Expedia, Inc.
Form 10-Q
July 28, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-37429

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

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

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

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

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

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

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

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

Common stock, $0.0001 par value per share	138,836,588	shares
Class B common stock, $0.0001 par value per share	12,799,999	shares

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Revenue	$2,586,052	$2,195,869	$4,774,788	$4,099,830
Costs and expenses:				
Cost of revenue [(1)]	439,007	406,380	860,694	808,950
Selling and marketing [(1)]	1,443,407	1,154,993	2,713,467	2,194,341
Technology and content [(1)]	342,530	317,921	664,570	609,475
General and administrative [(1)]	178,952	192,555	337,105	338,566
Amortization of intangible assets	66,279	84,181	132,955	174,180
Legal reserves, occupancy tax and other	3,401	4,344	24,455	6,318
Restructuring and related reorganization charges [(1)]	9,708	9,833	11,607	39,636
Operating income (loss)	102,768	25,662	29,935	(71,636)
Other income (expense):				
Interest income	9,262	4,955	15,521	8,522
Interest expense	(42,661)	(42,939)	(85,638)	(86,899)
Other, net	(12,687)	127	(34,391)	(28,068)
Total other expense, net	(46,086)	(37,857)	(104,508)	(106,445)
Income (loss) before income taxes	56,682	(12,195)	(74,573)	(178,081)
Provision for income taxes	(3,012)	18,202	43,704	75,556
Net income (loss)	53,670	6,007	(30,869)	(102,525)
Net loss attributable to non-controlling interests	3,019	25,642	1,436	25,585
Net income (loss) attributable to Expedia, Inc.	$56,689	$31,649	$(29,433)	$(76,940)
Earnings (loss) per share attributable to Expedia, Inc. available to common stockholders:				
Basic	$0.37	$0.21	$(0.19)	$(0.51)
Diluted	0.36	0.21	(0.19)	(0.51)
Shares used in computing earnings (loss) per share:				
Basic	151,582	149,552	151,060	150,332
Diluted	157,033	153,532	151,060	150,332
Dividends declared per common share	$0.28	$0.24	$0.56	$0.48

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(1) Includes stock-based compensation as follows:

Cost of revenue	$2,727	$2,884	$5,566	$5,292
Selling and marketing	10,363	25,454	21,094	32,496
Technology and content	14,599	28,820	27,637	39,441
General and administrative	22,413	42,803	43,016	60,467
Restructuring and related reorganization charges	—	470	—	11,643

See accompanying notes.

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Net income (loss)	$53,670	$6,007	$(30,869)	$(102,525)
Other comprehensive income (loss), net of tax				
Currency translation adjustments, net of tax[1]	89,452	(15,959)	124,128	(9,305)
Unrealized gains (losses) on available for sale securities, net of tax[2]	(7)	26	(3)	500
Other comprehensive income (loss), net of tax	89,445	(15,933)	124,125	(8,805)
Comprehensive income (loss)	143,115	(9,926)	93,256	(111,330)
Less: Comprehensive income (loss) attributable to non-controlling interests	23,353	(29,376)	30,630	(19,718)
Comprehensive income (loss) attributable to Expedia, Inc.	$119,762	$19,450	$62,626	$(91,612)

(1) Currency translation adjustments include a tax benefit of $18 million and $22 million associated with net investment hedges for the three and six months ended June 30, 2017 and tax expense of $5 million and tax benefit of $5 million for the three and six months ended June 30, 2016.

(2) Net gains (losses) recognized and reclassified during the three and six months ended June 30, 2017 and 2016 were immaterial.

See accompanying notes.

