Expedia Group, Inc.
Form 10-Q
July 27, 2018
Table of Contents

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

FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-37429

EXPEDIA GROUP, INC.
(Exact name of registrant as specified in its charter)

| Delaware | 20-2705720 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

333 108th Avenue NE
Bellevue, WA 98004
(Address of principal executive office) (Zip Code)
(425) 679-7200
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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

The number of shares outstanding of each of the registrant's classes of common stock as of July 13, 2018 was:

| | | |
|---|---|---|
| Common stock, $0.0001 par value per share | 136,651,105 | shares |
| Class B common stock, $0.0001 par value per share | 12,799,999 | shares |

Table of Contents

Expedia Group, Inc.
Form 10-Q
For the Quarter Ended June 30, 2018
Contents


| | | |
|---|---|---|
| Part I | Financial Information | |
| Item 1 | Consolidated Financial Statements | |
| | Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2018 and 2017 (unaudited) | 2 |
| | Consolidated Statements of Comprehensive Income (Loss) for the Three and Six Months Ended June 30, 2018 and 2017 (unaudited) | 3 |
| | Consolidated Balance Sheets as of June 30, 2018 (unaudited) and December 31, 2017 | 4 |
| | Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2018 and 2017 (unaudited) | 5 |
| | Notes to Consolidated Financial Statements (unaudited) | 6 |
| Item 2 | Management's Discussion and Analysis of Financial Condition and Results of Operations | 32 |
| Item 3 | Quantitative and Qualitative Disclosures about Market Risk | 48 |
| Item 4 | Controls and Procedures | 49 |
| Part II | Other Information | |
| Item 1 | Legal Proceedings | 50 |
| Item 1A | Risk Factors | 51 |
| Item 2 | Unregistered Sales of Equity Securities and Use of Proceeds | 52 |
| Item 6 | Exhibits | 53 |
| Signature | | 54 |

Table of Contents

Part I. Item 1. Consolidated Financial Statements
EXPEDIA GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except share and per share data)
(Unaudited)

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Revenue | $2,880 | $2,586 | $5,388 | $4,775 |
| Costs and expenses: | | | | |
| Cost of revenue [1] | 498 | 439 | 985 | 861 |
| Selling and marketing [1] | 1,541 | 1,443 | 3,057 | 2,713 |
| Technology and content [1] | 400 | 343 | 796 | 665 |
| General and administrative [1] | 196 | 179 | 395 | 337 |
| Amortization of intangible assets | 72 | 66 | 144 | 133 |
| Impairment of goodwill | 61 | — | 61 | — |
| Legal reserves, occupancy tax and other | 1 | 3 | 4 | 24 |
| Restructuring and related reorganization charges | — | 10 | — | 12 |
| Operating income (loss) | 111 | 103 | (54) | 30 |
| Other income (expense): | | | | |
| Interest income | 16 | 10 | 27 | 16 |
| Interest expense | (51) | (43) | (102) | (86) |
| Other, net | (90) | (13) | (54) | (34) |
| Total other expense, net | (125) | (46) | (129) | (104) |
| Income (loss) before income taxes | (14) | 57 | (183) | (74) |
| Provision for income taxes | 5 | (3) | 25 | 44 |
| Net income (loss) | (9) | 54 | (158) | (30) |
| Net loss attributable to non-controlling interests | 10 | 3 | 22 | 1 |
| Net income (loss) attributable to Expedia Group, Inc. | $1 | $57 | $(136) | $(29) |
| | | | | |
| Earnings (loss) per share attributable to Expedia Group, Inc. available to common stockholders: | | | | |
| Basic | $0.01 | $0.37 | $(0.90) | $(0.19) |
| Diluted | 0.01 | 0.36 | (0.90) | (0.19) |
| Shares used in computing earnings (loss) per share (000's): | | | | |
| Basic | 150,076 | 151,582 | 150,942 | 151,060 |
| Diluted | 152,617 | 157,033 | 150,942 | 151,060 |
| | | | | |
| Dividends declared per common share | $0.30 | $0.28 | $0.60 | $0.56 |

_____

(1) Includes stock-based compensation as follows:

| | | | | |
|---|---|---|---|---|
| Cost of revenue | $3 | $3 | $5 | $6 |
| Selling and marketing | 12 | 10 | 23 | 21 |
| Technology and content | 16 | 15 | 31 | 28 |
| General and administrative | 19 | 22 | 41 | 42 |

See accompanying notes.

2

Table of Contents

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net income (loss) | $(9) | $54 | $(158) | $(30) |
| Currency translation adjustments, net of tax[1] | (87) | 89 | (49) | 124 |
| Comprehensive income (loss) | (96) | 143 | (207) | 94 |
| Less: Comprehensive income (loss) attributable to non-controlling interests | (31) | 23 | (32) | 31 |
| Comprehensive income (loss) attributable to Expedia Group, Inc. | $(65) | $120 | $(175) | $63 |

(1) Currency translation adjustments include tax expense of $10 million and $5 million associated with net investment hedges for the three and six months ended June 30, 2018 and a tax benefit of $18 million and $22 million for the three and six months ended June 30, 2017.

See accompanying notes.

Table of Contents

EXPEDIA GROUP, INC.
CONSOLIDATED BALANCE SHEETS
(In millions, except number of shares which are reflected in thousands and par value)

| | June 30, 2018 (Unaudited) | December 31, 2017 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 3,072 | $ 2,847 |
| Restricted cash and cash equivalents | 336 | 69 |
| Short-term investments | 1,491 | 468 |
| Accounts receivable, net of allowance of $32 and $31 | 2,359 | 1,866 |
| Income taxes receivable | 175 | 21 |
| Prepaid expenses and other current assets | 361 | 269 |
| Total current assets | 7,794 | 5,540 |
| Property and equipment, net | 1,689 | 1,575 |
| Long-term investments and other assets | 758 | 845 |
| Deferred income taxes | 17 | 18 |
| Intangible assets, net | 2,157 | 2,309 |
| Goodwill | 8,139 | 8,229 |
| TOTAL ASSETS | $ 20,554 | $ 18,516 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable, merchant | $ 1,811 | $ 1,838 |
| Accounts payable, other | 909 | 698 |
| Deferred merchant bookings | 6,106 | 3,219 |
| Deferred revenue | 460 | 326 |
| Income taxes payable | 19 | 33 |
| Accrued expenses and other current liabilities | 692 | 1,265 |
| Current maturities of long-term debt | 500 | 500 |
| Total current liabilities | 10,497 | 7,879 |
| Long-term debt, excluding current maturities | 3,731 | 3,749 |
| Deferred income taxes | 314 | 329 |
| Other long-term liabilities | 440 | 408 |
| Redeemable non-controlling interests | 20 | 22 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common stock $.0001 par value | — | — |
| Authorized shares: 1,600,000 | | |
| Shares issued: 230,159 and 228,467 | | |
| Shares outstanding: 136,779 and 138,939 | | |
| Class B common stock $.0001 par value | — | — |
| Authorized shares: 400,000 | | |
| Shares issued and outstanding: 12,800 and 12,800 | | |
| Additional paid-in capital | 9,331 | 9,163 |
| Treasury stock - Common stock, at cost | (5,248) | (4,822) |
| Shares: 93,380 and 89,528 | | |
| Retained earnings | 74 | 331 |
| Accumulated other comprehensive income (loss) | (190) | (149) |

| | | |
|---|---|---|
| Total Expedia Group, Inc. stockholders' equity | 3,967 | 4,523 |
| Non-redeemable non-controlling interests | 1,585 | 1,606 |
| Total stockholders' equity | 5,552 | 6,129 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 20,554 | $ 18,516 |

See accompanying notes.

Table of Contents

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

| | Six months ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Operating activities: | | |
| Net loss | $(158) | $(30) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation of property and equipment, including internal-use software and website development | 336 | 293 |
| Amortization of stock-based compensation | 100 | 97 |
| Amortization of intangible assets | 144 | 133 |
| Impairment of goodwill | 61 | — |
| Deferred income taxes | (6) | 2 |
| Foreign exchange (gain) loss on cash, restricted cash and short-term investments, net | 85 | (58) |
| Realized gain on foreign currency forwards | (16) | (7) |
| Loss on minority equity investments, net | 61 | 6 |
| Other | 21 | (16) |
| Changes in operating assets and liabilities, net of effects from acquisitions: | | |
| Accounts receivable | (476) | (434) |
| Prepaid expenses and other assets | (96) | (46) |
| Accounts payable, merchant | (25) | 197 |
| Accounts payable, other, accrued expenses and other current liabilities | 216 | 279 |
| Tax payable/receivable, net | (159) | (158) |
| Deferred merchant bookings | 2,268 | 2,030 |
| Deferred revenue | 135 | 101 |
| Net cash provided by operating activities | 2,491 | 2,389 |
| Investing activities: | | |
| Capital expenditures, including internal-use software and website development | (411) | (357) |
| Purchases of investments | (1,669) | (991) |
| Sales and maturities of investments | 624 | 175 |
| Net settlement of foreign currency forwards | 16 | 7 |
| Acquisitions, net of cash and restricted cash acquired | — | (136) |
| Other, net | 6 | — |
| Net cash used in investing activities | (1,434) | (1,302) |
| Financing activities: | | |
| Purchases of treasury stock | (426) | (114) |
| Payment of dividends to stockholders | (91) | (85) |
| Proceeds from exercise of equity awards and employee stock purchase plan | 67 | 137 |
| Other, net | (6) | (19) |
| Net cash used in financing activities | (456) | (81) |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash and cash equivalents | (106) | 99 |
| Net increase in cash, cash equivalents and restricted cash and cash equivalents | 495 | 1,105 |
| Cash, cash equivalents and restricted cash and cash equivalents at beginning of period | 2,917 | 1,818 |
| Cash, cash equivalents and restricted cash and cash equivalents at end of period | $3,412 | $2,923 |
| Supplemental cash flow information | | |
| Cash paid for interest | $106 | $90 |

| | | |
|---|---|---|
| Income tax payments, net | 136 | 107 |

See accompanying notes.

Table of Contents

Notes to Consolidated Financial Statements
June 30, 2018
(Unaudited)

## Note 1 – Basis of Presentation

### Description of Business

Expedia Group, Inc. and its subsidiaries (formerly "Expedia, Inc.") provide travel services to leisure and corporate travelers in the United States and abroad as well as various media and advertising offerings to travel and non-travel advertisers. These travel services are offered through a diversified portfolio of brands including: Brand Expedia®, Hotels.com®, Expedia® Partner Solutions, Egencia®, trivago®, HomeAway®, VRBO®, Orbitz®, Travelocity®, Wotif®, lastminute.com.au®, ebookers®, CheapTickets®, Hotwire®, Classic Vacations®, CarRentals.com™, Expedia Local Expert®, Expedia® CruiseShipCenters®, SilverRail Technologies, Inc., ALICE and Traveldoo®. In addition, many of these brands have related international points of sale, including those as part of AirAsia-Expedia™.

We refer to Expedia Group, Inc. and its subsidiaries collectively as “Expedia Group,” the “Company,” “us,” “we” and “our” in these consolidated financial statements.

### Basis of Presentation

These accompanying financial statements present our results of operations, financial position and cash flows on a consolidated basis. The unaudited consolidated financial statements include Expedia Group, Inc., our wholly-owned subsidiaries, and entities we control, or in which we have a variable interest and are the primary beneficiary of expected cash profits or losses. We have eliminated significant intercompany transactions and accounts.

We have prepared the accompanying unaudited consolidated financial statements in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial reporting. We have included all adjustments necessary for a fair presentation of the results of the interim period. These adjustments consist of normal recurring items. Our interim unaudited consolidated financial statements are not necessarily indicative of results that may be expected for any other interim period or for the full year. These interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2017, previously filed with the Securities and Exchange Commission. trivago is a separately listed company on the Nasdaq Global Select Market and, therefore is subject to its own reporting and filing requirements, which could result in possible differences that are not expected to be material to Expedia Group.

### Accounting Estimates

We use estimates and assumptions in the preparation of our interim unaudited consolidated financial statements in accordance with GAAP. Our estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of our interim unaudited consolidated financial statements. These estimates and assumptions also affect the reported amount of net income or loss during any period. Our actual financial results could differ significantly from these estimates. The significant estimates underlying our interim unaudited consolidated financial statements include revenue recognition; recoverability of current and long-lived assets, intangible assets and goodwill; income and transactional taxes, such as potential settlements related to occupancy and excise taxes; loss contingencies; deferred loyalty rewards; acquisition purchase price allocations; stock-based compensation and accounting for derivative instruments.

### Reclassifications

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

### Seasonality

We generally experience seasonal fluctuations in the demand for our travel services. For example, traditional leisure travel bookings are generally the highest in the first three quarters as travelers plan and book their spring, summer and winter holiday travel. The number of bookings typically decreases in the fourth quarter. Because revenue for most of our travel services, including merchant and agency hotel, is recognized as the travel takes place rather than when it is booked, revenue typically lags bookings by several weeks for our hotel business and can be several months or more for our vacation rental business. Historically, HomeAway has seen seasonally stronger bookings in the first quarter of the year, with the relevant stays occurring during the peak summer travel months. The seasonal revenue impact is

exacerbated with respect to income by the nature of our variable cost of revenue and direct sales and marketing costs, which we typically realize in closer alignment to booking volumes, and the more stable nature of our fixed costs. Furthermore, operating profits for our primary advertising business, trivago, have typically been experienced in the second half of the year, particularly the fourth quarter, as selling and

Table of Contents
Notes to Consolidated Financial Statements – (Continued)

marketing costs offset revenue in the first half of the year as we typically increase marketing during the busy booking period for spring, summer and winter holiday travel. As a result on a consolidated basis, revenue and income are typically the lowest in the first quarter and highest in the third quarter. The continued growth of our international operations, advertising business or a change in our product mix, including the growth of HomeAway, may influence the typical trend of the seasonality in the future, and there may also be business or market driven dynamics that result in short-term impacts to revenue or profitability that differ from the typical seasonal trends, including trivago's recent changing marketplace dynamics.

Note 2 – Summary of Significant Accounting Policies

Recently Adopted Accounting Policies

Revenue from Contracts with Customers. As of January 1, 2018, we adopted the Accounting Standards Updates ("ASU") amending revenue recognition guidance using the modified retrospective method for all contracts reflecting the aggregate effect of modifications prior to the date of adoption. Results for reporting periods beginning after January 1, 2018 are presented under the new guidance, while prior period amounts were not adjusted and continue to be reported under the accounting standards in effect for those periods.

The new guidance impacted our loyalty program accounting as we are no longer permitted to use the incremental cost method when recording the financial impact of rewards earned in conjunction with our traveler loyalty programs. Instead, we re-value our liability using a relative fair value approach and now record our loyalty liability as a component of deferred merchant bookings. Additionally, due to the new definition of variable consideration, we are required to estimate and record certain variable payments, primarily volume commissions, earlier than previously recorded. Both modifications resulted in cumulative-effect adjustments to opening retained earnings, with an insignificant change to revenue on a go-forward basis. The new guidance also results in insignificant changes in the timing and classification of certain other revenue streams, including the reclassification of air distribution fees from net revenue to cost of revenue. For a comprehensive discussion of our updated revenue recognition policy, refer to the Significant Accounting Policies-Revenue Recognition disclosure below.

Upon adoption, we recognized a cumulative effect of applying the new revenue guidance as a reduction to the opening balance of retained earnings of $11 million ($8 million net of tax) comprised of changes in the accounting for our loyalty program of $49 million ($38 million net of tax) as well as other immaterial adjustments of $2 million ($1 million net of tax), partially offset by the impact of estimating variable consideration of $40 million ($31 million net of tax). The impact of the new guidance to our consolidated financial statements was not meaningful as of June 30, 2018 and for the three and six months ended June 30, 2018.

