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

FORM 10-Q

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

For the quarterly period ended September 30, 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 001-37938

LIBERTY EXPEDIA HOLDINGS, INC.

(Exact name of Registrant as specified in its charter)

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

81-1838757
(I.R.S. Employer
Identification No.)

12300 Liberty Boulevard
Englewood, Colorado
(Address of principal executive offices)

80112
(Zip Code)

Registrant's telephone number, including area code: **(720) 875-5800**

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer 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.

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 outstanding shares of Liberty Expedia Holdings, Inc. common stock as of October 15, 2018 was:

| | <u>Series A</u> | <u>Series B</u> |
|---|-----------------|-----------------|
| Liberty Expedia Holdings, Inc. Common Stock | 54,485,588 | 2,830,174 |



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LIBERTY EXPEDIA HOLDINGS, INC.

Condensed Consolidated Balance Sheets

(unaudited)

| | September 30, 2018 | December 31, 2017 |
|---|-----------------------|----------------------|
| | amounts in millions | |
| <i>Assets</i> | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 3,012 | 2,961 |
| Accounts receivable, net | 2,298 | 1,871 |
| Short-term marketable securities | 458 | 469 |
| Prepaid expenses | 249 | 257 |
| Other current assets | 243 | 113 |
| Total current assets | 6,260 | 5,671 |
| Property and equipment, net | 974 | 951 |
| Intangible assets not subject to amortization: | | |
| Goodwill | 15,141 | 15,251 |
| Tradenames | 5,734 | 6,256 |
| | 20,875 | 21,507 |
| Intangible assets subject to amortization, net | | |
| | 4,239 | 5,010 |
| Other assets, net | 721 | 829 |
| Total assets | \$ 33,069 | 33,968 |
| <i>Liabilities and Equity</i> | | |
| Current liabilities: | | |
| Accounts payable, merchant | \$ 1,877 | 1,838 |
| Accounts payable, other | 885 | 713 |
| Accrued liabilities | 717 | 1,285 |
| Deferred merchant bookings | 4,795 | 3,219 |
| Deferred revenue | 348 | 329 |
| Current portion of debt (note 7) | 11 | 538 |
| Other current liabilities | 144 | 30 |
| Total current liabilities | 8,777 | 7,952 |
| Long-term debt and capital lease obligations, net, including \$403 million and \$398 million measured at fair value (note 7) | 4,283 | 4,329 |
| Deferred income tax liabilities | 1,573 | 2,155 |
| Other liabilities | 474 | 430 |
| Total liabilities | 15,107 | 14,866 |
| <i>Equity</i> | | |
| Preferred stock, \$.01 par value. Authorized 50,000,000 shares; no shares issued | — | — |
| Series A common stock, \$.01 par value. Authorized 160,000,000 shares; issued and outstanding 54,484,252 and 54,438,883 at September 30, 2018 and December 31, 2017, respectively | 1 | 1 |
| Series B common stock, \$.01 par value. Authorized 6,000,000 shares; issued and outstanding 2,830,174 and 2,830,174 at September 30, 2018 and December 31, 2017, respectively | — | — |
| Additional paid-in capital | 336 | 370 |
| Accumulated other comprehensive earnings (loss), net of taxes | 38 | 59 |
| Retained earnings | 2,066 | 2,179 |
| Total stockholders' equity | 2,441 | 2,609 |
| Noncontrolling interests in equity of subsidiaries | 15,521 | 16,493 |
| Total equity | 17,962 | 19,102 |
| Commitments and contingencies (note 8) | | |
| Total liabilities and equity | \$ 33,069 | 33,968 |

See accompanying notes to condensed consolidated financial statements.