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

	June 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$2,874,823	$1,796,811
Restricted cash and cash equivalents	47,079	18,733
Short-term investments	906,339	72,313
Accounts receivable, net of allowance of $27,657 and $25,278	1,809,618	1,343,247
Income taxes receivable	145,000	19,402
Prepaid expenses and other current assets	243,702	199,745
Total current assets	6,026,561	3,450,251
Property and equipment, net	1,479,059	1,394,904
Long-term investments and other assets	538,435	520,058
Deferred income taxes	32,012	23,658
Intangible assets, net	2,390,465	2,446,652
Goodwill	8,156,716	7,942,023
TOTAL ASSETS	$18,623,248	$15,777,546
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable, merchant	$1,714,800	$1,509,313
Accounts payable, other	801,026	577,012
Deferred merchant bookings	4,655,335	2,617,791
Deferred revenue	393,964	282,517
Income taxes payable	18,144	49,739
Accrued expenses and other current liabilities	1,161,233	1,090,826
Total current liabilities	8,744,502	6,127,198
Long-term debt	3,220,946	3,159,336
Deferred income taxes	466,237	484,970
Other long-term liabilities	369,447	312,939
Commitments and contingencies		
Stockholders’ equity:		
Common stock $.0001 par value	23	22
Authorized shares: 1,600,000		
Shares issued: 226,900 and 224,310		
Shares outstanding: 138,949 and 137,232		
Class B common stock $.0001 par value	1	1
Authorized shares: 400,000		
Shares issued and outstanding: 12,800 and 12,800		
Additional paid-in capital	9,024,459	8,794,298
Treasury stock - Common stock, at cost	(4,624,982)	(4,510,655)
Shares: 87,950 and 87,077		
Retained earnings	14,916	129,034
Accumulated other comprehensive income (loss)	(188,340)	(280,399)
Total Expedia, Inc. stockholders’ equity	4,226,077	4,132,301
Non-redeemable non-controlling interests	1,596,039	1,560,802

Total stockholders’ equity	5,822,116	5,693,103
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$18,623,248	$15,777,546

See accompanying notes.

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

	Six months ended June 30, 2017	2016
Operating activities:		
Net loss	$(30,869)	$(102,525)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation of property and equipment, including internal-use software and website development	292,600	221,278
Amortization of stock-based compensation	97,313	149,339
Amortization of intangible assets	132,955	174,180
Deferred income taxes	2,278	24,107
Foreign exchange (gain) loss on cash, cash equivalents and short-term investments, net	(57,888)	(23,916)
Realized (gain) loss on foreign currency forwards	(7,218)	19,081
Other	(9,398)	(8,415)
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(434,412)	(367,188)
Prepaid expenses and other assets	(69,101)	(57,052)
Accounts payable, merchant	197,346	126,056
Accounts payable, other, accrued expenses and other current liabilities	278,800	154,368
Tax payable/receivable, net	(157,881)	(190,948)
Deferred merchant bookings	2,029,942	1,511,578
Deferred revenue	101,173	96,154
Net cash provided by operating activities	2,365,640	1,726,097
Investing activities:		
Capital expenditures, including internal-use software and website development	(356,892)	(379,981)
Purchases of investments	(991,371)	(20,446)
Sales and maturities of investments	175,319	22,758
Net settlement of foreign currency forwards	7,218	(19,081)
Acquisitions, net of cash acquired	(138,215)	—
Other, net	—	2,222
Net cash used in investing activities	(1,303,941)	(394,528)
Financing activities:		
Payment of HomeAway Convertible Notes	—	(400,443)
Purchases of treasury stock	(114,327)	(328,311)
Payment of dividends to stockholders	(84,685)	(71,947)
Proceeds from exercise of equity awards and employee stock purchase plan	136,979	69,777
Other, net	(18,605)	(17,565)
Net cash used in financing activities	(80,638)	(748,489)
Effect of exchange rate changes on cash and cash equivalents	96,951	37,145
Net increase in cash and cash equivalents	1,078,012	620,225
Cash and cash equivalents at beginning of period	1,796,811	1,676,299
Cash and cash equivalents at end of period	$2,874,823	$2,296,524
Supplemental cash flow information		
Cash paid for interest	$90,425	$72,814
Income tax payments, net	107,480	89,972

See accompanying notes.