The cumulative effect of the revenue accounting changes made to our consolidated balance sheet as of January 1, 2018 were as follows:

| | Balance at December 31, 2017 | Adjustments | Balance at January 1, 2018 |
|---|---|---|---|
| | (in millions) | | |
| Current and long-term assets: | | | |
| Accounts receivable, net | $ 1,866 | $ (40) | $ 1,826 |
| Prepaid expenses and other current assets | 269 | (1) | 268 |
| Long-term investments and other assets | 845 | (3) | 842 |
| Current and long-term liabilities: | | | |
| Deferred merchant bookings | 3,219 | 619 | 3,838 |
| Accrued expenses and other current liabilities | 1,265 | (564) | 701 |
| Deferred income taxes | 329 | (3) | 326 |

| | | | |
|---|---|---|---|
| Stockholders' equity: | | | |
| Retained earnings | 331 | (8) | 323 |

Recognition and Measurement of Financial Instruments. As of January 1, 2018, we adopted the new guidance related to accounting for equity investments and financial liabilities under the fair value option. The most significant impact to the Company of this new guidance was with respect to the requirement that minority equity investments with readily determinable fair values, such as our investment in Despegar.com, Corp ("Despegar"), must be carried at fair value with changes in fair value recorded through net income. Previously, such investment was designated as available for sale and was recorded at fair value with changes in fair value recorded through other comprehensive income (loss). In addition, we elected to prospectively account for minority investments without readily determinable fair values at cost, with observable price changes reflected

Table of Contents
Notes to Consolidated Financial Statements – (Continued)

through net income. Upon adoption, we reclassified $7 million related to the unrealized loss, net of tax, of Despegar from accumulated other comprehensive income (loss) ("AOCI") with a corresponding decrease to retained earnings. See Note 3 – Fair Value Measurements for further information on Despegar as well as our minority investments without readily determinable fair values.

Statement of Cash Flows. As of January 1, 2018, we adopted the new guidance related to the statement of cash flows, which clarified how companies present and classify certain cash receipts and cash payments as well as amended previous guidance to address the classification and presentation of changes in restricted cash in the statement of cash flows. Upon adoption, we retrospectively adjusted the prior periods presented in our consolidated statement of cash flows, which resulted in a slight working capital benefit in prepaid expenses and other assets within operating activities for the six months ended June 30, 2017. Refer to the Significant Accounting Policies-Restricted Cash and Cash Equivalents section below for a reconciliation of cash, cash equivalents and restricted cash and cash equivalents reported in our consolidated balance sheets to the total shown in our consolidated statement of cash flows.

Intra-entity Transfers of Assets Other Than Inventory. As of January 1, 2018, we adopted the new guidance amending the accounting for income taxes associated with intra-entity transfers of assets other than inventory. This new guidance requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs rather than our historical practice to defer and amortize the tax consequences over a specified period of time. As a result of the adoption, we reduced retained earnings by approximately $26 million, reduced long-term investments and other assets by approximately $31 million and increased deferred tax assets by approximately $5 million related to the unrecognized income tax effects of asset transfers that occurred prior to adoption.

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. In February 2018, the Financial Accounting Standards Board ("FASB") issued new guidance that allows an entity to elect to reclassify "stranded" tax effects in AOCI to retained earnings to address concerns related to accounting for certain provisions of the Tax Cuts and Jobs Act ("the Tax Act") enacted in December 2017. The guidance is effective for annual and interim reporting periods beginning after December 15, 2018, with early adoption permitted.

We elected to early adopt the new guidance during the first quarter of 2018, which resulted in the reclassification of the income tax effect of the Tax Act from AOCI to retained earnings in order to reflect the tax effects of items within AOCI at the appropriate tax rate. As a result, we reclassified approximately $10 million as an increase in retained earnings and a reduction to AOCI as of January 1, 2018. Our policy is to release income tax effects from AOCI based on the tax effects of amounts reclassified from AOCI to pre-tax income (loss) from continuing operations. Any remaining tax effect in AOCI is released following a portfolio approach.

Definition of a Business. As of January 1, 2018, we prospectively adopted the ASU clarifying the definition of a business for determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Upon adoption, the standard impacts how we assess future acquisitions (or disposals) of assets or businesses.

Non-employee Share-Based Payment Arrangements. In June 2018, the FASB issued new guidance related to accounting for share-based payments with non-employees. The updated guidance substantially aligns the accounting requirements of share-based payment awards to non-employees with those of employees. The guidance is effective for annual and interim reporting periods beginning after December 15, 2018, with early adoption permitted.

We elected to early adopt the new guidance in the second quarter of 2018, which requires us to reflect any adjustments as of January 1, 2018, the beginning of the annual period that includes the interim period of adoption. The primary impact of adoption was the change in the measurement objective and the associated measurement date for all non-employee share-based payment awards to the grant-date fair value. Prior to adoption, non-employee awards were measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever could be more reliably measured. Additionally, the measurement date was previously determined by the earlier of the date at which either (1) a commitment for performance by the non-employee to earn the equity instruments was

reached or (2) the non-employee's performance was complete. Typically, the measurement date was delayed until performance was complete, which led to the non-employee awards being remeasured or "marked to market" each reporting period until they were vested. The adoption of this new guidance did not have a material impact on our consolidated financial statements for the three and six months ended June 30, 2018, and had no impact on our previously reported quarterly results for the three months ended March 31, 2018.

Table of Contents
Notes to Consolidated Financial Statements – (Continued)

Recent Accounting Policies Not Yet Adopted

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

Hedge Accounting. In August 2017, the FASB amended the existing accounting guidance for hedge accounting. The amendments require expanded hedge accounting for both non-financial and financial risk components and refine the measurement of hedge results to better reflect an entity's hedging strategies. The new guidance also amends the presentation and disclosure requirements on a prospective basis as well as changes how entities assess hedge effectiveness. The new guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018 with early adoption permitted. The new guidance must be adopted using a modified retrospective transition with a cumulative effect adjustment recorded to opening retained earnings as of the initial adoption date. We are in the process of evaluating the impact of adopting this new guidance on our consolidated financial statements.

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

Significant Accounting Policies

Below are the significant accounting policies updated during 2018 as a result of the recently adopted accounting policies noted above. For a comprehensive description of our accounting policies, refer to our Annual Report on Form 10-K for the year ended December 31, 2017.

Revenue Recognition

We recognize revenue upon transfer of control of our promised services in an amount that reflects the consideration we expect to be entitled to in exchange for those services.

For our primary transaction-based revenue sources, discussed below, we have determined net presentation (that is, the amount billed to a traveler less the amount paid to a supplier) is appropriate for the majority of our revenue transactions as the supplier is primarily responsible for providing the underlying travel services and we do not control the service provided by the supplier to the traveler.

Table of Contents
Notes to Consolidated Financial Statements – (Continued)

The following table disaggregates our revenue by major source:

| | Three months ended June 30, 2018 | Six months ended June 30, 2018 |
|---|---|---|
| | (in millions) | |
| Business Model: | | |
| Merchant | $1,532 | $2,866 |
| Agency | 777 | 1,435 |
| Advertising and media | 274 | 556 |
| HomeAway | 297 | 531 |
| Total revenue | $2,880 | $5,388 |
| Service Type: | | |
| Lodging | $1,992 | $3,604 |
| Air | 223 | 465 |
| Advertising and media | 274 | 556 |
| Other[(1)] | 391 | 763 |
| Total revenue | $2,880 | $5,388 |

(1) Other includes car rental, insurance, destination services, cruise and fee revenue related to our corporate travel business, among other revenue streams, none of which are individually material.

We offer traditional travel services on a stand-alone and package basis generally either through the merchant or the agency business model.

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.

Under the agency model, we pass reservations booked by the traveler to the relevant travel supplier and the travel supplier serves as the merchant of record for such bookings. We receive commissions or ticketing fees from the travel supplier and/or traveler. For certain agency airline, hotel and car transactions, we also receive fees through global distribution systems ("GDS") that provide the computer systems through which the travel supplier inventory is made available and through which reservations are booked.

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 business facilitates vacation rental bookings and provides listing and other ancillary services to property owners and managers.

The nature of our travel booking service performance obligations vary based on the travel service with differences primarily related to the degree to which we provide post booking services to the traveler and the timing when rights and obligations are triggered in our underlying supplier agreements. We consider both the traveler and travel supplier as our customers.

Lodging. Our lodging revenue is comprised of revenue recognized under the merchant, agency and HomeAway business models.

Merchant Hotel. We provide travelers access to book hotel room reservations through our contracts with lodging suppliers, which provide us with rates and availability information for rooms but for which we have no control over the rooms and do not bear inventory risk. Our travelers pay us for merchant hotel transactions prior to departing on their trip, generally when they book the reservation. We record the payment in deferred merchant bookings until the

stayed night occurs, at which point we recognize the revenue, net of amounts paid to suppliers, as this is when our performance obligation is satisfied. In certain nonrefundable, nonchangeable transactions where we have no significant post booking services (primarily opaque hotel offerings), we record revenue when the traveler completes the transaction on our website, less a reserve for chargebacks and cancellations based on historical experience. Payments to suppliers are generally due within 30 days of check-in or stay. In certain instances when a supplier invoices us for less than the cost we accrued, we generally reduce our accrued supplier payable and the supplier costs within net 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. Cancellation fees are collected and remitted to the supplier, if applicable.

Table of Contents
Notes to Consolidated Financial Statements – (Continued)

Agency Hotel. We generally record agency revenue from the hotel when the stayed night occurs as we provide post booking services to the traveler and, thus consider the stay as when our performance obligation is satisfied. We record an allowance for cancellations on this revenue based on historical experience.

HomeAway. HomeAway's lodging revenue is generally earned on a pay-per-booking or pay-per-subscription basis. Pay-per-booking arrangements are commission-based where rental property owners and managers bear the inventory risk, have latitude in setting the price and compensate HomeAway for facilitating bookings with travelers. Under pay-per booking arrangements, each booking is a separate contract as listings are typically cancelable at any time and the related revenue, net of amounts paid to property owners, is recognized at check in, which is the point in time when our service to the traveler is complete. In pay-per-subscription contracts, 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). As the performance obligation is the listing service and is provided to the property owner or manager over the life of the listing period, the pay-per-subscription revenue is recognized on a straight-line basis over the listing period. HomeAway also charges a traveler service fee at the time of booking. The service fee charged to travelers provides compensation for HomeAway's services, including but not limited to the use of HomeAway's website and a "Book with Confidence Guarantee" providing travelers with comprehensive payment protection and 24/7 traveler support. The performance obligation is to facilitate the booking of a property and assist travelers up to their check in process and, as such, the traveler service fee revenue is recognized at check-in. Revenue from other ancillary vacation rental services or products are recorded either upon delivery or when we provide the service.

Merchant and Agency Air. We record revenue on air transactions when the traveler books the transaction, as we do not provide significant post booking services to the traveler and payments due to and from air carriers are typically due at the time of ticketing. We record a reserve for chargebacks and cancellations at the time of the transaction based on historical experience. In certain transactions, the GDS collects commissions from our suppliers and passes these commissions to us, net of their fees. Therefore, we view payments through the GDS as commissions from suppliers and record these commissions in net revenue. Fees paid to the GDS as compensation for their role in processing transactions are recorded as cost of revenue.

Advertising and Media. We record revenue from click-through fees charged to our travel partners for leads sent to the travel partners' websites. We record revenue from click-through fees after the traveler makes the click-through to the related travel partners' websites. We record revenue for advertising placements ratably over the advertising period or upon delivery of advertising impressions, depending on the terms of the contract. Payments from advertisers are generally due within 30 days of invoicing.

Other. Other primarily includes transaction revenue for booking services related to products such as car, cruise and destination services under the agency business model. We generally record the related revenue when the travel occurs, as in most cases we provide post booking services and this is when our performance obligation is complete. Additionally, no rights or obligations are triggered in our supplier agreements until the travel occurs. We record an allowance for cancellations on this revenue based on historical experience. In addition, other also includes travel insurance products primarily under the merchant model, for which revenue is recorded at the time the transaction is booked.

Packages. Packages assembled by travelers through the packaging functionality on our websites generally include a merchant hotel component and some combination of an air, car or destination services component. The individual package components are accounted for as separate performance obligations and recognized in accordance with our revenue recognition policies stated above.

As described in Note 9 – Segment Information, our reportable segments are Core Online Travel Agencies ("Core OTA"), trivago, HomeAway and Egencia. Our Core OTA segment generates revenue from the merchant, agency and advertising and media business models as well as all service types. trivago segment revenue is primarily generated through advertising and media. All HomeAway revenue is within the lodging service type. Our Egencia segment generates revenue from similar business models and service types to Core OTA applied to the corporate traveler with

the majority being agency revenue.

Deferred Merchant Bookings. We classify cash payments received in advance of our performance obligations as deferred merchant bookings. At January 1, 2018, $3.219 billion of cash advance cash payments was reported within deferred merchant bookings, $2.687 billion of which was recognized resulting in $391 million of revenue during the six months ended June 30, 2018. At June 30, 2018, the related balance was $5.443 billion.

Travelers enrolled in our internally administered traveler loyalty rewards programs earn points for each eligible booking made which can be redeemed for free or discounted future bookings. Hotels.com Rewards offers travelers one free night at any Hotels.com partner property after that traveler stays 10 nights, subject to certain restrictions. Expedia Rewards enables participating travelers to earn points on all hotel, flight, package and activities made on over 30 Brand Expedia websites. Orbitz Rewards allows travelers to earn Orbucks$^{SM}$, 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 defer the relative standalone selling price of earned points, net of expected breakage, as deferred loyalty

Table of Contents
Notes to Consolidated Financial Statements – (Continued)

rewards within deferred merchant bookings on the consolidated balance sheet. In order to estimate the standalone selling price of the underlying services on which points can be redeemed for all loyalty programs, we use an adjusted market assessment approach and consider the redemption values expected from the traveler. We then estimate the number of rewards that will not be redeemed based on historical activity in our members' accounts as well as statistical modeling techniques. Revenue is recognized when we have satisfied our performance obligation relating to the points, that is when the travel service purchased with the loyalty award is satisfied. The majority of rewards expected to be redeemed are recognized within one to two years of being earned. At January 1, 2018, $619 million of deferred loyalty rewards was reported within deferred merchant bookings, $324 million of which was recognized as revenue during the six months ended June 30, 2018. At June 30, 2018, the related balance was $663 million.

Deferred Revenue. Deferred revenue primarily consists of HomeAway's traveler service fees received on bookings where we are not merchant of record due to the use of a third party payment processor, unearned subscription revenue as well as deferred advertising revenue. At January 1, 2018, $326 million was recorded as deferred revenue, $230 million of which was recognized as revenue during the six months ended June 30, 2018. At June 30, 2018, the related balance was $460 million.

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

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

Restricted Cash and Cash Equivalents

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

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| | (in millions) | |
| Cash and cash equivalents | $3,072 | $ 2,847 |
| Restricted cash and cash equivalents | 336 | 69 |
| Restricted cash included within long-term investments and other assets | 4 | 1 |
| Total cash, cash equivalents and restricted cash and cash equivalents in the consolidated statement of cash flow | $3,412 | $ 2,917 |

Note 3 – Fair Value Measurements

Financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2018 are classified using the fair value hierarchy in the table below:

| | Total | Level 1 | Level 2 |
|---|---|---|---|
| | (In millions) | | |
| Assets | | | |
| Cash equivalents: | | | |
| Money market funds | $38 | $38 | $— |
| Time deposits | 837 | — | 837 |
| Derivatives: | | | |

| | | | |
|---|---|---|---|
| Foreign currency forward contracts | 38 | — | 38 |
| Investments: | | | |
| Time deposits | 1,491 | — | 1,491 |
| Marketable equity securities | 201 | 201 | — |
| Total assets | $2,605 | $239 | $2,366 |

Table of Contents
Notes to Consolidated Financial Statements – (Continued)

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

| | Total | Level 1 | Level 2 |
|---|---|---|---|
| | (In millions) | | |
| Assets | | | |
| Cash equivalents: | | | |
| Money market funds | $16 | $16 | $— |
| Time deposits | 552 | — | 552 |
| Derivatives: | | | |
| Foreign currency forward contracts | 6 | — | 6 |
| Investments: | | | |
| Time deposits | 469 | — | 469 |
| Marketable equity securities | 263 | 263 | — |
| Total assets | $1,306 | $279 | $1,027 |

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

As of June 30, 2018 and December 31, 2017, our cash and cash equivalents consisted primarily of prime institutional money market funds with maturities of three months or less, time deposits as well as bank account balances.

We also hold time deposit investments with financial institutions. Time deposits with original maturities of less than three months are classified as cash equivalents and those with remaining maturities of less than one year are classified within short-term investments.