LIBERTY EXPEDIA HOLDINGS, INC.
Condensed Consolidated Statements Of Operations
(unaudited)

| | Three months ended | | Nine months ended | |
|---|--|-------|-------------------|--------|
| | September 30, | | September 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| | amounts in millions, except per share amounts | | | |
| Service revenue | \$ 3,276 | 2,963 | 8,664 | 7,675 |
| Product revenue | 55 | 66 | 181 | 230 |
| Total revenue, net (note 2) | 3,331 | 3,029 | 8,845 | 7,905 |
| Operating costs and expenses: | | | | |
| Selling and marketing ⁽¹⁾ | 1,496 | 1,461 | 4,546 | 4,176 |
| Cost of service revenue ⁽¹⁾ | 479 | 434 | 1,411 | 1,248 |
| Technology and content ⁽¹⁾ | 278 | 242 | 831 | 701 |
| Cost of goods sold (exclusive of depreciation shown separately below) | 43 | 51 | 136 | 172 |
| General and administrative ⁽¹⁾ | 201 | 99 | 594 | 443 |
| Other operating expense | 4 | 4 | 14 | 16 |
| Depreciation and amortization | 489 | 583 | 1,442 | 1,669 |
| Legal reserves, occupancy tax, restructuring and related reorganization charges and other | (79) | 3 | (74) | 39 |
| Impairment of goodwill and intangible assets (note 6) | 544 | — | 544 | — |
| | 3,455 | 2,877 | 9,444 | 8,464 |
| Operating income (loss) | (124) | 152 | (599) | (559) |
| Other income (expense): | | | | |
| Interest expense | (32) | (29) | (103) | (88) |
| Other, net | (17) | (23) | (38) | (71) |
| | (49) | (52) | (141) | (159) |
| Earnings (loss) before income taxes | (173) | 100 | (740) | (718) |
| Income tax (expense) benefit | 120 | 23 | 231 | 259 |
| Net earnings (loss) | (53) | 123 | (509) | (459) |
| Less net earnings (loss) attributable to the noncontrolling interests | (11) | 109 | (396) | (362) |
| Net earnings (loss) attributable to Liberty Expedia Holdings, Inc. shareholders | \$ (42) | 14 | (113) | (97) |
| Basic net earnings (loss) attributable to Series A and Series B Liberty Expedia Holdings, Inc. shareholders per common share (note 3) | \$ (0.74) | 0.25 | (1.98) | (1.70) |
| Diluted net earnings (loss) attributable to Series A and Series B Liberty Expedia Holdings, Inc. shareholders per common share (note 3) | \$ (0.74) | 0.24 | (1.98) | (1.70) |
| (1) Includes stock compensation as follows: | | | | |
| Selling and marketing | \$ 11 | 13 | 35 | 39 |
| Cost of service revenue | 3 | 3 | 8 | 10 |
| Technology and content | 16 | 19 | 48 | 53 |
| General and administrative | 26 | (60) | 69 | (10) |

See accompanying notes to condensed consolidated financial statements.

LIBERTY EXPEDIA HOLDINGS, INC.
Condensed Consolidated Statements Of Comprehensive Earnings (Loss)
(unaudited)

| | Three months ended | | Nine months ended | |
|---|----------------------------|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| | amounts in millions | | | |
| Net earnings (loss) | \$ (53) | 123 | (509) | (459) |
| Other comprehensive earnings (loss), net of taxes: | | | | |
| Currency translation adjustments and other | (31) | 208 | (138) | 696 |
| Unrealized holding gains (losses) arising during the period, net of taxes | — | 21 | — | 21 |
| Other comprehensive earnings (loss) | (31) | 229 | (138) | 717 |
| Comprehensive earnings (loss) | (84) | 352 | (647) | 258 |
| Less comprehensive earnings (loss) attributable to the noncontrolling interest | (37) | 305 | (514) | 251 |
| Comprehensive earnings (loss) attributable to Liberty Expedia Holdings, Inc. shareholders | \$ (47) | 47 | (133) | 7 |

See accompanying notes to condensed consolidated financial statements.