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Notes to Consolidated Financial Statements
June 30, 2017
(Unaudited)
Note 1 – Basis of Presentation
Description of Business
Expedia, Inc. and its subsidiaries provide travel products and services to leisure and corporate travelers in the United States and abroad as well as various media and advertising offerings to travel and non-travel advertisers. These travel products and services are offered through a diversified portfolio of brands including: Expedia.com®, Hotels.com®, Hotwire.com™, Travelocity®, Expedia® Affiliate Network, Classic Vacations®, Expedia Local Expert®, Expedia® CruiseShipCenters®, CarRentals.com™, Wotif Group, Orbitz®, CheapTickets®, ebookers®, SilverRail Technologies, Inc., Egencia®, trivago®, and HomeAway®. In addition, many of these brands have related international points of sale, including those as part of AirAsia-Expedia. We refer to Expedia, Inc. and its subsidiaries collectively as "Expedia," the "Company," "us," "we" and "our" in these consolidated financial statements.
Basis of Presentation
These accompanying financial statements present our results of operations, financial position and cash flows on a consolidated basis. The unaudited consolidated financial statements include Expedia, Inc., our wholly-owned subsidiaries, and entities we control, or in which we have a variable interest and are the primary beneficiary of expected cash profits or losses. We have eliminated significant intercompany transactions and accounts.
We have prepared the accompanying unaudited consolidated financial statements in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial reporting. We have included all adjustments necessary for a fair presentation of the results of the interim period. These adjustments consist of normal recurring items. Our interim unaudited consolidated financial statements are not necessarily indicative of results that may be expected for any other interim period or for the full year. These interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2016, previously filed with the Securities and Exchange Commission. Upon closing of its initial public offering on December 16, 2016, trivago became 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, Inc.
Accounting Estimates
We use estimates and assumptions in the preparation of our interim unaudited consolidated financial statements in accordance with GAAP. Our estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of our interim unaudited consolidated financial statements. These estimates and assumptions also affect the reported amount of net income or loss during any period. Our actual financial results could differ significantly from these estimates. The significant estimates underlying our interim unaudited consolidated financial statements include revenue recognition; recoverability of current and long-lived assets, intangible assets and goodwill; income and transactional taxes, such as potential settlements related to occupancy and excise taxes; loss contingencies; loyalty program liabilities; acquisition purchase price allocations; stock-based compensation and accounting for derivative instruments.
Reclassifications
We have reclassified certain amounts related to our prior period results to conform to our current period presentation.
Seasonality
We generally experience seasonal fluctuations in the demand for our travel products and services. For example, traditional leisure travel bookings are generally the highest in the first three quarters as travelers plan and book their spring, summer and winter holiday travel. The number of bookings typically decreases in the fourth quarter. Because revenue for most of our travel products, including merchant and agency hotel, is recognized when the travel takes place rather than when it is booked, revenue typically lags bookings by several weeks or longer. The seasonal revenue impact is exacerbated with respect to income by the nature of our variable cost of revenue and direct sales and marketing costs, which we typically realize in closer alignment to booking volumes, and the more stable nature of our fixed costs. Furthermore, operating profits for our primary advertising business, trivago, 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 aggressively market during the busy booking period

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Notes to Consolidated Financial Statements – (Continued)

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 assimilation and growth of HomeAway, may influence the typical trend of the seasonality in the future. We expect that as HomeAway continues its shift to more of a transaction-based business model for vacation rental listings its seasonal trends may be somewhat more pronounced than our other traditional leisure businesses.

Note 2 – Summary of Significant Accounting Policies

Recent Accounting Policies Not Yet Adopted

In May 2014, the Financial Accounting Standard's Board ("FASB") issued an Accounting Standards Update ("ASU") amending revenue recognition guidance and requiring more detailed disclosures to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB issued an ASU deferring the effective date of the revenue standard so it would be effective for annual and interim reporting periods beginning after December 15, 2017, with early adoption prohibited before December 15, 2016. In addition, the FASB has also issued several amendments to the standard which clarify certain aspects of the guidance, including principal versus agent considerations and identifying performance obligations.

The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective). We currently anticipate adopting the new guidance effective January 1, 2018 using the modified retrospective method, however, this decision is not final and is subject to the completion of our analysis of the guidance.

While we are evaluating the full impact of the new standard on our consolidated financial statements, we have determined the new guidance will not change our previous conclusions on net presentation. We have also determined that the standard will impact our loyalty program accounting as we will no longer be allowed to use the incremental cost method when recording the financial impact of rewards earned in conjunction with our traveler loyalty programs. Instead, we will be required to re-value our liability using a relative fair value approach, which is anticipated to result in a cumulative-effect adjustment to opening retained earnings, with an insignificant change to revenue on a go-forward basis. In addition to the changes in our loyalty program accounting, the new guidance will likely result in insignificant changes in the timing and classification of certain other revenue streams.