Our marketable equity securities consist of our investment in Despegar, a publicly traded company, which is included in long-term investments and other assets in our consolidated balance sheets. During the six months ended June 30, 2018, we recognized a loss of approximately $62 million within other, net in our consolidated statements of operations related to the fair value changes of this equity investment. As of December 31, 2017, prior to our adoption of the new guidance for recognition and measurement of financial instruments, the cost basis was $273 million and related gross unrealized loss was $9 million.

Derivative instruments are carried at fair value on our consolidated balance sheets. We use foreign currency forward contracts to economically hedge certain merchant revenue exposures, foreign denominated liabilities related to certain of our loyalty programs and our other foreign currency-denominated operating liabilities. Our goal in managing our foreign exchange risk is to reduce, to the extent practicable, our potential exposure to the changes that exchange rates might have on our earnings, cash flows and financial position. Our foreign currency forward contracts are typically short-term and, as they do not qualify for hedge accounting treatment, we classify the changes in their fair value in other, net. As of June 30, 2018, we were party to outstanding forward contracts hedging our liability and revenue exposures with a total net notional value of $3.3 billion. We had a net forward asset of $38 million and $6 million recorded in prepaid expenses and other current assets as of June 30, 2018 and December 31, 2017. We recorded $33 million and $14 million in net gains from foreign currency forward contracts during the three months ended June 30, 2018 and 2017 as well as $48 million and $9 million in net gains during the six months ended June 30, 2018 and 2017.

Assets Measured at Fair Value on a Non-recurring Basis

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

changes recorded within other, net on our consolidated statements of operations.

Goodwill. During three months ended June 30, 2018, we recognized a goodwill impairment charge of $61 million related to our Core OTA segment, which resulted from sustained under-performance and a less optimistic outlook related to one of our reporting units. As a result, we concluded that sufficient indicators existed to require us to perform an interim quantitative assessment of goodwill for that reporting unit as of June 30, 2018 in which we compared the fair value of the reporting unit to its carrying value. The fair value was estimated based on a blended analysis of the present value of future discounted cash flows and market value approach, Level 3 inputs. The significant estimates used in the discounted cash flows model included our weighted average cost of capital, projected cash flows and the long-term rate of growth. Our assumptions were based on the

Table of Contents
Notes to Consolidated Financial Statements – (Continued)

actual historical performance of the reporting unit and took into account a recent weakening of operating results and implied risk premiums based on market prices of our equity and debt as of the assessment date. Our significant estimates in the market approach model included identifying similar companies with comparable business factors such as size, growth, profitability, risk and return on investment and assessing comparable revenue and earnings multiples in estimating the fair value of the reporting unit. The excess of the reporting unit's carrying value over our estimate of the fair value was recorded as the goodwill impairment charge in the current period. As of June 30, 2018, the applicable reporting unit's remaining goodwill was $25 million.

Minority Investments without Readily Determinable Fair Values. As of June 30, 2018 and December 31, 2017, the carrying values of our minority investments without readily determinable fair values totaled $374 million and $371 million. During the three and six months ended June 30, 2018, we had no material gains or losses recognized related to these minority investments.

Note 4 – Debt

The following table sets forth our outstanding debt:

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| | (In millions) | |
| 7.456% senior notes due 2018 | $500 | $ 500 |
| 5.95% senior notes due 2020 | 748 | 748 |
| 2.5% (€650 million) senior notes due 2022 | 755 | 775 |
| 4.5% senior notes due 2024 | 496 | 495 |
| 5.0% senior notes due 2026 | 742 | 741 |
| 3.8% senior notes due 2028 | 990 | 990 |
| Total debt[(1)] | 4,231 | 4,249 |
| Current maturities of long-term debt | (500) | (500) |
| Long-term debt, excluding current maturities | $3,731 | $ 3,749 |

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

Long-term Debt

Our $500 million in registered senior unsecured notes outstanding at June 30, 2018 are due in August 2018 and bear interest at 7.456% (the “7.456% Notes”). Interest is payable semi-annually in February and August of each year. At any time Expedia may redeem the 7.456% Notes at a redemption price of 100% of the principal plus accrued interest, plus a “make-whole” premium, in whole or in part.

Our $750 million in registered senior unsecured notes outstanding at June 30, 2018 are due in August 2020 and bear interest at 5.95% (the “5.95% Notes”). The 5.95% Notes were issued at 99.893% of par resulting in a discount, which is being amortized over their life. Interest is payable semi-annually in February and August of each year. We may redeem the 5.95% Notes at a redemption price of 100% of the principal plus accrued interest, plus a “make-whole” premium, in whole or in part.

Our Euro 650 million in registered senior unsecured notes outstanding at June 30, 2018 are due in June 2022 and bear interest at 2.5% (the “2.5% Notes”). The 2.5% Notes were issued at 99.525% of par resulting in a discount, which is being amortized over their life. Interest is payable annually in arrears in June of each year. We may redeem the 2.5% Notes at our option, at whole or in part, at any time or from time to time. If we elect to redeem the 2.5% Notes prior to March 3, 2022, we may redeem them at a specified “make-whole” premium. If we elect to redeem the 2.5% Notes on or after March 3, 2022, we may redeem them at a redemption price of 100% of the principal plus accrued and unpaid interest. Subject to certain limited exceptions, all payments of interest and principal for the 2.5% Notes will be made in Euros.

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

Our $500 million in registered senior unsecured notes outstanding at June 30, 2018 are due in August 2024 and bear interest at 4.5% (the “4.5% Notes”). The 4.5% Notes were issued at 99.444% of par resulting in a discount, which is being

Table of Contents
Notes to Consolidated Financial Statements – (Continued)

amortized over their life. Interest is payable semi-annually in February and August of each year. We may redeem the 4.5% Notes at our option at any time in whole or from time to time in part. If we elect to redeem the 4.5% Notes prior to May 15, 2024, we may redeem them at a redemption price of 100% of the principal plus accrued interest, plus a "make-whole" premium. If we elect to redeem the 4.5% Notes on or after May 15, 2024, we may redeem them at a redemption price of 100% of the principal plus accrued interest.

Our $750 million in registered senior unsecured notes outstanding at June 30, 2018 are due in February 2026 and bear interest at 5.0% (the "5.0% Notes"). The 5.0% Notes were issued at 99.535% of par resulting in a discount, which is being amortized over their life. Interest is payable semi-annually in arrears in February and August of each year. We may redeem the 5.0% Notes at our option at any time in whole or from time to time in part. If we elect to redeem the 5.0% Notes prior to November 12, 2025, we may redeem them at a redemption price of 100% of the principal plus accrued interest, plus a "make-whole" premium. If we elect to redeem the 5.0% Notes on or after November 12, 2025, we may redeem them at a redemption price of 100% of the principal plus accrued interest.

Our $1 billion in registered senior unsecured notes outstanding at June 30, 2018 are due in February 2028 and bear interest at 3.8% (the "3.8% Notes"). The 3.8% Notes were issued at 99.747% of par resulting in a discount, which is being amortized over their life. Interest is payable semi-annually in arrears in February and August of each year, beginning February 15, 2018. We may redeem the 3.8% Notes at our option at any time in whole or from time to time in part. If we elect to redeem the 3.8% Notes prior to November 15, 2027, we may redeem them at a redemption price of 100% of the principal plus accrued interest, plus a "make-whole" premium. If we elect to redeem the 3.8% Notes on or after November 15, 2027, we may redeem them at a redemption price of 100% of the principal plus accrued interest.

The 7.456%, 5.95%, 2.5%, 4.5%, 5.0% and 3.8% Notes (collectively the "Notes") are senior unsecured obligations issued by Expedia Group and guaranteed by certain domestic Expedia Group subsidiaries. The Notes rank equally in right of payment with all of our existing and future unsecured and unsubordinated obligations of Expedia Group and the guarantor subsidiaries. For further information, see Note 10 – Guarantor and Non-Guarantor Supplemental Financial Information. In addition, the Notes include covenants that limit our ability to (i) create certain liens, (ii) enter into sale/leaseback transactions and (iii) merge or consolidate with or into another entity or transfer substantially all of our assets. Accrued interest related to the Notes was $69 million and $75 million as of June 30, 2018 and December 31, 2017. The 5.95%, 2.5%, 4.5%, 5.0% and 3.8% Notes are redeemable in whole or in part, at the option of the holders thereof, upon the occurrence of certain change of control triggering events at a purchase price in cash equal to 101% of the principal plus accrued and unpaid interest.

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

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| | (In millions) | |
| 7.456% senior notes due 2018 | $502 | $ 516 |
| 5.95% senior notes due 2020 | 790 | 810 |
| 2.5% (€650 million) senior notes due 2022[1] | 804 | 828 |
| 4.5% senior notes due 2024 | 500 | 528 |
| 5.0% senior notes due 2026 | 767 | 807 |
| 3.8% senior notes due 2028 | 920 | 969 |

(1) Approximately 688 million Euro as of June 30, 2018 and 690 million Euro as of December 31, 2017.

Credit Facility

As of June 30, 2018, Expedia Group, Inc. maintained a $2 billion unsecured revolving credit facility with a group of lenders, which is unconditionally guaranteed by certain domestic Expedia Group subsidiaries that are the same as

under the Notes and expires in May 2023. As of June 30, 2018, we had no revolving credit facility borrowings outstanding. The facility bears interest based on the Company's credit ratings, with drawn amounts bearing interest at LIBOR plus 125 basis points and the commitment fee on undrawn amounts at 17.5 basis points as of June 30, 2018. The facility contains covenants including maximum leverage and minimum interest coverage ratios.

The amount of stand-by letters of credit ("LOC") issued under the facility reduces the credit amount available. As of June 30, 2018, there were $14 million of outstanding stand-by LOCs issued under the facility.

The current facility was entered into in May 2018 and replaced our prior $1.5 billion unsecured revolving credit facility that was due to expire in February 2021. As of December 31, 2017, we had no revolving credit facility borrowings outstanding under the prior facility and $14 million of outstanding stand-by LOCs issued under that facility.

Table of Contents
Notes to Consolidated Financial Statements – (Continued)

In addition, one of our international subsidiaries maintains a Euro 50 million uncommitted credit facility, which is guaranteed by Expedia Group, that may be terminated at any time by the lender. As of June 30, 2018 and December 31, 2017, there were no borrowings outstanding.

Note 5 – Stockholders' Equity

Dividends on our Common Stock

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

| Declaration Date | Dividend Per Share | Record Date | Total Amount (in millions) | Payment Date |
|---|---|---|---|---|
| Six Months Ended June 30, 2018 | | | | |
| February 7, 2018 | $ 0.30 | March 8, 2018 | $ 46 | March 28, 2018 |
| April 24, 2018 | 0.30 | May 24, 2018 | 45 | June 14, 2018 |
| Six Months Ended June 30, 2017 | | | | |
| February 7, 2017 | 0.28 | March 9, 2017 | 42 | March 30, 2017 |
| April 26, 2017 | 0.28 | May 25, 2017 | 43 | June 15, 2017 |

In addition, in July 2018, the Executive Committee, acting on behalf of the Board of Directors, declared a quarterly cash dividend of $0.32 per share of outstanding common stock payable on September 13, 2018 to stockholders of record as of the close of business on August 23, 2018. Future declarations of dividends are subject to final determination by our Board of Directors.

Share Repurchases

In February 2015, the Executive Committee, acting on behalf of the Board of Directors, authorized a repurchase of up to 10 million shares of our common stock. In April 2018, the Executive Committee, acting on behalf of the Board of Directors, authorized a repurchase of up to an additional 15 million shares of our common stock. During the six months ended June 30, 2018, we repurchased, through open market transactions, 3.7 million shares under these authorizations for the total cost of $409 million, excluding transaction costs, representing an average repurchase price of $110.61 per share. As of June 30, 2018, there were approximately 16.2 million shares remaining under the 2015 and 2018 repurchase authorizations. There is no fixed termination date for the repurchases. Subsequent to the end of the second quarter of 2018, we repurchased an additional 0.3 million shares for a total cost of $42 million, excluding transaction costs, representing an average purchase price of $124.95 per share.

Accumulated Other Comprehensive Loss

The balance for each class of accumulated other comprehensive loss as of June 30, 2018 and December 31, 2017 is as follows:

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| | (In millions) | |
| Foreign currency translation adjustments, net of tax[1] | $(190) | $ (142) |
| Net unrealized loss on available for sale securities, net of tax[2] | — | (7) |
| Accumulated other comprehensive loss | $(190) | $ (149) |

(1) Foreign currency translation adjustments, net of tax, include foreign currency transaction losses at June 30, 2018 of $39 million ($51 million before tax) and $45 million ($71 million before tax) at December 31, 2017 associated with our 2.5% Notes. The 2.5% Notes are Euro-denominated debt designated as hedges of certain of our Euro-denominated net assets. See Note 4 – Debt for more information.

(2) The net unrealized loss on available for sale securities before tax at December 31, 2017 was $9 million, which was reclassified to retained earnings as of January 1, 2018 upon adoption of the relevant new accounting guidance.

16

Table of Contents
Notes to Consolidated Financial Statements – (Continued)

Note 6 – Earnings Per Share

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | (In millions, except share and per share data) | | | |
| Net income (loss) attributable to Expedia Group, Inc. | $1 | $ 57 | $(136) | $(29) |
| Earnings (loss) per share attributable to Expedia Group, Inc. available to common stockholders: | | | | |
| Basic | $0.01 | $ 0.37 | $(0.90) | $(0.19) |
| Diluted | 0.01 | 0.36 | (0.90) | (0.19) |
| Weighted average number of shares outstanding (000's): | | | | |
| Basic | 150,076 | 151,582 | 150,942 | 151,060 |
| Dilutive effect of: | | | | |
| Options to purchase common stock | 2,058 | 4,845 | — | — |
| Other dilutive securities | 483 | 606 | — | — |
| Diluted | 152,617 | 157,033 | 150,942 | 151,060 |

Basic earnings per share is calculated using our weighted-average outstanding common shares. The earnings per share amounts are the same for common stock and Class B common stock because the holders of each class are legally entitled to equal per share distributions whether through dividends or in liquidation.

Diluted earnings per share is calculated using our weighted-average outstanding common shares including the dilutive effect of stock awards as determined under the treasury stock method. In periods when we recognize a net loss, we exclude the impact of outstanding stock awards from the diluted loss per share calculation as their inclusion would have an antidilutive effect. For the three and six months ended June 30, 2018, approximately 13 million and 22 million of outstanding stock awards have been excluded from the calculations of diluted earnings (loss) per share attributable to common stockholders because their effect would have been antidilutive. For the three and six months ended June 30, 2017, approximately 4 million and 21 million of outstanding stock awards have been excluded from the calculations of diluted earnings (loss) per share attributable to common stockholders because their effect would have been antidilutive.

Note 7 – Income Taxes

The Tax Act was enacted in December 2017. The Tax Act significantly changed U.S. tax law by, among other things, lowering U.S. corporate income tax rate from 35% to 21%, implementing a territorial tax system, and imposing a one-time transition tax on deemed repatriation of cumulative earnings of foreign subsidiaries. The SEC staff issued Staff Accounting Bulletin No. 118 (“SAB 118”), which was subsequently codified in March 2018, to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act and allows the registrant to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. In the prior year, we recognized a net tax benefit of $14 million for the provisional tax effects related to the one-time transition tax and the revaluation of deferred tax balances and included these estimates in our consolidated financial statements for the year ended December 31, 2017. We are still in the process of analyzing the effect of the various provisions of the Tax Act. The ultimate effect may materially differ from these provisional amounts due to, among other things, additional analysis, changes in interpretations and assumptions we have made, additional regulatory guidance that may be issued, and actions we may take as a result of the Tax Act. We expect to complete our analysis within the measurement period in accordance with SAB 118.

While the Tax Act provides for a modified territorial tax system, beginning in 2018, global intangible low-taxed income ("GILTI") provisions will be applied imposing an incremental tax on low-taxed foreign income. The GILTI provisions require us to include in our U.S. income tax return foreign subsidiary earnings in excess of an allowable return on the foreign subsidiary's tangible assets. Under U.S. GAAP, we are required to make an accounting policy election to either (1) treat taxes due related to GILTI as a current-period expense when incurred (the "period cost method") or (2) factor such amounts into our measurement of our deferred taxes (the "deferred method"). We are continuing to evaluate the GILTI tax rules and have not yet adopted our policy to account for the related impacts. The Tax Act also provides for foreign derived intangible income ("FDII") to be taxed at a lower effective rate than the U.S. statutory rate by allowing a tax deduction against the income.