LIBERTY EXPEDIA HOLDINGS, INC.
Condensed Consolidated Statements Of Cash Flows
(unaudited)

| | Nine months ended September 30, | |
|--|------------------------------------|----------------|
| | 2018 | 2017 |
| | amounts in millions | |
| Cash flows from operating activities: | | |
| Net earnings (loss) | \$ (509) | (459) |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,442 | 1,669 |
| Stock-based compensation | 160 | 92 |
| Realized (gain) loss on foreign currency forwards | (34) | (1) |
| (Gain) loss on equity securities | 100 | — |
| Deferred income tax expense (benefit) | (567) | (369) |
| Impairment of goodwill and intangible assets | 544 | — |
| Other noncash charges (credits), net | 69 | (110) |
| Changes in operating assets and liabilities | | |
| Current and other assets | (419) | (501) |
| Payables and other liabilities | 1,330 | 1,623 |
| Net cash provided (used) by operating activities | <u>2,116</u> | <u>1,944</u> |
| Cash flows from investing activities: | | |
| Capital expended for property and equipment and capitalized software | (639) | (532) |
| Purchases of short-term marketable securities and other investments | (1,714) | (1,713) |
| Sales of short-term marketable securities | 1,692 | 921 |
| Acquisitions by subsidiary, net of cash acquired | (40) | (169) |
| Other, net | 41 | 8 |
| Net cash provided (used) by investing activities | <u>(660)</u> | <u>(1,485)</u> |
| Cash flows from financing activities: | | |
| Borrowings of debt | 177 | 1,624 |
| Repayments of debt | (681) | (594) |
| Shares issued by subsidiary | 138 | 180 |
| Shares repurchased by subsidiary | (620) | (154) |
| Dividends paid by subsidiary | (117) | (110) |
| Proceeds from exercise of equity awards and employee stock purchase plan | 1 | 5 |
| Taxes paid in lieu of shares issued for stock-based compensation | — | (9) |
| Other financing activities, net | (65) | (18) |
| Net cash provided (used) by financing activities | <u>(1,167)</u> | <u>924</u> |
| Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash | (119) | 143 |
| Net increase (decrease) in cash, cash equivalents and restricted cash | 170 | 1,526 |
| Cash, cash equivalents and restricted cash at beginning of period | 3,031 | 1,872 |
| Cash, cash equivalents and restricted cash at end of period | <u>\$ 3,201</u> | <u>3,398</u> |

See accompanying notes to condensed consolidated financial statements.

LIBERTY EXPEDIA HOLDINGS, INC.
Condensed Consolidated Statement Of Equity
(unaudited)

Nine months ended September 30, 2018

| | Preferred stock | Common stock | | Additional paid-in capital | Accumulated other comprehensive earnings (loss) | Retained earnings | Noncontrolling interests | Total equity |
|--|--------------------|--------------|-------------|----------------------------------|--|----------------------|-----------------------------|---------------|
| | | Series A | Series B | | | | | |
| Balance at January 1, 2018 | \$ — | 1 | — | 370 | 59 | 2,179 | 16,493 | 19,102 |
| Net earnings (loss) | — | — | — | — | — | (113) | (396) | (509) |
| Other comprehensive income (loss) | — | — | — | — | (20) | — | (118) | (138) |
| Stock compensation | — | — | — | 26 | — | — | 138 | 164 |
| Proceeds from exercise of equity instruments in parent | — | — | — | 1 | — | — | — | 1 |
| Proceeds from exercise of equity instruments in subsidiary | — | — | — | (52) | — | — | 190 | 138 |
| Shares repurchased by subsidiary | — | — | — | (8) | — | — | (612) | (620) |
| Dividends paid by subsidiary | — | — | — | — | — | — | (117) | (117) |
| Taxes paid in lieu of shares issued for stock-based compensation | — | — | — | (2) | — | — | — | (2) |
| Adoption of new accounting guidance | — | — | — | — | (1) | — | (12) | (13) |
| Other | — | — | — | 1 | — | — | (45) | (44) |
| Balance at September 30, 2018 | <u>\$ —</u> | <u>1</u> | <u>—</u> | <u>336</u> | <u>38</u> | <u>2,066</u> | <u>15,521</u> | <u>17,962</u> |

See accompanying notes to condensed consolidated financial statements.

