue**

	Year ended December 31,			% Change	
	2015	2014	2013	2015 vs 2014	2014 vs 2013
	(\$ in millions)				
<b>Revenue by Segment</b>					
Core OTA	\$ 5,877	\$ 4,904	\$ 4,069	20%	21%
trivago (Third-party revenue)	333	281	173	19%	62%
Egencia	400	400	365	0%	10%
HomeAway	20				