Table of Contents
Notes to Consolidated Financial Statements – (Continued)

We determine our provision for income taxes for interim periods using an estimate of our annual effective tax rate. We record any changes affecting the estimated annual effective tax rate in the interim period in which the change occurs, including discrete tax items. We have included in the estimated annual effective tax the reduction in the U.S. statutory tax rate, GILTI, and the FDII deduction related to current year operations and have not provided additional GILTI on deferred items.

For the three months ended June 30, 2018, the effective tax rate was a 33.8% benefit on a pre-tax loss, compared to a 5.3% expense on pre-tax income for the three months ended June 30, 2017 with the change primarily driven by the above Tax Act changes, the 2018 goodwill impairment as discussed in Note 3 – Fair Value Measurements, a decrease in excess tax benefits for stock compensation as well as other discrete tax items.

For the six months ended June 30, 2018, the effective tax rate was a 13.7% benefit on a pre-tax loss, compared to a 58.6% benefit on a pre-tax loss for the six months ended June 30, 2017 with the change primarily driven by the Tax Act, the 2018 goodwill impairment, a decrease in excess tax benefits for stock compensation as well as other discrete tax items.

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

Note 8 – Commitments and Contingencies

Legal Proceedings

In the ordinary course of business, we are a party to various lawsuits. Management does not expect these lawsuits to have a material impact on the liquidity, results of operations, or financial condition of Expedia Group. We also evaluate other potential contingent matters, including value-added tax, excise tax, sales tax, transient occupancy or accommodation tax and similar matters. We do not believe that the aggregate amount of liability that could be reasonably possible with respect to these matters would have a material adverse effect on our financial results; however, litigation is inherently uncertain and the actual losses incurred in the event that our legal proceedings were to result in unfavorable outcomes could have a material adverse effect on our business and financial performance.

Litigation Relating to Occupancy Taxes. Ninety-six lawsuits have been filed by or against cities, counties and states involving hotel occupancy and other taxes. Thirteen lawsuits are currently active. These lawsuits are in various stages and we continue to defend against the claims made in them vigorously. With respect to the principal claims in these matters, we believe that the statutes or ordinances at issue do not apply to the services we provide and, therefore, that we do not owe the taxes that are claimed to be owed. We believe that the statutes or ordinances at issue generally impose occupancy and other taxes on entities that own, operate or control hotels (or similar businesses) or furnish or provide hotel rooms or similar accommodations. To date, forty-three of these lawsuits have been dismissed. Some of these dismissals have been without prejudice and, generally, allow the governmental entity or entities to seek administrative remedies prior to pursuing further litigation. Twenty-nine dismissals were based on a finding that we and the other defendants were not subject to the local hotel occupancy tax ordinance or that the local government lacked standing to pursue their claims. As a result of this litigation and other attempts by certain jurisdictions to levy such taxes, we have established a reserve for the potential settlement of issues related to hotel occupancy and other taxes, consistent with applicable accounting principles and in light of all current facts and circumstances, in the amount of $39 million and $43 million as of June 30, 2018 and December 31, 2017. Our settlement reserve is based on our best estimate of probable losses and the ultimate resolution of these contingencies may be greater or less than the liabilities recorded. An estimate for a reasonably possible loss or range of loss in excess of the amount reserved

cannot be made. Changes to the settlement reserve are included within legal reserves, occupancy tax and other in the consolidated statements of operations.

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

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

Table of Contents
Notes to Consolidated Financial Statements – (Continued)

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

The Department of Taxation also issued final assessments for general excise taxes against the Expedia Group companies, including Orbitz, dated December 23, 2015 for the time period 2000 to 2014 for hotel and car rental revenue for "agency model" transactions. Those assessments are currently under review in the Hawaii tax courts. The Hawaii tax court has scheduled trial on the agency hotel and car rental matters for February 4, 2019. On December 29, 2017, the defendant online travel companies filed a motion for partial summary judgment. On January 10, 2018, the Department of Taxation asked the tax court to stay proceedings in the agency hotel and car rental case pending a decision by the Hawaii Supreme Court in the merchant model car rental case addressed below; the defendants opposed that request. On February 5, 2018, the tax court granted the motion to stay.

Final assessments by the Hawaii Department of Taxation for general excise taxes against the Expedia Group companies, including Orbitz, relating to merchant car rental transactions during the years 2000 to 2014 are also under review in the Hawaii tax courts. With respect to merchant model car rental transactions at issue for the tax years 2000 through 2013, the Hawaii tax court held on August 5, 2016 that general excise tax is due on the online travel companies' services to facilitate car rentals. The court further ruled that for merchant model car rentals in Hawaii, the online travel companies are required to pay general excise tax on the total amount paid by consumers, with no credit for tax amounts already remitted by car rental companies to the State of Hawaii for tax years 2000 through 2013, thus resulting in a double tax on the amount paid by consumers to car rental companies for the rental of the vehicle. The court, however, ruled that when car rentals are paid for as part of a vacation package, tax is only due once on the amount paid by consumers to the car rental company for the rental of the vehicle. In addition, the court ruled that the online travel companies are required to pay interest and certain penalties on the amounts due. On April 25, 2017, the court entered a stipulated order and final judgment. On May 15, 2017, the Expedia Group companies paid under protest the full amount claimed due, or approximately $16.7 million, as a condition of appeal. The parties filed notices of cross-appeal from the order. The appeals were transferred to the Hawaii Supreme Court, which heard argument on the appeals on April 5, 2018. The parties await a ruling. The Hawaii tax court's decision did not resolve merchant car rental transactions for the tax year 2014, which also remain under review.

San Francisco (Occupancy Tax). During 2009, Expedia Group companies were required to "pay-to-play" and paid $48 million in advance of litigation relating to occupancy tax proceedings with the city of San Francisco and, in May 2014, the Expedia Group companies paid an additional $25.5 million under protest in order to contest additional assessments for later time periods. In addition, Orbitz in total has paid $4.6 million to the city of San Francisco to contest similar assessments issued against it by the city. On August 6, 2014, the California Court of Appeals stayed this case pending review and decision by the California Supreme Court of the City of San Diego, California Litigation. The California Court of Appeals lifted the stay and, on May 23, 2018, affirmed the trial court's holding that the online travel companies are not liable to remit hotel occupancy taxes to San Francisco. On July 2, 2018, San Francisco filed a petition for review by the California Supreme Court, which the online travel companies opposed. That petition remains pending.

Other Jurisdictions. We are also in various stages of inquiry or audit with domestic and foreign tax authorities, some of which, including in the City of Los Angeles regarding hotel occupancy taxes and in the United Kingdom regarding

the application of value added tax ("VAT") to our European Union related transactions as discussed below, may impose a pay-to-play requirement to challenge an adverse inquiry or audit result in court.

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

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

Table of Contents
Notes to Consolidated Financial Statements – (Continued)

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

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

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

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

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

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

The Directorate General for Competition, Consumer Affairs and Repression of Fraud (the "DGCCRF"), a directorate of the French Ministry of Economy and Finance with authority over unfair trading practices, brought a lawsuit in France against Expedia Group entities objecting to certain parity clauses in contracts between Expedia Group 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 appealed the decision and, on June 21, 2017, the Paris Court of Appeal published a judgment overturning the decision. The court annulled parity clauses contained in the agreements at issue, ordered Expedia Group to amend its contracts, and imposed a fine. Expedia Group has appealed the decision. The appeal will not stay payment of the fine.

Hotelverband Deutschland ("IHA") e.V. (a German hotel association) brought proceedings before the Cologne regional court against Expedia, Inc., Expedia.com GmbH and Expedia Lodging Partner Services Sàrl. IHA applied for a 'cease and desist' order against these companies in relation to the enforcement of certain rate and availability parity clauses contained in contracts with hotels in Germany. On or around February 16, 2017, the court dismissed IHA's action and declared the claimant liable for the Expedia Group defendants' statutory costs. IHA appealed the decision and, on December 4, 2017, the Court of Appeals rejected IHA's appeal. The Court of Appeals expressly confirmed that Expedia Group's MFNs are in compliance both with European and German competition law. While IHA had indicated an intention to appeal the decision to the Federal Supreme Court, it has not lodged an appeal within the applicable deadline, with the consequence that the Court of Appeals judgment has now become final.

Table of Contents
Notes to Consolidated Financial Statements – (Continued)

A working group of 10 European NCAs (Belgium, Czech Republic, Denmark, France, Hungary, Ireland, Italy, Netherlands, Sweden and the United Kingdom) and the European Commission has been established by the European Competition Network ("ECN") at the end of 2015 to monitor the functioning of the online hotel booking sector, following amendments made by a number of online travel companies (including Booking.com and Expedia Group) in relation to certain parity provisions in their contracts with hotels. The working group issued questionnaires to online travel agencies including Expedia Group, metasearch sites and hotels in 2016. The underlying results of the ECN monitoring exercise were published on April 6, 2017.

Legislative bodies in France (July 2015), Austria (December 2016) and Italy (August 2017) have also adopted new domestic anti-parity clause legislation. Expedia Group believes each of these pieces of legislation violates both EU and national legal principles and therefore, Expedia Group has challenged these laws at the European Commission. A motion requesting the Swiss government to take action on narrow price parity has been adopted in the Swiss parliament. Moreover, in Belgium, the parliament has approved new domestic anti-parity legislation, although that legislation has not yet been officially published so is not yet effective. The Company is unable to predict whether these proposals in their current form or in another form will ultimately be adopted and, if so, when this might be the case. It is not yet clear how any adopted domestic anti-parity clause legislations and/or any possible future legislation in this area may affect Expedia Group's business.

Outside of Europe, a number of NCAs have also opened investigations or inquired about contractual parity provisions in contracts between hotels and online travel companies in their respective territories, including Expedia. A Brazilian hotel sector association -- Forum de Operadores Hoteleiros do Brasil -- filed a complaint with the Brazilian Administrative Council for Economic Defence ("CADE") against a number of online travel companies, including Booking.com, Decolar.com and Expedia, on July 27, 2016 with respect to parity provisions in contracts between hotels and online travel companies. On September 13, 2016, Expedia submitted its response to the complaint to CADE. On March 27, 2018, Expedia Group resolved CADE's concerns based on a settlement implementing waivers substantially similar to those provided to accommodation providers in Europe. In late 2016, Expedia Group resolved the concerns of the Australia and New Zealand NCAs based on implementation of the waivers substantially similar to those provided to accommodation providers in Europe (on September 1, 2016 in Australia and on October 28, 2016 in New Zealand). More recently, however, the Australian NCA has reopened its investigation. Expedia Group is in ongoing discussions with a limited number of NCAs in other countries in relation to its contracts with hotels. Expedia Group is currently unable to predict the impact the implementation of the waivers both in Europe and elsewhere will have on Expedia Group's business, on investigations or inquiries by NCAs in other countries, or on industry practice more generally.

In addition, regulatory authorities in Europe, Australia, and elsewhere have recently initiated market studies, inquiries and investigations into online marketplaces and how information is presented to consumers using those marketplaces, investigating practices such as search results rankings and algorithms, discount claims, disclosure of charges, and availability and similar messaging. We are unable to predict the implications of these market studies, inquiries and investigations on Expedia Group's business.

Other than described above, we have not accrued a reserve in connection with the market studies, investigations, inquiries or legal proceedings described above either because the likelihood of an unfavorable outcome is not probable or the amount of any loss is not estimable.

Note 9 – Segment Information

We have four reportable segments: Core OTA, trivago, HomeAway and Egencia. Our Core OTA segment, which consists of the aggregation of operating segments, provides a full range of travel and advertising services to our worldwide customers through a variety of brands including: Expedia.com and Hotels.com in the United States and localized Expedia and Hotels.com websites throughout the world, Expedia Partner Solutions, Orbitz, Travelocity, Wotif Group, ebookers, CheapTickets, Hotwire.com, CarRentals.com, Classic Vacations and SilverRail Technologies, Inc. Our trivago segment generates advertising revenue primarily from sending referrals to online travel companies

and travel service providers from its hotel metasearch websites. Our HomeAway segment operates an online marketplace for the vacation rental industry. Our Egencia segment provides managed travel services to corporate customers worldwide.

We determined our operating segments based on how our chief operating decision makers manage our business, make operating decisions and evaluate operating performance. Our primary operating metric is Adjusted EBITDA. Adjusted EBITDA for our Core OTA and Egencia segments includes allocations of certain expenses, primarily cost of revenue and facilities, and our Core OTA segment includes the total costs of our global supply organizations as well as the realized foreign currency gains or losses related to the forward contracts hedging a component of our net merchant hotel revenue. We base the allocations primarily on transaction volumes and other usage metrics. We do not allocate certain shared expenses such as

Table of Contents
Notes to Consolidated Financial Statements – (Continued)

accounting, human resources, information technology and legal to our reportable segments. We include these expenses in Corporate and Eliminations. Our allocation methodology is periodically evaluated and may change. During the first quarter of 2018, we updated our allocations methodology for certain technology costs. While the impact of the update was not significant, we recast the historical information presented to be on a comparable basis.
Our segment disclosure includes intersegment revenues, which primarily consist of advertising and media services provided by our trivago segment to our Core OTA segment. These intersegment transactions are recorded by each segment at amounts that approximate fair value as if the transactions were between third parties, and therefore, impact segment performance. However, the revenue and corresponding expense are eliminated in consolidation. The elimination of such intersegment transactions is included within Corporate and Eliminations in the table below. In addition, when HomeAway properties are booked through our Core OTA websites and vice versa, the segments split the third-party revenue for management and segment reporting purposes with the majority of the third-party revenue residing with the website marketing the property or room.
Corporate and Eliminations also includes unallocated corporate functions and expenses. In addition, we record amortization of intangible assets and any related impairment, as well as stock-based compensation expense, restructuring and related reorganization charges, legal reserves, occupancy tax and other, and other items excluded from segment operating performance in Corporate and Eliminations. Such amounts are detailed in our segment reconciliation below.
The following tables present our segment information for the three and six months ended June 30, 2018 and 2017. As a significant portion of our property and equipment is not allocated to our operating segments and depreciation is not included in our segment measure, we do not report the assets by segment as it would not be meaningful. We do not regularly provide such information to our chief operating decision makers.

| | Three months ended June 30, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Core OTA | trivago | HomeAway | Egencia | Corporate & Eliminations | Total |
| | (In millions) | | | | | |
| Third-party revenue | $2,253 | $174 | $ 297 | $ 156 | $ — | $2,880 |
| Intersegment revenue | — | 106 | — | — | (106) | — |
| Revenue | $2,253 | $280 | $ 297 | $ 156 | $ (106) | $2,880 |
| Adjusted EBITDA | $561 | $(20) | $ 78 | $ 30 | $ (186) | $463 |
| Depreciation | (85) | (4) | (15) | (12) | (53) | (169) |
| Amortization of intangible assets | — | — | — | — | (72) | (72) |
| Impairment of goodwill | — | — | — | — | (61) | (61) |
| Stock-based compensation | — | — | — | — | (50) | (50) |
| Legal reserves, occupancy tax and other | — | — | — | — | (1) | (1) |
| Realized (gain) loss on revenue hedges | 1 | — | — | — | — | 1 |
| Operating income (loss) | $477 | $(24) | $ 63 | $ 18 | $ (423) | 111 |
| Other expense, net | | | | | | (125) |
| Loss before income taxes | | | | | | (14) |
| Provision for income taxes | | | | | | 5 |
| Net loss | | | | | | (9) |
| Net loss attributable to non-controlling interests | | | | | | 10 |
| Net income attributable to Expedia Group, Inc. | | | | | | $1 |