(1) Basis of Presentation

During November 2015, the board of directors of Liberty Interactive Corporation ("Liberty Interactive"), now known as Qurate Retail, Inc. ("Qurate Retail"), authorized management to pursue a plan to distribute to holders of its then-outstanding Liberty Ventures common stock shares of a newly formed entity, Liberty Expedia Holdings, Inc. ("Expedia Holdings" or the "Company" as discussed below) ("Expedia Holdings Split-Off"). Following the Expedia Holdings Split-Off, Expedia Holdings is comprised of, among other things, Qurate Retail's former ownership interest in Expedia Group, Inc. (formerly "Expedia, Inc.") ("Expedia"), as well as Qurate Retail's former wholly-owned subsidiary Vitalize, LLC (which we refer to as "Bodybuilding").

The Expedia Holdings Split-Off occurred on November 4, 2016. Following the Expedia Holdings Split-Off, Expedia Holdings and Qurate Retail operate as separate, publicly traded companies. The Expedia Holdings Split-Off was intended to be tax-free to Qurate Retail and the former stockholders of Liberty Ventures. In February 2017, the Internal Revenue Service (the "IRS") completed its review of the Expedia Holdings Split-Off and informed Qurate Retail that it agreed with the nontaxable characterization of the transactions. Qurate Retail received an Issue Resolution Agreement from the IRS documenting this conclusion.

The accompanying condensed consolidated financial statements represent the consolidation of the historical financial information of Bodybuilding and Expedia. These financial statements refer to the consolidation of the aforementioned subsidiaries as "Expedia Holdings," "the Company," "us," "we" and "our" in the notes to the condensed consolidated financial statements. The Expedia Holdings Split-Off was accounted for at historical cost due to the pro rata nature of the distribution to the former holders of Liberty Ventures common stock. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

The accompanying (a) condensed consolidated balance sheet as of December 31, 2017, which has been derived from audited financial statements, and (b) the interim unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") for interim financial information and the instructions on Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results for such periods have been included. The results of operations for any interim period are not necessarily indicative of results for the full year. Additionally, certain prior period amounts have been reclassified for comparability with current period presentation. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The Company considers (i) fair value measurement of non-financial instruments, (ii) accounting for certain merchant revenue, (iii) loyalty program accruals, (iv) valuation of other long-term liabilities, (v) measurement of stock-based compensation and (vi) income taxes to be its most significant estimates.

Split-Off of Expedia Holdings from Qurate Retail

Following the Expedia Holdings Split-Off, Qurate Retail and Expedia Holdings operate as separate, publicly traded companies, and neither has any stock ownership, beneficial or otherwise, in the other. In connection with the Expedia Holdings Split-Off, Expedia Holdings entered into certain agreements with Qurate Retail and/or Liberty Media Corporation ("Liberty Media") (or certain of their subsidiaries) in order to govern certain of the ongoing relationships between these companies after the Expedia Holdings Split-Off and to provide for an orderly transition. These agreements include a reorganization agreement, a services agreement, a facilities sharing agreement and a tax sharing agreement.

The reorganization agreement between Qurate Retail and Expedia Holdings provides for, among other things, the principal corporate transactions (including the internal restructuring) required to effect the Expedia Holdings Split-Off, certain conditions to the Expedia Holdings Split-Off and provisions governing the relationship between Expedia Holdings and Qurate Retail with respect to and resulting from the Expedia Holdings Split-Off. The tax sharing agreement between

Qurate Retail and Expedia Holdings provides for the allocation and indemnification of tax liabilities and benefits between Qurate Retail and Expedia Holdings and other agreements related to tax matters. Pursuant to the services agreement, Liberty Media provides Expedia Holdings with general and administrative services including legal, tax, accounting, treasury and investor relations support. Under the facilities sharing agreement among Liberty Media, a subsidiary of Liberty Media and Expedia Holdings, Expedia Holdings shares office space with Qurate Retail and Liberty Media and related amenities at Liberty Media's corporate headquarters. Expedia Holdings will reimburse Liberty Media for direct, out-of-pocket expenses incurred by Liberty Media in providing these services and for costs that will be negotiated semi-annually. Under these various agreements, approximately \$1 million and \$1 million for the three months ended September 30, 2018 and 2017, respectively, and \$3 million and \$3 million for the nine months ended September 30, 2018 and 2017, respectively, was reimbursable to Liberty Media.