Through the date of adoption, we will continue to update our assessment of the effect that the new revenue guidance will have on our consolidated financial statements, and will disclose further material effects, if any, when known.

In January 2016, the FASB issued new guidance related to accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the FASB clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The new standard is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. We do not expect the adoption of this new guidance to have a material impact on our consolidated financial statements.

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

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

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

In October 2016, the FASB issued new guidance amending the accounting for income taxes associated with intra-entity transfers of assets other than inventory. This accounting update, which is part of the FASB's simplification initiative, is intended to reduce diversity in practice and the complexity of tax accounting, particularly for those transfers involving intellectual property. This new guidance requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The new standard is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017 with early adoption permitted. We are in the process of evaluating the impact of adopting this new guidance on our consolidated financial statements.

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

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

Note 3 – Acquisitions and Other Investments

On June 23, 2017, we completed our acquisition of a majority stake in a leading rail technology distributor for total consideration of $148 million, which included cash paid of $138 million. The acquisition enables us to play a more active role in bringing rail supply online, while working closely with rail carriers. As a result of the acquisition, we acquired net assets of $15 million, including redeemable non-controlling interest of $8 million, as well as recorded $100 million of goodwill, $47 million of intangible assets with definite lives with a weighted average amortization of 5.7 years and a deferred tax liability of $14 million. The redeemable non-controlling interest was recorded in other long-term liabilities in our consolidated balance sheet. The goodwill recorded is not expected to be deductible for tax purposes. The purchase price allocation was based on a preliminary valuation of the assets acquired and liabilities assumed and is subject to revision. The results of operations were immaterial from the transaction close date through June 30, 2017. Pro forma results have not been presented as such pro forma financial information would not be materially different from historical results.

Subsequent Event

On July 27, 2017, we announced that Expedia and Traveloka Holding Limited ("Traveloka"), a Southeast Asian online travel company, have expanded our partnership to include deeper cooperation on hotel supply and that we made a $350 million cost investment in Traveloka.

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Notes to Consolidated Financial Statements – (Continued)

Note 4 – Fair Value Measurements

Financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 are classified using the fair value hierarchy in the table below:

	Total	Level 1	Level 2
	(In thousands)		
Assets			
Cash equivalents:			
Money market funds	$90,863	$90,863	$—
Time deposits	741,682	—	741,682
Restricted cash:			
Time deposits	2,362	—	2,362
Investments:			
Time deposits	857,285	—	857,285
Corporate debt securities	55,754	—	55,754
Total assets	$1,747,946	$90,863	$1,657,083
Liabilities			
Derivatives:			
Foreign currency forward contracts	$2,532	$—	$2,532

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

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

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

As of June 30, 2017 and December 31, 2016, our cash and cash equivalents consisted primarily of prime institutional money market funds with maturities of three months or less, time deposits as well as bank account balances.

We invest in investment grade corporate debt securities, all of which are classified as available for sale. As of June 30, 2017, we had $49 million of short-term and $7 million of long-term available for sale investments and the amortized cost basis of the investments approximated their fair value with gross unrealized gains and gross unrealized losses both of less than $1 million. As of December 31, 2016, we had $48 million of short-term and $16 million of long-term available for sale investments and the amortized cost basis of the investments approximated their fair value with both

gross unrealized gains and gross unrealized losses of less than $1 million.
We also hold time deposit investments with financial institutions. Time deposits with original maturities of less than three months are classified as cash equivalents and those with remaining maturities of less than one year are classified within short-term investments. Additionally, we have time deposits classified as restricted cash for certain traveler deposits.

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Notes to Consolidated Financial Statements – (Continued)

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, 2017, we were party to outstanding forward contracts hedging our liability and revenue exposures with a total net notional value of $2.4 billion. We had a net forward liability of $3 million and $4 million recorded in accrued expenses and other current liabilities as of June 30, 2017 and December 31, 2016. We recorded $14 million and $(20) million in net gains (losses) from foreign currency forward contracts during the three months ended June 30, 2017 and 2016 as well as $9 million and $(48) million in net gains (losses) during the six months ended June 30, 2017 and 2016.

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 and cost method investments, are adjusted to fair value only when an impairment charge is recognized. Such fair value measurements are based predominately on Level 3 inputs.