Table of Contents
Notes to Consolidated Financial Statements – (Continued)

| | Three months ended June 30, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Core OTA | trivago | HomeAway | Egencia | Corporate & Eliminations | Total |
| | (In millions) | | | | | |
| Third-party revenue | $2,009 | $218 | $ 224 | $ 135 | $ — | $2,586 |
| Intersegment revenue | — | 110 | — | — | (110) | — |
| Revenue | $2,009 | $328 | $ 224 | $ 135 | $ (110) | $2,586 |
| Adjusted EBITDA | $486 | $2 | $ 39 | $ 28 | $ (162) | $393 |
| Depreciation | (76) | (2) | (9) | (10) | (55) | (152) |
| Amortization of intangible assets | — | — | — | — | (66) | (66) |
| Stock-based compensation | — | — | — | — | (50) | (50) |
| Legal reserves, occupancy tax and other | — | — | — | — | (3) | (3) |
| Restructuring and related reorganization charges | — | — | — | — | (10) | (10) |
| Realized (gain) loss on revenue hedges | (9) | — | — | — | — | (9) |
| Operating income (loss) | $401 | $— | $ 30 | $ 18 | $ (346) | 103 |
| Other expense, net | | | | | | (46) |
| Income before income taxes | | | | | | 57 |
| Provision for income taxes | | | | | | (3) |
| Net income | | | | | | 54 |
| Net loss attributable to non-controlling interests | | | | | | 3 |
| Net income attributable to Expedia Group, Inc. | | | | | | $57 |

| | Six months ended June 30, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Core OTA | trivago | HomeAway | Egencia | Corporate & Eliminations | Total |
| | (In millions) | | | | | |
| Third-party revenue | $4,179 | $371 | $ 531 | $ 307 | $ — | $5,388 |
| Intersegment revenue | — | 228 | — | — | (228) | — |
| Revenue | $4,179 | $599 | $ 531 | $ 307 | $ (228) | $5,388 |
| Adjusted EBITDA | $884 | $(48) | $ 57 | $ 57 | $ (363) | $587 |
| Depreciation | (168) | (7) | (29) | (23) | (109) | (336) |
| Amortization of intangible assets | — | — | — | — | (144) | (144) |
| Impairment of goodwill | — | — | — | — | (61) | (61) |
| Stock-based compensation | — | — | — | — | (100) | (100) |
| Legal reserves, occupancy tax and other | — | — | — | — | (4) | (4) |
| Realized (gain) loss on revenue hedges | 4 | — | — | — | — | 4 |
| Operating income (loss) | $720 | $(55) | $ 28 | $ 34 | $ (781) | (54) |
| Other expense, net | | | | | | (129) |
| Loss before income taxes | | | | | | (183) |
| Provision for income taxes | | | | | | 25 |
| Net loss | | | | | | (158) |
| Net loss attributable to non-controlling interests | | | | | | 22 |
| Net loss attributable to Expedia Group, Inc. | | | | | | $(136) |

Table of Contents
Notes to Consolidated Financial Statements – (Continued)

| | Six months ended June 30, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Core OTA | trivago | HomeAway | Egencia | Corporate & Eliminations | Total |
| | (In millions) | | | | | |
| Third-party revenue | $3,710 | $399 | $ 409 | $257 | $ — | $4,775 |
| Intersegment revenue | — | 214 | — | — | (214) | — |
| Revenue | $3,710 | $613 | $ 409 | $257 | $ (214) | $4,775 |
| Adjusted EBITDA | $789 | $22 | $ 45 | $55 | $ (310) | $601 |
| Depreciation | (147) | (4) | (17) | (19) | (106) | (293) |
| Amortization of intangible assets | — | — | — | — | (133) | (133) |
| Stock-based compensation | — | — | — | — | (97) | (97) |
| Legal reserves, occupancy tax and other | — | — | — | — | (24) | (24) |
| Restructuring and related reorganization charges | — | — | — | — | (12) | (12) |
| Realized (gain) loss on revenue hedges | (12) | — | — | — | — | (12) |
| Operating income (loss) | $630 | $18 | $ 28 | $36 | $ (682) | 30 |
| Other expense, net | | | | | | (104) |
| Loss before income taxes | | | | | | (74) |
| Provision for income taxes | | | | | | 44 |
| Net loss | | | | | | (30) |
| Net loss attributable to non-controlling interests | | | | | | 1 |
| Net loss attributable to Expedia Group, Inc. | | | | | | $(29) |

Note 10 – Guarantor and Non-Guarantor Supplemental Financial Information

Condensed consolidating financial information of Expedia Group, Inc. (the “Parent”), our subsidiaries that are guarantors of our debt facility and instruments (the “Guarantor Subsidiaries”), and our subsidiaries that are not guarantors of our debt facility and instruments (the “Non-Guarantor Subsidiaries”) is shown below. The debt facility and instruments are guaranteed by certain of our wholly-owned domestic subsidiaries and rank equally in right of payment with all of our existing and future unsecured and unsubordinated obligations. The guarantees are full, unconditional, and joint and several with the exception of certain customary automatic subsidiary release provisions. In this financial information, the Parent and Guarantor Subsidiaries account for investments in their wholly-owned subsidiaries using the equity method.

Table of Contents
Notes to Consolidated Financial Statements – (Continued)

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

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | (In millions) | | | | |
| Revenue | $— | $ 2,229 | $ 758 | $ (107) | $ 2,880 |
| Costs and expenses: | | | | | |
| Cost of revenue | — | 366 | 137 | (5) | 498 |
| Selling and marketing | — | 1,112 | 531 | (102) | 1,541 |
| Technology and content | — | 280 | 120 | — | 400 |
| General and administrative | — | 128 | 68 | — | 196 |
| Amortization of intangible assets | — | 45 | 27 | — | 72 |
| Impairment of goodwill | — | — | 61 | — | 61 |
| Legal reserves, occupancy tax and other | — | — | 1 | — | 1 |
| Intercompany (income) expense, net | — | 231 | (231) | — | — |
| Operating income | — | 67 | 44 | — | 111 |
| Other income (expense): | | | | | |
| Equity in pre-tax earnings of consolidated subsidiaries | 38 | 35 | — | (73) | — |
| Other, net | (48) | (61) | (16) | — | (125) |
| Total other expense, net | (10) | (26) | (16) | (73) | (125) |
| Income (loss) before income taxes | (10) | 41 | 28 | (73) | (14) |
| Provision for income taxes | 11 | (2) | (4) | — | 5 |
| Net income (loss) | 1 | 39 | 24 | (73) | (9) |
| Net loss attributable to non-controlling interests | — | — | 10 | — | 10 |
| Net income attributable to Expedia Group, Inc. | $1 | $ 39 | $ 34 | $ (73) | $ 1 |
| Comprehensive loss attributable to Expedia Group, Inc. | $(65) | $ (59) | $ (63) | $ 122 | $ (65) |

Table of Contents
Notes to Consolidated Financial Statements – (Continued)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
Three months ended June 30, 2017

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | (In millions) | | | | |
| Revenue | $— | $ 1,946 | $ 752 | $ (112) | $ 2,586 |
| Costs and expenses: | | | | | |
| Cost of revenue | — | 335 | 109 | (5) | 439 |
| Selling and marketing | — | 997 | 553 | (107) | 1,443 |
| Technology and content | — | 250 | 93 | — | 343 |
| General and administrative | — | 114 | 65 | — | 179 |
| Amortization of intangible assets | — | 46 | 20 | — | 66 |
| Legal reserves, occupancy tax and other | — | 3 | — | — | 3 |
| Restructuring and related reorganization charges | — | 3 | 7 | — | 10 |
| Intercompany (income) expense, net | — | 220 | (220) | — | — |
| Operating income (loss) | — | (22) | 125 | — | 103 |
| Other income (expense): | | | | | |
| Equity in pre-tax earnings of consolidated subsidiaries | 83 | 117 | — | (200) | — |
| Other, net | (43) | (13) | 10 | — | (46) |
| Total other income (loss), net | 40 | 104 | 10 | (200) | (46) |
| Income before income taxes | 40 | 82 | 135 | (200) | 57 |
| Provision for income taxes | 17 | 8 | (28) | — | (3) |
| Net income | 57 | 90 | 107 | (200) | 54 |
| Net loss attributable to non-controlling interests | — | — | 3 | — | 3 |
| Net income attributable to Expedia Group, Inc. | $57 | $ 90 | $ 110 | $ (200) | $ 57 |
| Comprehensive income attributable to Expedia Group, Inc. | $120 | $ 183 | $ 206 | $ (389) | $ 120 |

Table of Contents
Notes to Consolidated Financial Statements – (Continued)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
Six Months Ended June 30, 2018

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | (In millions) | | | | |
| Revenue | $— | $ 4,140 | $ 1,479 | $ (231) | $ 5,388 |
| Costs and expenses: | | | | | |
| Cost of revenue | — | 732 | 263 | (10) | 985 |
| Selling and marketing | — | 2,160 | 1,118 | (221) | 3,057 |
| Technology and content | — | 560 | 236 | — | 796 |
| General and administrative | — | 246 | 149 | — | 395 |
| Amortization of intangible assets | — | 90 | 54 | — | 144 |
| Impairment of goodwill | — | — | 61 | — | 61 |
| Legal reserves, occupancy tax and other | — | 3 | 1 | — | 4 |
| Intercompany (income) expense, net | — | 415 | (415) | — | — |
| Operating income (loss) | — | (66) | 12 | — | (54) |
| Other income (expense): | | | | | |
| Equity in pre-tax earnings (loss) of consolidated subsidiaries | (59) | 19 | — | 40 | — |
| Other, net | (100) | (9) | (20) | — | (129) |
| Total other income (expense), net | (159) | 10 | (20) | 40 | (129) |
| Loss before income taxes | (159) | (56) | (8) | 40 | (183) |
| Provision for income taxes | 23 | 1 | 1 | — | 25 |
| Net loss | (136) | (55) | (7) | 40 | (158) |
| Net loss attributable to non-controlling interests | — | 1 | 21 | — | 22 |
| Net income (loss) attributable to Expedia Group, Inc. | $(136) | $ (54) | $ 14 | $ 40 | $ (136) |
| Comprehensive income (loss) attributable to Expedia Group, Inc. | $(175) | $ (110) | $ (39) | $ 149 | $ (175) |

Table of Contents
Notes to Consolidated Financial Statements – (Continued)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
Six Months Ended June 30, 2017

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | (In millions) | | | | |
| Revenue | $— | $ 3,647 | $ 1,345 | $ (217) | $ 4,775 |
| Costs and expenses: | | | | | |
| Cost of revenue | — | 670 | 199 | (8) | 861 |
| Selling and marketing | — | 1,907 | 1,015 | (209) | 2,713 |
| Technology and content | — | 487 | 178 | — | 665 |
| General and administrative | — | 220 | 117 | — | 337 |
| Amortization of intangible assets | — | 92 | 41 | — | 133 |
| Legal reserves, occupancy tax and other | — | 24 | — | — | 24 |
| Restructuring and related reorganization charges | — | 4 | 8 | — | 12 |
| Intercompany (income) expense, net | — | 386 | (386) | — | — |
| Operating income (loss) | — | (143) | 173 | — | 30 |
| Other income (expense): | | | | | |
| Equity in pre-tax earnings of consolidated subsidiaries | 23 | 169 | — | (192) | — |
| Other, net | (84) | (45) | 25 | — | (104) |
| Total other income (loss), net | (61) | 124 | 25 | (192) | (104) |
| Income (loss) before income taxes | (61) | (19) | 198 | (192) | (74) |
| Provision for income taxes | 32 | 52 | (40) | — | 44 |
| Net income (loss) | (29) | 33 | 158 | (192) | (30) |
| Net loss attributable to non-controlling interests | — | — | 1 | — | 1 |
| Net income (loss) attributable to Expedia Group, Inc. | $(29) | $ 33 | $ 159 | $ (192) | $ (29) |
| Comprehensive income attributable to Expedia Group, Inc. | $63 | $ 162 | $ 290 | $ (452) | $ 63 |

Table of Contents
Notes to Consolidated Financial Statements – (Continued)

CONDENSED CONSOLIDATING BALANCE SHEET
June 30, 2018

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | (In millions) | | | | |
| ASSETS | | | | | |
| Total current assets | $382 | $ 5,831 | $ 2,619 | $ (1,038) | $ 7,794 |
| Investment in subsidiaries | 10,102 | 4,239 | — | (14,341) | — |
| Intangible assets, net | — | 1,647 | 510 | — | 2,157 |
| Goodwill | — | 6,366 | 1,773 | — | 8,139 |
| Other assets, net | — | 1,692 | 791 | (19) | 2,464 |
| TOTAL ASSETS | $10,484 | $ 19,775 | $ 5,693 | $ (15,398) | $ 20,554 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Total current liabilities | $1,201 | $ 9,204 | $ 1,130 | $ (1,038) | $ 10,497 |
| Long-term debt, excluding current maturities | 3,731 | — | — | — | 3,731 |
| Other long-term liabilities | — | 500 | 273 | (19) | 754 |
| Redeemable non-controlling interests | — | 9 | 11 | — | 20 |
| Stockholders' equity | 5,552 | 10,062 | 4,279 | (14,341) | 5,552 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $10,484 | $ 19,775 | $ 5,693 | $ (15,398) | $ 20,554 |

CONDENSED CONSOLIDATING BALANCE SHEET
December 31, 2017

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | (In millions) | | | | |
| ASSETS | | | | | |
| Total current assets | $359 | $ 3,493 | $ 2,263 | $ (575) | $ 5,540 |
| Investment in subsidiaries | 10,265 | 4,249 | — | (14,514) | — |
| Intangible assets, net | — | 1,736 | 573 | — | 2,309 |
| Goodwill | — | 6,366 | 1,863 | — | 8,229 |
| Other assets, net | 5 | 1,677 | 775 | (19) | 2,438 |
| TOTAL ASSETS | $10,629 | $ 17,521 | $ 5,474 | $ (15,108) | $ 18,516 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Total current liabilities | $751 | $ 6,798 | $ 905 | $ (575) | $ 7,879 |
| Long-term debt, excluding current maturities | 3,749 | — | — | — | 3,749 |
| Other long-term liabilities | — | 494 | 262 | (19) | 737 |
| Redeemable non-controlling interests | — | 9 | 13 | — | 22 |
| Stockholders' equity | 6,129 | 10,220 | 4,294 | (14,514) | 6,129 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $10,629 | $ 17,521 | $ 5,474 | $ (15,108) | $ 18,516 |

Table of Contents
Notes to Consolidated Financial Statements – (Continued)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Six Months Ended June 30, 2018

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidated |
|---|---|---|---|---|
| | (In millions) | | | |
| Operating activities: | | | | |
| Net cash provided by operating activities | $— | $ 2,047 | $ 444 | $ 2,491 |
| Investing activities: | | | | |
| Capital expenditures, including internal-use software and website development | — | (338) | (73) | (411) |
| Purchases of investments | — | (1,669) | — | (1,669) |
| Sales and maturities of investments | — | 550 | 74 | 624 |
| Transfers (to) from related parties | — | (60) | 60 | — |
| Other, net | — | 19 | 3 | 22 |
| Net cash provided by (used in) investing activities | — | (1,498) | 64 | (1,434) |
| Financing activities: | | | | |
| Purchases of treasury stock | (426) | — | — | (426) |
| Payment of dividends to stockholders | (91) | — | — | (91) |
| Proceeds from exercise of equity awards and employee stock purchase plan | 67 | — | — | 67 |
| Transfers (to) from related parties | 452 | (26) | (426) | — |
| Other, net | (2) | (3) | (1) | (6) |
| Net cash used in financing activities | — | (29) | (427) | (456) |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash and cash equivalents | — | (56) | (50) | (106) |
| Net increase in cash, cash equivalents and restricted cash and cash equivalents | — | 464 | 31 | 495 |
| Cash, cash equivalents and restricted cash and cash equivalents at beginning of the period | — | 1,321 | 1,596 | 2,917 |
| Cash, cash equivalents and restricted cash and cash equivalents at end of the period | $— | $ 1,785 | $ 1,627 | $ 3,412 |

Table of Contents
Notes to Consolidated Financial Statements – (Continued)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Six Months Ended June 30, 2017

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidated |
|---|---|---|---|---|
| | (In millions) | | | |
| Operating activities: | | | | |
| Net cash provided by operating activities | $— | $ 2,090 | $ 299 | $ 2,389 |
| Investing activities: | | | | |
| Capital expenditures, including internal-use software and website development | — | (259) | (98) | (357) |
| Purchases of investments | — | (826) | (165) | (991) |
| Sales and maturities of investments | — | 150 | 25 | 175 |
| Acquisitions, net of cash and restricted cash acquired | — | (136) | — | (136) |
| Other, net | — | 6 | 1 | 7 |
| Net cash used in investing activities | — | (1,065) | (237) | (1,302) |
| Financing activities: | | | | |
| Purchases of treasury stock | (114) | — | — | (114) |
| Payment of dividends to stockholders | (85) | — | — | (85) |
| Proceeds from exercise of equity awards and employee stock purchase plan | 137 | — | — | 137 |
| Transfers (to) from related parties | 67 | (197) | 130 | — |
| Other, net | (5) | (8) | (6) | (19) |
| Net cash provided by (used in) financing activities | — | (205) | 124 | (81) |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash and cash equivalents | — | 54 | 45 | 99 |
| Net increase in cash, cash equivalents and restricted cash and cash equivalents | — | 874 | 231 | 1,105 |
| Cash, cash equivalents and restricted cash and cash equivalents at beginning of period | — | 442 | 1,376 | 1,818 |
| Cash, cash equivalents and restricted cash and cash equivalents at end of period | $— | $ 1,316 | $ 1,607 | $ 2,923 |

Table of Contents

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

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect the views of our management regarding current expectations and projections about future events and are based on currently available information. Actual results could differ materially from those contained in these forward-looking statements for a variety of reasons, including, but not limited to, those discussed in our Annual Report on Form 10-K for the year ended December 31, 2017, Part I, Item 1A, "Risk Factors," as well as those discussed elsewhere in this report. Other unknown or unpredictable factors also could have a material adverse effect on our business, financial condition and results of operations. Accordingly, readers should not place undue reliance on these forward-looking statements. The use of words such as "anticipates," "estimates," "expects," "intends," "plans" and "believes," among others, generally identify forward-looking statements; however, these words are not the exclusive means of identifying such statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. These forward-looking statements are inherently subject to uncertainties, risks and changes in circumstances that are difficult to predict. We are not under any obligation to, and do not intend to, publicly update or review any of these forward-looking statements, whether as a result of new information, future events or otherwise, even if experience or future events make it clear that any expected results expressed or implied by those forward-looking statements will not be realized. Please carefully review and consider the various disclosures made in this report and in our other reports filed with the Securities and Exchange Commission ("SEC") that attempt to advise interested parties of the risks and factors that may affect our business, prospects and results of operations.