Seasonality

Expedia generally experiences seasonal fluctuations in the demand for its 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 Expedia's 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 its hotel business and can be several months or more for its vacation rental business. Historically, HomeAway, Inc. ("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 Expedia's variable cost of revenue and direct sales and marketing costs, which it typically realizes in closer alignment to booking volumes, and the more stable nature of its fixed costs. Furthermore, operating profits for Expedia's primary advertising business, trivago N.V. ("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 they 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 Expedia's international operations, advertising business or a change in its 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.

The Tax Cuts and Jobs Act (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, implementing a territorial tax system and imposing a one-time transition tax on deemed repatriated earnings of foreign subsidiaries. In the prior year, we recognized the provisional tax impacts 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 impact of the various provisions of the Tax Act. The ultimate impact may materially differ from these provisional amounts due to, among other things, continued analysis of the estimates and further guidance and interpretations on the application of the law. We expect to complete our analysis by December 2018.

(2) Recent Accounting Pronouncements

Recently Adopted Accounting Policies

Revenue from Contracts with Customers. As of January 1, 2018, the Company 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 Expedia's loyalty program accounting as it is no longer permitted to use the incremental cost method when recording the financial impact of rewards earned in conjunction with its traveler loyalty programs. Instead, Expedia re-values its liability using a relative fair value approach and now records its loyalty liability as a

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component of deferred merchant bookings. Additionally, due to the new definition of variable consideration, Expedia is required to estimate and record certain variable payments, primarily supplier overrides, 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 certain air 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.

The impact of the new guidance to our consolidated financial statements was not meaningful as of and for the three and nine months ended September 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 (in millions) | Balance at January 1, 2018 |
|--|------------------------------------|------------------------------|----------------------------------|
| <i>Current and long-term assets:</i> | | | |
| Accounts receivable, net | \$ 1,871 | \$ (40) | \$ 1,831 |
| Prepaid expenses and other current assets | 370 | (1) | 369 |
| Long-term investments and other assets | 829 | (3) | 826 |
| <i>Current and long-term liabilities:</i> | | | |
| Deferred merchant bookings | 3,219 | 619 | 3,838 |
| Accrued expenses and other current liabilities | 1,315 | (564) | 751 |
| Deferred income taxes | 2,155 | (3) | 2,152 |
| <i>Stockholders' equity:</i> | | | |
| Retained earnings | 2,179 | (1) | 2,178 |
| Noncontrolling interests in equity of subsidiaries | 16,493 | (7) | 16,486 |

Recognition and Measurement of Financial Instruments. As of January 1, 2018, the Company adopted new guidance related to accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The most significant impact for the Company is with respect to the requirement that minority equity investments with readily determinable fair values, must be carried at fair value with changes in fair value recorded through net income. Previously such investments designated as available for sale were recorded at fair value with changes in fair value recorded through other comprehensive income. The Company elected to prospectively account for minority investments without readily determinable fair values at cost, with observable price changes reflected through net income. In addition, a portion of the unrealized gain (loss) recognized on the Company's exchangeable debt accounted for at fair value is now presented in other comprehensive income as it relates to instrument specific credit risk, however this impact was not material to the overall financial statements for the three and nine month periods ended September 30, 2018. The Company recorded an immaterial decrease to non-controlling interest in equity of subsidiaries, and increase to accumulated other comprehensive income (loss) ("AOCI") related to an unrealized loss, net of tax.