Cost Method Investments. As of both June 30, 2017 and December 31, 2016, the carrying values of our investments accounted for under the cost method totaled $323 million. We periodically evaluate the recoverability of each investment and record a write-down to fair value if a decline in value is determined to be other-than-temporary. During the three and six months ended June 30, 2017, we recorded a $5 million and $6 million other-than-temporary impairment related to cost method investments. The remaining fair value of the impaired investments was approximately $10 million as of June 30, 2017. During the six months ended June 30, 2016, we recorded a $7 million other-than-temporary impairment related to a cost method investment.

Note 5 – Debt

The following table sets forth our outstanding debt:

	June 30, 2017	December 31, 2016
	(In thousands)	
7.456% senior notes due 2018	$ 500,000	$ 500,000
5.95% senior notes due 2020	747,424	747,020
2.5% (€650 million) senior notes due 2022	737,880	677,503
4.5% senior notes due 2024	494,814	494,472
5.0% senior notes due 2026	740,828	740,341
Long-term debt[(1)]	$ 3,220,946	$ 3,159,336

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

Long-term Debt

Our $500 million in registered senior unsecured notes outstanding at June 30, 2017 are due in August 2018 and bear interest at 7.456% (the “7.456% Notes”). Interest is payable semi-annually in February and August of each year. At any time Expedia may redeem the 7.456% Notes at a redemption price of 100% of the principal plus accrued interest, plus a “make-whole” premium, in whole or in part.

Our $750 million in registered senior unsecured notes outstanding at June 30, 2017 are due in August 2020 and bear interest at 5.95% (the “5.95% Notes”). The 5.95% Notes were issued at 99.893% of par resulting in a discount, which is being amortized over their life. Interest is payable semi-annually in February and August of each year. We may redeem the 5.95% Notes at a redemption price of 100% of the principal plus accrued interest, plus a “make-whole” premium, in whole or in part.

Our Euro 650 million in registered senior unsecured notes outstanding at June 30, 2017 are due in June 2022 and bear interest at 2.5% (the “2.5% Notes”). The 2.5% Notes were issued at 99.525% of par resulting in a discount, which is being amortized over their life. Interest is payable annually in arrears in June of each year. We may redeem the 2.5% Notes at our option, at whole or in part, at any time or from time to time. If we elect to redeem the 2.5% Notes prior to March 3, 2022, we may redeem them at a specified “make-whole” premium. If we elect to redeem the 2.5% Notes on or after March 3, 2022, we may redeem them at a redemption price of 100% of the principal plus accrued and unpaid interest. Subject to certain limited exceptions, all payments of interest and principal for the 2.5% Notes will be made in Euros.

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

Our $500 million in registered senior unsecured notes outstanding at June 30, 2017 are due in August 2024 and bear interest at 4.5% (the "4.5% Notes"). The 4.5% Notes were issued at 99.444% of par resulting in a discount, which is being amortized over their life. Interest is payable semi-annually in February and August of each year. We may redeem the 4.5% Notes at our option at any time in whole or from time to time in part. If we elect to redeem the 4.5% Notes prior to May 15, 2024, we may redeem them at a redemption price of 100% of the principal plus accrued interest, plus a "make-whole" premium. If we elect to redeem the 4.5% Notes on or after May 15, 2024, we may redeem them at a redemption price of 100% of the principal plus accrued interest.

Our $750 million in registered senior unsecured notes outstanding at June 30, 2017 are due in February 2026 and bear interest at 5.0% (the "5.0% Notes"). The 5.0% Notes were issued at 99.535% of par resulting in a discount, which is being amortized over their life. Interest is payable semi-annually in arrears in February and August of each year. We may redeem the 5.0% Notes at our option at any time in whole or from time to time in part. If we elect to redeem the 5.0% Notes prior to November 12, 2025, we may redeem them at a redemption price of 100% of the principal plus accrued interest, plus a "make-whole" premium. If we elect to redeem the 5.0% Notes on or after November 12, 2025, we may redeem them at a redemption price of 100% of the principal plus accrued interest.