The information included in this management's discussion and analysis of financial condition and results of operations should be read in conjunction with our consolidated financial statements and the notes included in this Quarterly Report, and the audited consolidated financial statements and notes and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2017.

Overview

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

Our portfolio of brands includes Brand Expedia®, Hotels.com®, Expedia® Partner Solutions, Egencia®, trivago®, HomeAway®, VRBO®, Orbitz®, Travelocity®, Wotif®, lastminute.com.au®, ebookers®, CheapTickets®, Hotwire®, Classic Vacations®, Expedia Group™ Media Solutions, CarRentals.com™, Expedia Local Expert®, Expedia® CruiseShipCenters®, SilverRail, ALICE and Traveldoo®. In addition, many of these brands have related international points of sale, including those as part of AirAsia Expedia™. For additional information about our portfolio of brands, see "Portfolio of Brands" in Part I, Item 1, "Business," in our Annual Report on Form 10-K for the year ended December 31, 2017.

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, 2016 and 2017 represented years of continuing improvement for the travel industry. However, political instability, geopolitical conflicts, acts of terrorism, significant fluctuations in currency values, sovereign debt issues, natural disasters and

macroeconomic concerns are examples of events that contribute to a somewhat uncertain environment, which could have a negative impact on the travel industry in the future.

Online Travel

Increased usage and familiarity with the internet are driving rapid growth in online penetration of travel expenditures. According to Phocuswright, an independent travel, tourism and hospitality research firm, in 2018, over 45% of U.S. and European leisure and unmanaged corporate travel expenditures are expected to occur online. Online penetration rates in the

Table of Contents

emerging markets, such as Asia Pacific and Latin American regions, are lagging that of the United States and Europe, and are estimated between 35% to 40%. These penetration rates 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 aggressively pursued direct online distribution of their products and services. Competitive entrants such as "metasearch" companies, including Kayak.com (owned by Booking Holdings), trivago (in which Expedia Group owns a majority interest) as well as TripAdvisor, introduced differentiated features, pricing and content compared with the legacy online travel agency companies, as well as various forms of direct or assisted booking tools. In addition, the increasing popularity of the "sharing economy," accelerated by online penetration, is directly impacting the travel and lodging industry. Players such as Airbnb, HomeAway (which we acquired in December 2015) and Booking.com (owned by Booking Holdings) emerged as the leaders, bringing incremental alternative accommodation and vacation rental inventory to the market. Many other competitors, including vacation rental metasearch players, continue to emerge in this space, which is estimated by Phocuswright to account for approximately $120 billion of annual travel spend and expected to continue to grow as a percentage of the global accommodation market. Furthermore, we see increased interest in the online travel industry from search engine companies as evidenced by recent innovations including direct booking functionality, as well as licensing deals and proposed and actual acquisitions by companies such as Google. Finally, traditional consumer eCommerce and group buying websites expanded their local offerings into the travel market by adding hotel offers to their websites.

The online travel industry also saw the development of alternative business models and variations in the timing of payment by travelers and to suppliers, which in some cases place pressure on historical business models. In particular, the agency hotel model saw rapid adoption in Europe. Expedia Group distributes both merchant (Expedia Collect) and agency (Hotel Collect) hotel offerings for our hotel supply partners through both agency-only contracts as well as our hybrid Expedia Traveler Preference (ETP) program, which offers travelers the choice of whether to pay Expedia Group at the time of booking or pay the hotel at the time of stay.

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

Lodging

Lodging includes hotel accommodations as well as alternative accommodations primarily made available through HomeAway. As a percentage of our total worldwide revenue in the first half of 2018, lodging accounted for 67%. Our room night growth has been healthy, with room nights growing 32% in 2016 (excluding eLong), 16% in 2017, and 14% for the first half of 2018. ADRs for rooms booked on Expedia Group and HomeAway websites increased 5% in 2016 (excluding eLong) due to the acquisition of HomeAway, increased 3% in 2017, and increased 7% in the first half of 2018.

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

in revenue per room night and profitability.

Since our hotel supplier agreements are generally negotiated on a percentage basis, any increase or decrease in ADRs has an impact on the revenue we earn per room night. Over the course of the last several years, occupancies and ADRs in the lodging industry generally increased on a currency-neutral basis in a gradually improving overall travel environment. Current occupancy rates for hotels in the United States remain high; however, U.S. hotel supply growth has been accelerating, which may put additional pressure on ADRs. In international markets, hotel supply is being added at a faster rate as hotel owners and operators try to take advantage of opportunities in faster growing regions such as Asia and certain Latin American markets. Companies like Airbnb, HomeAway and Booking.com also added incremental global supply in the alternative accommodations space. In addition, while the global lodging industry remains very fragmented, there has been consolidation in the hotel space among chains as well as ownership groups. In the meantime, certain hotel chains have been focusing on driving direct bookings

Table of Contents

on their own websites and mobile applications by advertising lower rates than those available on third-party websites as well as incentives such as loyalty points, increased or exclusive product availability and complimentary Wi-Fi. We succeeded in adding supply to our marketplace with more than 750,000 properties on our global websites as of June 30, 2018, including more than 195,000 HomeAway vacation rental properties now available on select Brand Expedia, Orbitz, Travelocity, CheapTickets and ebookers websites.

Alternative Accommodations. With our acquisition of HomeAway and all of its brands in December 2015, we expanded into the fast growing $120 billion alternative accommodations market. HomeAway is a leader in this market and represents an attractive growth opportunity for Expedia Group. HomeAway has been undergoing a transition from a listings-based classified advertising model to an online transactional model that optimizes for both travelers and homeowner and property manager partners, with a goal of increasing monetization and driving growth through investments in marketing as well as in product and technology. In addition, HomeAway rolled out a traveler service fee in the United States and Europe during the first half of 2016, consistent with historical market practice. The fee has contributed to HomeAway's revenue growth and help fund marketing investment, programs to better protect travelers and future growth initiatives. Furthermore, HomeAway moved to a single subscription option globally in July 2016. In the first quarter of 2017, HomeAway began integrating Expedia Group vacation rental properties onto its websites. As of June 30, 2018, there are more than 1.7 million online bookable listings available on HomeAway.

Air

Significant airline sector consolidation in the United States generally resulted in lower overall capacity and higher fares, which combined with the significant declines in fuel prices led to record levels of profitability for the U.S. air carriers, further strengthening their position. However, in 2016 and 2017, there was evidence of discounting by the U.S. carriers while currency headwinds and weaker macroeconomic trends put pressure on international results, which appear to be reversing during the first half of 2018. Ticket prices on Expedia Group websites declined 6% in 2016 (excluding eLong), declined 1% in 2017, and increased 2% in the first half of 2018. Based on airline reports, demand for airline tickets seems to be strong, helping increase air revenues globally. There is significant correlation between airline revenues and fuel prices, and fluctuations in fuel prices generally take time to be reflected in air revenues. Given current volatility, it is uncertain whether the recent increases in fuel prices will drive further increases in airfares, particularly when considering planned supply increases through capacity additions. We can encounter pressure on air remuneration as air carriers combine and as certain supply agreements renew, and continue to add airlines to ensure local coverage in new markets.

Air ticket volumes increased 32% in 2016 (excluding eLong), primarily due to the acquisition of Orbitz, 4% in 2017, and 4% in the first half of 2018. As a percentage of our total worldwide revenue in the first half of 2018, air accounted for 9%.

Advertising & Media

Our advertising and media business is driven by revenue generated by trivago, a leading hotel metasearch website, as well as Expedia Group Media Solutions, which is responsible for generating advertising revenue on our global online travel brands. In the first half of 2018, we generated $556 million of advertising and media revenue representing 10% of our total worldwide revenue, down from $559 million in the first half of 2017.

Growth Strategy

Global Expansion. Our Brand Expedia, Hotels.com, Egencia, and Expedia Partner Solutions brands operate both domestically and through international points of sale, including in Europe, Asia Pacific, Canada and Latin America. In addition, ebookers offers multi-product online travel reservations in Europe and Wotif.com, Wotif.co.nz, lastminute.com.au, lastminute.com.nz and travel.com.au are focused principally on the Australia and New Zealand markets. Egencia, our corporate travel business, operates in over 60 countries around the world. The HomeAway portfolio has over 55 vacation rental websites all around the world. We own a majority share of trivago, a leading metasearch company. Officially launched in 2005, trivago is one of the best known travel brands in Europe and North America. In December 2016, trivago successfully completed its initial public offering and trades on the Nasdaq Global Select Market under the symbol "TRVG." In addition, we have commercial agreements in place with Ctrip and eLong in China, Traveloka in Southeast Asia, as well as Despegar in Latin America, among many others. In conjunction with the commercial arrangements with Traveloka and Despegar, we have also made strategic

investments of over $600 million combined in Traveloka in 2017 and Despegar in 2015. In the first half of 2018, approximately 38% of our worldwide gross bookings and 45% of worldwide revenue were through international points of sale compared to just 21% for both worldwide gross bookings and revenue in 2005. We have a goal of generating more than two-thirds of our revenue through businesses and points of sale outside of the United States.
In expanding our global reach, we leverage significant investments in technology, operations, brand building, supplier relationships and other initiatives that we have made since the launch of Expedia.com in 1996. More recently, we have invested

Table of Contents

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

Product Innovation. Each of our leading brands was a pioneer in online travel and has been responsible for driving key innovations in the space for more than two decades. Each Expedia Group technology platform is operated by a dedicated technology team, which drives innovations that make researching and shopping for travel increasingly easier and helps customers find and book the best possible travel options. We have made key investments in technology, including significant development of our technical platforms, that makes it possible for us to deliver innovations at a faster pace. Improvements in our global platforms for Hotels.com and Brand Expedia continue to enable us to significantly increase the innovation cycle, thereby improving conversion and driving faster growth rates for those brands. Since 2014, we have acquired Travelocity, Wotif Group and Orbitz Worldwide, including Orbitz, CheapTickets and ebookers, and migrated their brands to the Brand Expedia technology platform. In addition, Orbitz for Business customers were migrated to the Egencia technology platform in 2016. In 2015, we acquired HomeAway, Inc., including all of its brands. We intend to continue leveraging these technology investments when launching additional points of sale in new countries, introducing new website features, adding supplier products and services including new business model offerings, as well as proprietary and user-generated content for travelers.

Channel Expansion. Technological innovations and developments continue to create new opportunities for travel bookings. In the past few years, each of our brands made significant progress creating new mobile websites and mobile applications that are receiving strong reviews and solid download trends, and many of our brands now see more traffic via mobile devices than via traditional PCs. Mobile bookings continue to present an opportunity for incremental growth as they are often completed within one or two days of the travel or stay, which is a much shorter booking window than we historically experienced via more traditional online booking methods. Additionally, our brands are implementing new technologies like voice-based search, chatbots and messaging apps as mobile-based options for travelers. In addition, we are seeing significant cross-device usage among our customers, who connect to our websites and apps across multiple devices and platforms throughout their travel planning process. We also believe mobile represents an efficient marketing channel given the opportunity for direct traffic acquisition, increase in share of wallet and in repeat customers, particularly through mobile applications. During the first half of 2018, approximately one in three Expedia Group transactions globally were booked on a mobile device.

Seasonality

We generally experience seasonal fluctuations in the demand for our travel services. For example, traditional leisure travel bookings are generally the highest in the first three quarters as travelers plan and book their spring, summer and winter holiday travel. The number of bookings typically decreases in the fourth quarter. Because revenue for most of our travel services, including merchant and agency hotel, is recognized as the travel takes place rather than when it is booked, revenue typically lags bookings by several weeks for our hotel business and can be several months or more for our vacation rental business. Historically, HomeAway has seen seasonally stronger bookings in the first quarter of the year, with the relevant stays occurring during the peak summer travel months. The seasonal revenue impact is exacerbated with respect to income by the nature of our variable cost of revenue and direct sales and marketing costs, which we typically realize in closer alignment to booking volumes, and the more stable nature of our fixed costs. Furthermore, operating profits for our primary advertising business, trivago, have typically been experienced in the second half of the year, particularly the fourth quarter, as selling and marketing costs offset revenue in the first half of the year as we typically increase marketing during the busy booking period for spring, summer and winter holiday travel. As a result on a consolidated basis, revenue and income are typically the lowest in the first quarter and highest

in the third quarter. The continued growth of our international operations, advertising business or a change in our product mix, including the growth of HomeAway, may influence the typical trend of the seasonality in the future, and there may also be business or market driven dynamics that result in short-term impacts to revenue or profitability that differ from the typical seasonal trends, including trivago's recent changing marketplace dynamics. As HomeAway continues its shift to more of a transaction-based business model for vacation rental listings and its booking window elongates, its seasonal trends are more pronounced than our other traditional leisure businesses.

Table of Contents

Critical Accounting Policies and Estimates

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

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

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

For additional information about our critical accounting policies and estimates, see the disclosure included in our Annual Report on Form 10-K for the year ended December 31, 2017 as well as updates in the current fiscal year provided in Note 2 – Summary of Significant Accounting Policies in the notes to the consolidated financial statements.

Occupancy and Other Taxes

Legal Proceedings. We are currently involved in thirteen 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 and County of San Francisco, California Litigation. On May 23, 2018, the California Court of Appeals affirmed the trial court's holding that the online travel companies are not liable to remit hotel occupancy taxes to San Francisco. On July 2, 2018, San Francisco filed a petition for review by the California Supreme Court, which the online travel companies opposed. That petition remains pending.
- Pine Bluff, Arkansas Litigation. On May 23, 2018, defendants filed a notice of appeal with the Arkansas Supreme Court from the trial court's May 14, 2018 order granting summary judgment in favor of the plaintiffs. Additionally, on May 24, 2018, defendants filed a petition for writ of prohibition or certiorari with the Arkansas Supreme Court seeking to bar the trial court from continuing to exercise jurisdiction over the case, or holding any further proceedings.

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

We have established a reserve for the potential settlement of issues related to hotel occupancy tax litigation, consistent with applicable accounting principles and in light of all current facts and circumstances, in the amount of $39 million as of June 30, 2018, and $43 million as of December 31, 2017.