Statement of Cash Flows. As of January 1, 2018, the Company adopted the 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. 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 in the nine months ended September 30, 2017. Restricted cash includes cash and cash equivalents that is restricted through legal contracts, regulations or the Company's intention to use the cash for a specific purpose. Expedia's 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 condensed consolidated balance sheets to the total amount presented in our condensed consolidated statements of cash flows:

| | September 30, 2018 | December 31, 2017 |
|---|-----------------------|----------------------|
| | (in millions) | |
| Cash and cash equivalents | \$ 3,012 | \$ 2,961 |
| Restricted cash included within other current assets | 186 | 69 |
| Restricted cash included within other assets | 3 | 1 |
| Total cash, cash equivalents and restricted cash and cash equivalents in the condensed consolidated statement of cash flows | \$ 3,201 | \$ 3,031 |

Intra-entity Transfers of Assets Other Than Inventory. As of January 1, 2018, the Company 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 in earnings when the transfer occurs rather than our historical practice to defer and amortize the tax consequences over a specific period of time. As a result of the adoption, the Company recorded an immaterial reduction to retained earnings and non-controlling interest in equity of subsidiaries, a reduction to long-term investments and other assets and an increase to deferred tax assets 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 Act. The guidance is effective for annual and interim reporting periods beginning after December 15, 2018, with early adoption permitted.

The Company 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, the Company recorded an immaterial increase to retained earnings and non-controlling interest in equity of subsidiaries, 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, the Company adopted the new guidance 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 the Company assesses 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. The Company 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 the Company’s consolidated financial statements for the three and nine months ended September 30, 2018, and had no impact on the Company’s previously reported quarterly results for the three months ended March 31, 2018 and the three and six months ended June 30, 2018.

Recent Accounting Pronouncements Not Yet Adopted

Leases. In February 2016, the FASB issued new guidance which revises the accounting for leases. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases. The new guidance also simplifies the accounting for sale and leaseback transactions. The new standard is effective for the Company for fiscal years and interim periods beginning after December 15, 2018, with early adoption permitted. We plan to adopt this guidance on January 1, 2019 and expect to elect certain practical expedients under the transition guidance. Additionally, the Company plans to elect the optional transition method that allows for a cumulative-effect adjustment in the period of adoption and does not plan to restate prior periods. The Company is currently working with its consolidated subsidiaries to evaluate the impact of the adoption of this new guidance on our consolidated financial statements, including identifying the population of leases, evaluating technology solutions and collecting lease data.

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.

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 method with a cumulative effect adjustment recorded to opening retained earnings as of the initial adoption date. The adoption of this new guidance is not expected to have a material impact on our consolidated financial statements.

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

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

Significant Accounting Policies

Below are the significant accounting policies updated during 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

Expedia recognizes revenue upon transfer of control of its promised services in an amount that reflects the consideration it expects to be entitled to in exchange for those services.

For Expedia's primary transaction-based revenue sources, discussed below, it has determined net presentation (that is, the amount billed to a traveler less the amount paid to a supplier) is appropriate for the majority of its revenue transactions as the supplier is primarily responsible for providing the underlying travel services and Expedia does not control the service provided by the supplier to the traveler. Expedia excludes all taxes assessed by a government authority, if any, from the measurement of transaction prices that are imposed on its travel related services or collected by Expedia from customers (which are therefore excluded from revenue).

The following table disaggregates revenue by major source:

| | Three months ended September 30, 2018 | Nine months ended September 30, 2018 |
|---|--|---|
| | (in millions) | |
| <u>Business Model:</u> | | |
| Merchant | \$ 1,688 | 4,554 |
| Agency | 876 | 2,311 |
| Advertising and media | 302 | 858 |
| HomeAway | 410 | 941 |
| Other (1) | 55 | 181 |
| Total revenue | <u>\$ 3,331</u> | <u>8,845</u> |
| <u>Product and Service Type:</u> | | |
| Lodging | 2,347 | 5,951 |
| Air | 209 | 674 |
| Advertising and media | 302 | 858 |
| Other (2) | 473 | 1,362 |
| Total revenue | <u>\$ 3,331</u> | <u>8,845</u> |

(1) Other is comprised of Bodybuilding revenue.