The 7.456%, 5.95%, 4.5%, 2.5% and 5.0% Notes (collectively the "Notes") are senior unsecured obligations issued by Expedia and guaranteed by certain domestic Expedia subsidiaries. The Notes rank equally in right of payment with all of our existing and future unsecured and unsubordinated obligations of Expedia and the guarantor subsidiaries. For further information, see Note 12 – 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 $55 million and $63 million as of June 30, 2017 and December 31, 2016. The 5.95%, 4.5%, 2.5% and 5.0% Notes are redeemable in whole or in part, at the option of the holders thereof, upon the occurrence of certain change of control triggering events at a purchase price in cash equal to 101% of the principal plus accrued and unpaid interest.

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

	June 30, 2017	December 31, 2016
	(In thousands)	
7.456% senior notes due 2018	$530,000	$ 541,000
5.95% senior notes due 2020	823,000	823,000
2.5% (€650 million) senior notes due 2022(1)	788,000	718,000
4.5% senior notes due 2024	527,000	511,000
5.0% senior notes due 2026	821,000	782,000

(1) Approximately 689 million Euro as of June 30, 2017 and 682 million Euro as of December 31, 2016.

Credit Facility

Expedia, Inc. maintains a $1.5 billion unsecured revolving credit facility with a group of lenders, which is unconditionally guaranteed by certain domestic Expedia subsidiaries that are the same as under the Notes and expires in February 2021. As of June 30, 2017 and December 31, 2016, we had no revolving credit facility borrowings outstanding. The facility bears interest based on the Company's credit ratings, with drawn amounts bearing interest at LIBOR plus 137.5 basis points and the commitment fee on undrawn amounts at 17.5 basis points as of June 30, 2017. The facility contains covenants including maximum leverage and minimum interest coverage ratios.

The amount of stand-by letters of credit ("LOC") issued under the facility reduces the credit amount available. As June 30, 2017 and December 31, 2016, there were $15 million and $19 million of outstanding stand-by LOCs issued under the facility.

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, Inc., that may be terminated at any time by the lender. As of June 30, 2017 and December 31, 2016, there were no borrowings outstanding.

Note 6 – Stockholders' Equity

Dividends on our Common Stock

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

Declaration Date	Dividend Per Share	Record Date	Total Amount (in thousands)	Payment Date
Six Months Ended June 30, 2017				
February 7, 2017	$ 0.28	March 9, 2017	$ 42,247	March 30, 2017
April 26, 2017	0.28	May 25, 2017	42,438	June 15, 2017
Six Months Ended June 30, 2016				
February 8, 2016	0.24	March 10, 2016	36,174	March 30, 2016
April 26, 2016	0.24	May 26, 2016	35,773	June 16, 2016

In addition, in July 2017, the Executive Committee, acting on behalf of the Board of Directors, declared a quarterly cash dividend of $0.30 per share of outstanding common stock payable on September 14, 2017 to stockholders of record as of the close of business on August 24, 2017. Future declarations of dividends are subject to final determination by our Board of Directors.

Share Repurchases

In February 2015, the Executive Committee, acting on behalf of the Board of Directors, authorized a repurchase of up to 10 million shares of our common stock. There is no fixed termination date for the repurchases. During the six months ended June 30, 2017, we repurchased, through open market transactions, 0.8 million shares under this authorization for the total cost of $102 million, excluding transaction costs, representing an average repurchase price of $130.95 per share. As of June 30, 2017, 6.5 million shares remain authorized for repurchase under the 2015 authorization. Subsequent to June 30, 2017, we repurchased an additional 0.2 million shares for a total cost of $33 million, excluding transaction costs, representing an average price of $150.37 per share.

Accumulated Other Comprehensive Income (Loss)

The balance for each class of accumulated other comprehensive loss as of June 30, 2017 and December 31, 2016 is as follows:

	June 30, 2017	December 31, 2016
	(In thousands)	
Foreign currency translation adjustments, net of tax[(1)]	$(188,364)	$ (280,426)
Net unrealized gain (loss) on available for sale securities, net of tax	24	27
Accumulated other comprehensive loss	$(188,340)	$ (280,399)

(1) Foreign currency translation adjustments, net of tax, include foreign currency transaction losses at June 30, 2017 of $(22) million ($(35) million before tax) and gains at December 31, 2016 of $16 million ($25 million before tax) associated with our 2.5% Notes. The 2.5% Notes are Euro-denominated debt designated as hedges of certain of our Euro-denominated net assets. See Note 5 – Debt for more information. The remaining balance in currency translation adjustments excludes income taxes as a result of our current intention to indefinitely reinvest the earnings of our international subsidiaries outside of the United States.