Certain jurisdictions, including but not limited to the states of New York, North Carolina, Minnesota, Oregon, Rhode Island, 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, but not limited to the states of New York, South Carolina, North Carolina, Minnesota, Georgia, Wyoming, Oregon, Rhode Island, Montana, Maryland, Kentucky, Maine, 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 assert that we are required to pay any assessed taxes prior to being allowed to contest or litigate the applicability of the ordinances. This prepayment of contested taxes is referred to as "pay-to-play." Payment

of these amounts is not an admission that we believe we are subject to such taxes and, even when such payments are made, we continue to defend our position vigorously. If we prevail in the litigation, for which a pay-to-play payment was made, the jurisdiction

Table of Contents

collecting the payment will be required to repay such amounts and also may be required to pay interest. However, any significant pay-to-play payment or litigation loss could negatively impact our liquidity. For additional information, including significant pay-to-play payments made by Expedia Group companies, see Note 8 – Commitments and Contingencies - Legal Proceedings - Pay-to-Play in the notes to the consolidated financial statements.

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

Segments

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

Operating Metrics

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

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

Gross Bookings and Revenue Margin

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | % Change | 2018 | 2017 | % Change |
| | ($ in millions) | | | ($ in millions) | | |
| Gross Bookings | | | | | | |
| Core OTA | $21,011 | $18,954 | 11 % | $42,182 | $38,062 | 11 % |
| trivago[1] | — | — | N/A | — | — | N/A |
| HomeAway[2] | 2,814 | 2,123 | 33 % | 6,761 | 4,820 | 40 % |
| Egencia | 2,073 | 1,761 | 18 % | 4,151 | 3,566 | 16 % |
| Total gross bookings | $25,898 | $22,838 | 13 % | $53,094 | $46,448 | 14 % |
| | | | | | | |
| Revenue Margin | | | | | | |
| Core OTA | 10.7 % | 10.6 % | | 9.9 % | 9.7 % | |
| trivago[1] | N/A | N/A | | N/A | N/A | |
| HomeAway[2] | 10.6 % | 10.6 % | | 7.8 % | 8.5 % | |
| Egencia | 7.6 % | 7.6 % | | 7.4 % | 7.2 % | |
| Total revenue margin | 11.1 % | 11.3 % | | 10.1 % | 10.3 % | |

37

Table of Contents

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

(2) HomeAway gross bookings include on-platform and reported transactions from all HomeAway brands, with the exception of BedandBreakfast.com and TopRural (which, if included would collectively add less than an estimated 2% to gross bookings). Gross bookings for Stayz, Bookabach and Travelmob (which collectively represent less than 10% of total on-platform transactions) represent our best estimates, including gross bookings for Stayz and Bookabach that remain off-platform while we transfer those brands to HomeAway platform brands, which started during the second quarter of 2018.

The increase in worldwide gross bookings for the three and six months ended June 30, 2018, as compared to the same periods in 2017, was primarily driven by growth at our Core OTA segment, including growth at Brand Expedia, Hotels.com, and Expedia Partner Solutions, as well as growth at HomeAway.

Results of Operations

Revenue

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | % Change | 2018 | 2017 | % Change |
| | ($ in millions) | | | ($ in millions) | | |
| Revenue by Segment | | | | | | |
| Core OTA | $2,253 | $2,009 | 12 % | $4,179 | $3,710 | 13 % |
| trivago (Third-party revenue) | 174 | 218 | (20)% | 371 | 399 | (7)% |
| HomeAway | 297 | 224 | 32 % | 531 | 409 | 30 % |
| Egencia | 156 | 135 | 16 % | 307 | 257 | 19 % |
| Total revenue | $2,880 | $2,586 | 11 % | $5,388 | $4,775 | 13 % |

Revenue increased for the three and six months ended June 30, 2018, compared to the same periods in 2017, primarily driven by growth in the Core OTA segment, including growth at Brand Expedia, Hotels.com and Expedia Partner Solutions, as well as growth at HomeAway.

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | % Change | 2018 | 2017 | % Change |
| | ($ in millions) | | | ($ in millions) | | |
| Revenue by Service Type | | | | | | |
| Lodging | $1,992 | $1,744 | 14 % | $3,604 | $3,144 | 15 % |
| Air | 223 | 202 | 10 % | 465 | 419 | 11 % |
| Advertising and media[1] | 274 | 302 | (9)% | 556 | 559 | — % |
| Other | 391 | 338 | 16 % | 763 | 653 | 17 % |
| Total revenue | $2,880 | $2,586 | 11 % | $5,388 | $4,775 | 13 % |

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

Lodging revenue, which includes hotel and HomeAway revenue, increased 14% and 15% for the three and six months ended June 30, 2018, compared to the same periods in 2017, driven by growth in HomeAway, Hotels.com, Expedia Partner Solutions and Brand Expedia. Room nights stayed increased 12% and 14% and revenue per room night increased 2% and 1% or the three and six months ended June 30, 2018, compared to the same periods in 2017. Worldwide air revenue increased 10% and 11% for the three and six months ended June 30, 2018, compared to the same periods in 2017, on a 6% and 4% increase in air tickets sold as well as a 4% and 7% increase in revenue per ticket. Air revenue growth for the periods included an approximately 300 basis point and 350 basis point benefit due to an accounting change related to classification of certain fees, which were previously recorded as contra-revenue but now classified as cost of revenue with no net impact to operating income (loss).

Advertising and media revenue decreased 9% for the three months ended June 30, 2018 and was essentially flat for the six months ended June 30, 2018, compared to the same periods in 2017, due to a decline in local currency revenue at trivago

Table of Contents

for both periods, partially offset by positive impact from foreign exchange as well as continued growth in Expedia Group Media Solutions. All other revenue, which includes car rental, insurance, destination services and fee revenue related to our corporate travel business, increased by 16% and 17% for the three and six months ended June 30, 2018, compared to the same periods in 2017, primarily due to growth in travel insurance products and car rental revenue.

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

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | % Change | 2018 | 2017 | % Change |
| | ($ in millions) | | | ($ in millions) | | |
| Revenue by Business Model | | | | | | |
| Merchant | $1,532 | $1,376 | 11 % | $2,866 | $2,552 | 12 % |
| Agency | 777 | 684 | 14 % | 1,435 | 1,255 | 14 % |
| Advertising and media | 274 | 302 | (9)% | 556 | 559 | — % |
| HomeAway | 297 | 224 | 32 % | 531 | 409 | 30 % |
| Total revenue | $2,880 | $2,586 | 11 % | $5,388 | $4,775 | 13 % |

Merchant revenue increased for the three and six months ended June 30, 2018, compared to the same periods in 2017, primarily due to the increase in merchant hotel revenue driven by an increase in room nights stayed.

Agency revenue increased for the three and six months ended June 30, 2018, compared to the same periods in 2017, primarily due to the growth in agency hotel and air.

HomeAway revenue increased for the three and six months ended June 30, 2018, compared to the same periods in 2017, primarily due to growth in transactional revenue of 63% and 67% driven by a benefit from the traveler service fee, partially offset by subscription revenue decreasing 25% and 27%.

Cost of Revenue

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | % Change | 2018 | 2017 | % Change |
| | ($ in millions) | | | ($ in millions) | | |
| Customer operations | $220 | $191 | 15 % | $438 | $376 | 16 % |
| Credit card processing | 134 | 133 | 1 % | 258 | 260 | (1)% |
| Data center, cloud and other | 144 | 115 | 25 % | 289 | 225 | 28 % |
| Total cost of revenue | $498 | $439 | 13 % | $985 | $861 | 14 % |
| % of revenue | 17.3 % | 17.0 % | | 18.3 % | 18.0 % | |

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

During the three and six months ended June 30, 2018, the increase in cost of revenue expense, compared to the same periods in 2017, was driven by $29 million and $62 million of higher customer operations expenses, including higher headcount at Egencia and HomeAway, as well as $29 million and $64 million of higher data center, cloud and other costs. Cloud expense in cost of revenue during the three and six months ended June 30, 2018 was $22 million and $45 million, compared to $12 million and $21 million for the same periods of 2017.

Table of Contents

Selling and Marketing

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | % Change | 2018 | 2017 | % Change |
| | ($ in millions) | | | ($ in millions) | | |
| Direct costs | $1,264 | $1,207 | 5 % | $2,503 | $2,261 | 11 % |
| Indirect costs | 277 | 236 | 17 % | 554 | 452 | 22 % |
| Total selling and marketing | $1,541 | $1,443 | 7 % | $3,057 | $2,713 | 13 % |
| % of revenue | 53.5 % | 55.8 % | | 56.7 % | 56.8 % | |

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

Selling and marketing expenses increased $98 million and $344 million during the three and six months ended June 30, 2018, compared to the same periods in 2017, driven by increase of $57 million and $242 million of direct costs, including online and offline marketing expenses. Hotels.com, Expedia Partner Solutions and HomeAway accounted for the majority of the total direct cost increases. In addition, higher indirect costs of $41 million and $102 million also contributed to the increase and were driven by growth in personnel in the lodging supply organization.

Technology and Content

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | % Change | 2018 | 2017 | % Change |
| | ($ in millions) | | | ($ in millions) | | |
| Personnel and overhead | $195 | $165 | 18 % | $396 | $322 | 23 % |
| Depreciation and amortization of technology assets | 124 | 109 | 14 % | 243 | 212 | 15 % |
| Other | 81 | 69 | 18 % | 157 | 131 | 20 % |
| Total technology and content | $400 | $343 | 17 % | $796 | $665 | 20 % |
| % of revenue | 13.9 % | 13.2 % | | 14.8 % | 13.9 % | |

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

Technology and content expense increased $57 million and $131 million during the three and six months ended June 30, 2018, compared to the same periods in 2017, primarily due to increased personnel and overhead of $30 million and $74 million from investments in our ecommerce platform and growth at HomeAway, as well as inorganic impacts from acquisitions. In addition, depreciation and amortization of technology assets also increased $15 million and $31 million. Cloud expense in technology and content during the three and six months ended June 30, 2018 was $12 million and $25 million, compared to $9 million and $16 million in the same periods of 2017.

General and Administrative

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | % Change | 2018 | 2017 | % Change |
| | ($ in millions) | | | ($ in millions) | | |
| Personnel and overhead | $126 | $110 | 14 % | $255 | $211 | 21 % |
| Professional fees and other | 70 | 69 | 2 % | 140 | 126 | 11 % |
| Total general and administrative | $196 | $179 | 10 % | $395 | $337 | 17 % |

| | | | | |
|---|---|---|---|---|
| % of revenue | 6.8 % | 6.9 % | 7.3 % | 7.1 % |

Table of Contents

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

General and administrative expense increased $17 million and $58 million during the three and six months ended June 30, 2018, compared to the same periods in 2017, primarily due to higher personnel and overhead costs of $16 million and $44 million, resulting from increased headcount at corporate as well as inorganic impacts from acquisitions.

Amortization of Intangible Assets

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | % Change | 2018 | 2017 | % Change |
| | ($ in millions) | | | ($ in millions) | | |
| Amortization of intangible assets | $72 | $66 | 8 % | $144 | $133 | 8 % |

Amortization of intangible assets increased $6 million and $11 million during the three and six months ended June 30, 2018, compared to the same periods in 2017, primarily due to amortization related to new business acquisitions.

Impairment of Goodwill

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

Legal Reserves, Occupancy Tax and Other

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | % Change | 2018 | 2017 | % Change |
| | ($ in millions) | | | ($ in millions) | | |
| Legal reserves, occupancy tax and other | $1 | $3 | (61)% | $4 | $24 | (80)% |
| % of revenue | —% | 0.1% | | 0.1% | 0.5% | |

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

Restructuring and Related Reorganization Charges

In connection with activities to centralize and optimize certain operations as well as migrate technology platforms in the prior years, primarily related to previously disclosed acquisitions, we recognized $10 million and $12 million in restructuring and related reorganization charges during the three and six months ended June 30, 2017.

Operating Income (Loss)

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | % Change | 2018 | 2017 | % Change |
| | ($ in millions) | | | ($ in millions) | | |
| Operating income (loss) | $111 | $103 | 8 % | $(54) | $30 | N/A |
| % of revenue | 3.9% | 4.0% | | (1.0)% | 0.6% | |

Operating income increased for the three months ended June 30, 2018, compared to the same period in 2017, primarily due to a growth in revenue in excess of operating costs. During the six months ended June 30, 2018, we had an operating loss of $54 million compared to operating income of $30 million for the same period in 2017, and the change was primarily due to increased costs and expenses period over period.

Table of Contents

Adjusted EBITDA by Segment

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | % Change | 2018 | 2017 | % Change |
| | ($ in millions) | | | ($ in millions) | | |
| Core OTA | $561 | $486 | 16 % | $884 | $789 | 12 % |
| trivago | (20) | 2 | N/A | (48) | 22 | N/A |
| HomeAway | 78 | 39 | 98 % | 57 | 45 | 25 % |
| Egencia | 30 | 28 | 8 % | 57 | 55 | 3 % |
| Unallocated overhead costs (Corporate) | (186) | (162) | 15 % | (363) | (310) | 17 % |
| Total Adjusted EBITDA [1] | $463 | $393 | 18 % | $587 | $601 | (2)% |

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

Adjusted EBITDA is our primary segment operating metric. See Note 9 – Segment Information in the notes to the consolidated financial statements for additional information on intersegment transactions, unallocated overhead costs and for a reconciliation of Adjusted EBITDA by segment to net income (loss) attributable to Expedia Group, Inc. for the periods presented above.

Core OTA Adjusted EBITDA increased $75 million and $95 million during the three and six months ended June 30, 2018, compared to the same periods in 2017, primarily due to an increase of $244 million and $469 million in revenue, partially offset by an increase in sales and marketing expense mostly at Hotels.com and Expedia Partner Solutions.

trivago Adjusted EBITDA declined $22 million and $70 million during the three and six months ended June 30, 2018, compared to the same periods in 2017, due to an increase in expenses as a percentage of revenue, primarily sales and marketing spend.

HomeAway Adjusted EBITDA increased $39 million and $12 million during the three and six months ended June 30, 2018, compared to the same periods in 2017, due to an increase of $73 million and $122 million in revenue, partially offset by higher operating expenses from planned investments in performance-based marketing as well as a continuation in investing in both consumer and supplier facing products, and HomeAway's migration to the cloud.

Egencia Adjusted EBITDA increased $2 million for both the three and six months ended June 30, 2018, compared to the same periods in 2017, as growth in revenue from new corporate clients and room nights was offset primarily by headcount costs from investments in sales, product and technology.

Unallocated overhead costs increased $24 million and $53 million during the three and six months ended June 30, 2018, compared to the same periods in 2017, primarily due to higher general and administrative personnel and overhead costs as well as higher technology and content personnel expenses to support investments in our ecommerce platform.

Interest Income and Expense

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | % Change | 2018 | 2017 | % Change |
| | ($ in millions) | | | ($ in millions) | | |
| Interest income | $16 | $10 | 77 % | $ 27 | $ 16 | 73 % |
| Interest expense | (51) | (43) | 19 % | (102) | (86) | 19 % |

Interest income increased for the three and six months ended June 30, 2018, compared to the same periods in 2017, primarily due to higher average cash balances and to a lesser extent higher rates of return. Interest expense increased for the three and six months ended June 30, 2018, compared to the same periods in 2017, as a result of interest on the $1 billion senior unsecured notes issued in September 2017.

Table of Contents

Other, Net

Other, net is comprised of the following:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | ($ in millions) | | | |
| Foreign exchange rate gains (losses), net | $9 | $(6) | $7 | $(26) |
| Losses on minority equity investments, net | (98) | (5) | (61) | (6) |
| Other | (1) | (2) | — | (2) |
| Total other, net | $(90) | $(13) | $(54) | $(34) |

During the three and six months ended June 30, 2018, the losses on minority equity investments, net primarily related to fair value changes in our investment in Despegar, a publicly traded company. As described in Note 2 – Summary of Significant Accounting Policies – Recently Adopted Accounting Policies, we adopted new accounting guidance on January 1, 2018, which requires changes in fair value of minority investments with readily determinable fair values to be carried at fair value with changes recorded through net income.