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Note 7 – Earnings Per Share

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
	(In thousands, except per share data)			
Net income (loss) attributable to Expedia, Inc.	$56,689	$31,649	$(29,433)	$(76,940)
Earnings (loss) per share attributable to Expedia, Inc. available to common stockholders:				
Basic	$0.37	$0.21	$(0.19)	$(0.51)
Diluted	0.36	0.21	(0.19)	(0.51)
Weighted average number of shares outstanding:				
Basic	151,582	149,552	151,060	150,332
Dilutive effect of:				
Options to purchase common stock	4,845	3,753	—	—
Other dilutive securities	606	227	—	—
Diluted	157,033	153,532	151,060	150,332

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, 2017, approximately 4 million and 21 million of outstanding stock awards were excluded from the calculations of diluted earnings per share attributable to common stockholders because their effect would have been antidilutive. For the three and six months ended June 30, 2016, approximately 12 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.

Note 8 – Restructuring and Related Reorganization Charges

In connection with activities to centralize and optimize certain operations as well as migrate technology platforms in the prior year, primarily related to previously disclosed acquisitions, we recognized $12 million and $40 million in restructuring and related reorganization charges during the six months ended June 30, 2017 and 2016. Based on current plans, which are subject to change, we expect to incur approximately $10 million during the remainder of 2017 related to these integrations and estimates do not include any possible future acquisition integrations. Accrued restructure liabilities were $17 million and $18 million as of June 30, 2017 and December 31, 2016.

Note 9 – Income Taxes

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

For the three months ended June 30, 2017, we recorded a 5.3% tax rate expense on pre-tax income, which was driven by discrete income tax items specifically the recognition of excess tax benefits related to share-based payments. The effective tax rate for the three months ended June 30, 2016 was a 149.3% tax rate benefit measured against a pre-tax loss, and was driven by discrete income tax items including the recognition of excess tax benefits related to share-based payments resulting from the adoption of new accounting guidance for share-based payments as of January

1, 2016.

For the six months ended June 30, 2017, we recorded a 58.6% tax rate benefit on pre-tax loss, which was driven by discrete income tax items specifically the recognition of excess tax benefits related to share-based payments. The effective tax rate for the six months ended June 30, 2016 was a 42.4% tax rate benefit measured against a pre-tax loss, and was due to discrete income tax items including release of a valuation allowance for net operating losses in the first quarter of 2016, as well

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as recognition of excess tax benefits related to share-based payments resulting from the adoption of new accounting guidance for share-based payments as of January 1, 2016.

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

Note 10 – Commitments and Contingencies

Legal Proceedings

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

Litigation Relating to Occupancy Taxes. Ninety-five lawsuits have been filed by or against cities, counties and states involving hotel occupancy and other taxes. Seventeen are currently active. These lawsuits are in various stages and we continue to defend against the claims made in them vigorously. With respect to the principal claims in these matters, we believe that the statutes or ordinances at issue do not apply to the services we provide and, therefore, that we do not owe the taxes that are claimed to be owed. We believe that the statutes or ordinances at issue generally impose occupancy and other taxes on entities that own, operate or control hotels (or similar businesses) or furnish or provide hotel rooms or similar accommodations. To date, forty-one of these lawsuits have been dismissed. Some of these dismissals have been without prejudice and, generally, allow the governmental entity or entities to seek administrative remedies prior to pursuing further litigation. Twenty-seven dismissals were based on a finding that we and the other defendants were not subject to the local hotel occupancy tax ordinance or that the local government lacked standing to pursue their claims. As a result of this litigation and other attempts by certain jurisdictions to levy such taxes, we have established a reserve for the potential settlement of issues related to hotel occupancy taxes, consistent with applicable accounting principles and in light of all current facts and circumstances, in the amount of $57 million and $71 million as of June 30, 2017 and December 31, 2016. Our settlement reserve is based on our best estimate of probable losses and the ultimate resolution of these contingencies may be greater or less than the liabilities recorded. An estimate for a reasonably possible loss or range of loss in excess of the amount reserved cannot be made. Changes to the settlement reserve are included within legal reserves, occupancy tax and other in the consolidated statements of operations.

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

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

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

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Notes to Consolidated Financial Statements – (Continued)

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

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

San Francisco (Occupancy Tax). During 2009, Expedia companies were required to “pay-to-play” and paid $48 million in advance of litigation relating to occupancy tax proceedings with the city of San Francisco and, in May 2014, the Expedia companies paid an additional $25.5 million under protest in order to contest additional assessments for later time periods. In addition, Orbitz in total has paid $4.6 million to the city of San Francisco to contest similar assessments issued against it by the city. On August 6, 2014, the California Court of Appeals stayed this case pending review and decision by the California Supreme Court of the City of San Diego, California Litigation. The California Court of Appeals has lifted the stay for this case and the appeal will proceed in light of the California Supreme Court’s decision in the San Diego litigation.

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

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

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

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

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

With effect from August 1, 2015, Expedia waived certain rate, conditions and availability parity clauses in its agreements with its European hotel partners for a period of five years. While Expedia maintains that its parity clauses have always been

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lawful and in compliance with competition law, these waivers were nevertheless implemented as a positive step towards facilitating the closure of the open investigations into such clauses on a harmonized pan-European basis. Following the implementation of Expedia's waivers, nearly all NCAs in Europe have announced either the closure of their investigation or inquiries involving Expedia or a decision not to open an investigation or inquiry involving Expedia. Below are descriptions of additional rate parity-related matters of note in Europe.

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

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

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

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

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

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

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

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

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

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

Note 11 – Segment Information

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

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

Our segment disclosure includes intersegment revenues, which primarily consist of advertising and media services provided by our trivago segment to our Core OTA segment. These intersegment transactions are recorded by each segment at amounts that approximate fair value as if the transactions were between third parties, and therefore, impact segment performance. However, the revenue and corresponding expense are eliminated in consolidation. The elimination of such intersegment transactions is included within Corporate and Eliminations in the table below. 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, 2017 and June 30, 2016. As a significant portion of our property and equipment is not allocated to our operating segments and depreciation is not included in our segment measure, we do not report the assets by segment as it would not be meaningful. We do not regularly provide such information to our chief operating decision makers.

	Three months ended June 30, 2017					
	Core OTA	trivago	Egencia	HomeAway	Corporate & Eliminations	Total
	(In thousands)					
Third-party revenue	$2,009,035	$218,240	$134,677	$224,100	$—	$2,586,052
Intersegment revenue	—	110,077	—	—	(110,077)	—
Revenue	$2,009,035	$328,317	$134,677	$224,100	$(110,077)	$2,586,052
Adjusted EBITDA	488,204	1,559	27,669	39,334	(164,229)	392,537
Depreciation	(75,902)	(1,848)	(10,030)	(9,075)	(54,197)	(151,052)
Amortization of intangible assets	—	—	—	—	(66,279)	(66,279)
Stock-based compensation	—	—	—	—	(50,102)	(50,102)
Legal reserves, occupancy tax and other	—	—	—	—	(3,401)	(3,401)
Restructuring and related reorganization charges	—	—	—	—	(9,708)	(9,708)
Realized (gain) loss on revenue hedges	(9,227)	—	—	—	—	(9,227)
Operating income (loss)	$403,075	$(289)	$17,639	$30,259	$(347,916)	102,768
Other expense, net						(46,086)
Income before income taxes						56,682
Provision for income taxes						(3,012)
Net income						53,670
Net loss attributable to non-controlling interests						3,019
Net income attributable to Expedia, Inc.						$56,689

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Notes to Consolidated Financial Statements – (Continued)

	Three Months Ended June 30, 2016					
	Core OTA	trivago	Egencia	HomeAway	Corporate & Eliminations	Total
	(In thousands)					
Third-party revenue	$1,764,929	$134,837	$124,506	$171,597	$—	$2,195,869
Intersegment revenue	—	65,686	—	—	(65,686)	—
Revenue	$1,764,929	$200,523	$124,506	$171,597	$(65,686)	$2,195,869
Adjusted EBITDA	$428,219	$7,035	$26,470	$38,270	$(169,097)	$330,897
Depreciation	(62,239)	(2,186)	(8,078)	(4,108)	(39,412)	(116,023)
Amortization of intangible assets	—	—	—	—	(84,181)	(84,181)
Stock-based compensation	—					