Provision for Income Taxes

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | % Change | 2018 | 2017 | % Change |
| | ($ in millions) | | | ($ in millions) | | |
| Provision for income taxes | $(5) | $3 | N/A | $(25) | $(44) | (43)% |
| Effective tax rate | 33.8% | 5.3% | | 13.7 % | 58.6 % | |

We determine our provision for income taxes for interim periods using an estimate of our annual effective tax rate. We record any changes affecting the estimated annual effective tax rate in the interim period in which the change occurs, including discrete tax items. We have included in the estimated annual effective tax the reduction in the U.S. statutory tax rate, global intangible low-taxed income ("GILTI"), and the foreign derived intangible income ("FDII") deduction related to current year operations and have not provided additional GILTI on deferred items.

For the three months ended June 30, 2018, the effective tax rate was a 33.8% benefit on a pre-tax loss, compared to a 5.3% expense on pre-tax income for the three months ended June 30, 2017 with the change primarily driven by the Tax Cuts and Jobs Act ("Tax Act"), the 2018 goodwill impairment as discussed in Note 3 – Fair Value Measurements in the notes to the consolidated financial statements, a decrease in excess tax benefits for stock compensation as well as other discrete tax items.

For the six months ended June 30, 2018, the effective tax rate was a 13.7% benefit on a pre-tax loss, compared to a 58.6% benefit on a pre-tax loss for the six months ended June 30, 2017 with the change primarily driven by the Tax Act, the 2018 goodwill impairment, a decrease in excess tax benefits for stock compensation as well as other discrete tax items.

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

43

Table of Contents

Definition and Reconciliation of Adjusted EBITDA

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

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

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

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | (In millions) | | | |
| Net income (loss) attributable to Expedia Group, Inc. | $1 | $57 | $(136) | $(29) |
| Net loss attributable to non-controlling interests | (10) | (3) | (22) | (1) |
| Provision for income taxes | (5) | 3 | (25) | (44) |
| Total other expense, net | 125 | 46 | 129 | 104 |
| Operating income (loss) | 111 | 103 | (54) | 30 |
| Gain (loss) on revenue hedges related to revenue recognized | (1) | 9 | (4) | 12 |
| Restructuring and related reorganization charges | — | 10 | — | 12 |
| Legal reserves, occupancy tax and other | 1 | 3 | 4 | 24 |
| Stock-based compensation | 50 | 50 | 100 | 97 |

| | | | | |
|---|---|---|---|---|
| Amortization of intangible assets | 72 | 66 | 144 | 133 |
| Impairment of goodwill | 61 | — | 61 | — |
| Depreciation | 169 | 152 | 336 | 293 |
| Adjusted EBITDA | $463 | $393 | $587 | $601 |

Table of Contents

Financial Position, Liquidity and Capital Resources

Our principal sources of liquidity are cash flows generated from operations; our cash and cash equivalents and short-term investment balances, which were $4.6 billion and $3.3 billion at June 30, 2018 and December 31, 2017, and our $2 billion revolving credit facility, which is essentially untapped and expires in May 2023.

The revolving credit facility, which was amended in the second quarter of 2018 to increase the borrowing capacity to $2 billion, extend the expiration to May 2023, and reduced the interest rate on loans under the facility (as disclosed herein), bears interest based on the Company's credit ratings with the applicable interest rate on drawn amounts at LIBOR plus 125 basis points and the commitment fee on undrawn amounts at 17.5 basis points as of June 30, 2018.

As of June 30, 2018, the total cash and cash equivalents and short-term investments held outside the United States was $1.2 billion ($1 billion in wholly-owned foreign subsidiaries and $190 million in majority-owned subsidiaries).

Our credit ratings are periodically reviewed by rating agencies. As of June 30, 2018, Moody's rating was Ba1 with an outlook of "stable," S&P's rating was BBB with an outlook of "stable" and Fitch's rating was BBB- with an outlook of "stable." Changes in our operating results, cash flows, financial position, capital structure, financial policy or capital allocations to share repurchase, dividends, investments and acquisitions could impact the ratings assigned by the various rating agencies. Should our credit ratings be adjusted downward, we may incur higher costs to borrow and/or limited access to capital markets, which could have a material impact on our financial condition and results of operations.

As of June 30, 2018, we were in compliance with the covenants and conditions in our revolving credit facility and outstanding debt, which was comprised of $500 million in registered senior unsecured notes due in August 2018 that bear interest at 7.456% and is classified as current in the consolidated balance sheets, as well as long-term debt of $750 million in registered senior unsecured notes due in August 2020 that bear interest at 5.95%, $500 million in registered senior unsecured notes due in August 2024 that bear interest at 4.5%, Euro 650 million of registered senior unsecured notes due in June 2022 that bear interest at 2.5%, $750 million of registered senior unsecured notes due in February 2026 that bear interest at 5.0% and the $1 billion of registered senior unsecured notes due in February 2028 that bear interest at 3.8%.

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

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

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

business, may counteract or intensify the anticipated seasonal fluctuations.

As of June 30, 2018, we had a deficit in our working capital of $2.7 billion, which increased compared to the deficit of $2.3 billion as of December 31, 2017. The change in the deficit was primarily due to investing and financing activities, including capital expenditures and purchase of treasury stock.

We continue to invest in the development and expansion of our operations. Ongoing investments include but are not limited to improvements in infrastructure, which include our servers, networking equipment and software, release improvements to our software code, platform migrations and consolidation and search engine marketing and optimization efforts. In addition, in 2016, we began our expansion into the cloud computing environment. While our cloud computing

Table of Contents

expenses have increased and are expected to continue to increase significantly over the next few years, they are expected to result in lower overall capital expenditures related to our data centers over time. Our future capital requirements may include capital needs for acquisitions (including purchases of non-controlling interest), share repurchases, dividend payments or expenditures in support of our business strategy; thus reducing our cash balance and/or increasing our debt. Excluding capital expenditures associated with the build out of our new corporate headquarters, we expect total capital expenditures for full year 2018 to increase over 2017 spending levels. Our current estimates for the new headquarters total approximately $800 to $900 million, with final estimates contingent on completion of design plans and final determination of completed office space required in the initial build out. Of the total approximately $30 million was spent in 2016 and approximately $70 million in 2017. We plan to make significant progress on our corporate headquarters building in the coming year, spending approximately $240 million in 2018, with approximately $70 million spent in the first half of 2018, followed by nearly $425 million in 2019, when we expect to begin to move into the campus.

Our cash flows are as follows:

| | Six months ended June 30, | | |
|---|---|---|---|
| | 2018 | 2017 | $ Change |
| | (In millions) | | |
| Cash provided by (used in): | | | |
| Operating activities | $2,491 | $2,389 | $ 102 |
| Investing activities | (1,434) | (1,302) | (132) |
| Financing activities | (456) | (81) | (375) |
| Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash and cash equivalents | (106) | 99 | (205) |

For the six months ended June 30, 2018, net cash provided by operating activities increased by $102 million primarily due to growth in our merchant business.

For the six months ended June 30, 2018, $132 million more cash was used in investing activities primarily due to higher net purchases of investments of $229 million in the current period, partially offset by cash paid for acquisitions in the prior period.

For the six months ended June 30, 2018, cash used in financing activities primarily included cash paid to acquire shares of $426 million, including the repurchased shares under the authorizations discussed below, and $91 million in cash dividend payments, partially offset by $67 million of proceeds from the exercise of options and employee stock purchase plans. For the six months ended June 30, 2017, cash used in financing activities primarily included cash paid to acquire shares of $114 million and $85 million in cash dividend payments, partially offset by $137 million of proceeds from the exercise of options and employee stock purchase plans.

In February 2015, the Executive Committee, acting on behalf of the Board of Directors, authorized a repurchase of up to 10 million shares of our common stock. In April 2018, the Executive Committee, acting on behalf of the Board of Directors, authorized a repurchase of up to an additional 15 million shares of our common stock. During the six months ended June 30, 2018 and 2017, we repurchased, through open market transactions, 3.7 million and 0.8 million shares under these authorizations for a total cost of $409 million and $102 million, excluding transaction costs. As of June 30, 2018, there were approximately 16.2 million shares remaining under the authorizations. There is no fixed termination date for the repurchases. Subsequent to the end of the second quarter of 2018, we repurchased an additional 0.3 million shares for a total cost of $42 million, excluding transaction costs, representing an average purchase price of $124.95 per share.

During the first six months of 2018 and 2017, the Executive Committee, acting on behalf of the Board of Directors, declared and we paid the following dividends:

| Declaration Date | Dividend Per Share | Record Date | Total Amount (in millions) | Payment Date |
|---|---|---|---|---|
| Six Months Ended June 30, 2018 | | | | |
| February 7, 2018 | $ 0.30 | March 8, 2018 | $ 46 | March 28, 2018 |

| | | | | |
|---|---|---|---|---|
| April 24, 2018 | 0.30 | May 24, 2018 | 45 | June 14, 2018 |
| Six Months Ended June 30, 2017 | | | | |
| February 7, 2017 | 0.28 | March 9, 2017 | 42 | March 30, 2017 |
| April 26, 2017 | 0.28 | May 25, 2017 | 43 | June 15, 2017 |

Table of Contents

In addition, in July 2018, the Executive Committee, acting on behalf of the Board of Directors, declared a quarterly cash dividend of $0.32 per share of outstanding common stock payable on September 13, 2018 to stockholders of record as of the close of business on August 23, 2018. Future declarations of dividends are subject to final determination by our Board of Directors.

The effect of foreign exchange on our cash and restricted cash balances denominated in foreign currency for the six months ended June 30, 2018, compared to the same period in 2017, showed a net change of $(205) million reflecting net depreciations in foreign currencies for the current year period compared to net appreciations in foreign currencies in the prior year period.

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

Contractual Obligations, Commercial Commitments and Off-balance Sheet Arrangements

There have been no material changes outside the normal course of business to our contractual obligations and commercial commitments since December 31, 2017. Other than our contractual obligations and commercial commitments, we did not have any off-balance sheet arrangements as of June 30, 2018 or December 31, 2017.

Table of Contents

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

Market Risk Management

There has been no material changes in our market risk during the three months ended June 30, 2018. For additional information, see Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in Part II of our Annual Report on Form 10-K for the year ended December 31, 2017.

Table of Contents

Part I. Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures.

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

Changes in internal control over financial reporting.

There were no changes to our internal control over financial reporting that occurred during the quarter ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

Part II. Item 1. Legal Proceedings

In the ordinary course of business, Expedia Group and its subsidiaries are parties to legal proceedings and claims involving property, personal injury, contract, alleged infringement of third party intellectual property rights and other claims. A discussion of certain legal proceedings can be found in the section titled “Legal Proceedings,” of our Annual Report on Form 10-K for the year ended December 31, 2017 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2018. The following are developments regarding such legal proceedings:

Litigation Relating to Occupancy and Other Taxes

Actions Filed by Individual States, Cities and Counties

City and County of San Francisco, California Litigation. On May 23, 2018, the California Court of Appeals affirmed the trial court’s holding that the online travel companies are not liable to remit hotel occupancy taxes to San Francisco. On July 2, 2018, San Francisco filed a petition for review by the California Supreme Court, which the online travel companies opposed. That petition remains pending.

Pine Bluff, Arkansas Litigation. On May 14, 2018, the court entered its order granting plaintiffs’ motion for summary judgment and denying the defendant online travel companies’ motion. On May 23, 2018, defendants filed a notice of appeal with the Arkansas Supreme Court. On May 24, 2018, defendants filed a petition for writ of prohibition or certiorari with the Arkansas Supreme Court seeking to bar the trial court from continuing to exercise jurisdiction over the case, or holding any further proceedings. The plaintiffs have opposed that petition and the parties await a ruling.

Village of Matteson, Illinois Litigation. The parties have reached a tentative settlement.

Non-Tax Litigation and Other Legal Proceedings

Putative Class Action Litigation

Buckeye Tree Lodge/2020 O Street Corporation Lawsuits. On May 17, 2018, the court denied plaintiffs’ motion for class certification and set a deadline of August 17, 2018 for plaintiffs to file a renewed motion.

Cases against HomeAway.com, Inc. On May 15, 2018, the United States Fifth Circuit Court of Appeals issued an opinion resolving the Arnold and Seim appeals. The Fifth Circuit affirmed the trial court’s decision in Seim, holding that the court correctly granted HomeAway’s motion to compel arbitration. The Fifth Circuit reversed and remanded the trial court’s decision in Arnold with instructions to grant HomeAway’s motion to compel arbitration and dismiss the case. The Fifth Circuit issued its mandate on June 6, 2018. On remand, the trial court entered final judgment dismissing the Seim case on June 25, 2018, but has not yet done so in Arnold. In the May case, on July 19, 2018, the magistrate judge issued a Report and Recommendation recommending that the district court grant HomeAway’s motion to compel arbitration. In the Kilpatrick case, the trial court entered an order adopting the magistrate judge’s April 17, 2018 Report and Recommendation and dismissed plaintiffs' breach of contract claim with prejudice and denied HomeAway's motion to strike class allegations as premature.

Orbitz Data Breach Putative Class Action. On June 6, 2018, the court granted defendants’ motion to compel arbitration and stayed the case pending completion of individual arbitration.

Other Legal Proceedings

Santa Monica, California Litigation. On June 14, 2018, the district court granted the city’s motion to dismiss. HomeAway filed notice of appeal from that decision on June 18, 2018. On July 2, 2018, the United States Ninth Circuit Court of Appeals consolidated that appeal with HomeAway’s prior appeal of the district court’s March 12, 2018 denial of its motion for a preliminary injunction.

Chicago, Illinois Litigation. The parties reached a settlement and the court dismissed the case without prejudice on June 27, 2018.

IBM Lawsuit. On May 29, 2018, defendants filed motions to dismiss. Subsequently, on July 12, 2018, IBM filed an amended complaint, including the assertion of infringement of a new patent.

Competition Reviews, Litigation and Legislation Regarding Parity Clauses

For a discussion of certain matters related to competition review and legislation regarding parity clauses, see Note 8 – Commitments and Contingencies - Legal Proceedings - Matters Relating to Competition Reviews and Legislation Relating to Parity Clauses in the notes to consolidated financial statements.

Table of Contents

Part II. Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A, “Risk Factors,” in our Annual Report on Form 10-K for the year ended December 31, 2017, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Table of Contents

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

Share Repurchases

During 2015, the Executive Committee, acting on behalf of the Board of Directors, authorized a repurchase of up to 10 million shares of our common stock. In April 2018, the Executive Committee, acting on behalf of the Board of Directors, authorized a repurchase of up to an additional 15 million shares of our common stock. A summary of the repurchase activity for the second quarter of 2018 is as follows:

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under Plans or Programs |
|---|---|---|---|---|
| | (In thousands, expect per share data) | | | |
| April 1-30, 2018 | 713 | $ 107.98 | 713 | 17,443 |
| May 1-31, 2018 | 590 | 113.68 | 590 | 16,853 |
| June 1-30, 2018 | 611 | 121.90 | 611 | 16,242 |
| Total | 1,914 | | 1,914 | |

Table of Contents

Part II. Item 6. Exhibits

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

| Exhibit No. | Exhibit Description | Filed Herewith | Incorporated by Reference | | | |
|---|---|---|---|---|---|---|
| | | | Form | SEC File No. | Exhibit | Filing Date |
| 31.1 | Certification of the Chairman and Senior Executive pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | X | | | | |
| 31.2 | Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | X | | | | |
| 31.3 | Certification of the Chief Financial Officer pursuant Section 302 of the Sarbanes-Oxley Act of 2002 | X | | | | |
| 32.1 | Certification of the Chairman and Senior Executive pursuant Section 906 of the Sarbanes-Oxley Act of 2002 | X | | | | |
| 32.2 | Certification of the Chief Executive Officer pursuant Section 906 of the Sarbanes-Oxley Act of 2002 | X | | | | |
| 32.3 | Certification of the Chief Financial Officer pursuant Section 906 of the Sarbanes-Oxley Act of 2002 | X | | | | |
| 101 | The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, formatted in XBRL: (i) Consolidated Statements of Operations, (ii) Consolidated Statements of Comprehensive Income (Loss), (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements. | X | | | | |

Table of Contents

Signature

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

July 26, 2018 Expedia Group, Inc.

By: /s/ Alan Pickerill
Alan Pickerill
Chief Financial Officer