(2) Other includes car rental, insurance, destination services, cruise and fee revenue related to Expedia's corporate travel business, among other revenue streams, none of which are individually material, as well as Bodybuilding revenue.

Expedia offers traditional travel services on a stand-alone and package basis generally either through the merchant or the agency business model. Under the merchant model, Expedia facilitates the booking of hotel rooms, airline seats, car rentals and destination services from its travel suppliers and Expedia is the merchant of record for such bookings. Under the agency model, Expedia passes reservations booked by the traveler to the relevant travel supplier and the travel supplier serves as the merchant of record for such bookings. Expedia receives commissions or ticketing fees from the travel supplier and/or traveler. For certain agency airline, hotel and car transactions, Expedia also receives 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, Expedia offers travel and non-travel advertisers access to a potential source of incremental traffic and transactions through its various media and advertising offerings on trivago and its transaction-based websites. Expedia's HomeAway business facilitates vacation rental bookings and provides listing and other ancillary services to property owners and managers.

The nature of Expedia's travel booking service performance obligations vary based on the travel service with differences primarily related to the degree to which Expedia provides post booking services to the traveler and the timing when rights and obligations are triggered in Expedia's underlying supplier agreements.

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

Merchant Hotel. Expedia provides travelers access to book hotel room reservations through its contracts with lodging suppliers, which provide Expedia with rates and availability information for rooms but for which Expedia has no control over the rooms and does not bear inventory risk. Expedia's travelers pay them for merchant hotel transactions prior to departing on their trip, generally when they book the reservation. Expedia records the payment in deferred merchant bookings until the stayed night occurs, at which point it recognizes the revenue, net of amounts paid to suppliers, as this is when its performance obligation is satisfied. In certain nonrefundable, nonchangeable transactions where Expedia has no significant post booking services (primarily opaque hotel offerings), Expedia records revenue when the traveler completes the transaction on its 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 Expedia for less than the cost it accrued, it generally reduces its accrued supplier payable and the supplier costs within net revenue six months in arrears, net of an allowance, when Expedia determines it is not probable that it will be required to pay the supplier, based on historical experience. Cancellation fees are collected and remitted to the supplier, if applicable.

Agency Hotel. Expedia generally records agency revenue from the hotel when the stayed night occurs as Expedia provides post booking services to the traveler and thus considers the stay as when its performance obligation is satisfied. Expedia records 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 HomeAway's 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 through 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 Expedia provides the service.

Merchant and Agency Air. Expedia records revenue on air transactions when the traveler books the transaction, as it does 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. Expedia records a reserve for chargebacks and cancellations at the time of the transaction based on historical experience. In certain transactions, the GDS collects commissions from Expedia's suppliers and passes these commissions to Expedia, net of their fees. Therefore, Expedia views payments through the GDS as commissions from suppliers and records 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. Expedia records revenue from click-through fees charged to its travel partners for leads sent to the travel partners' websites. Expedia records revenue from click-through fees after the traveler makes the click-through to the related travel partners' websites. Expedia records 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. Expedia generally records the related revenue when the travel occurs, as in most cases Expedia provides post booking services and this is when its performance obligation is complete.

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Additionally, no rights or obligations are triggered in Expedia's supplier agreements until the travel occurs. Expedia records 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 Expedia's 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 Expedia's revenue recognition policies stated above.

Deferred Merchant Bookings. Expedia classifies cash payments received in advance of its performance obligations as deferred merchant bookings. At January 1, 2018, \$3.2 billion of cash advance cash payments was reported within deferred merchant bookings, of which \$2.9 billion was recognized, resulting in \$419 million of revenue during the nine months ended September 30, 2018. At September 30, 2018, the related balance was \$4.1 billion.

Travelers enrolled in Expedia's 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 OrbucksSM, the currency of Orbitz Rewards, on flights, hotels and vacation packages and instantly redeem those Orbucks on future bookings at various hotels worldwide. As travelers accumulate points towards free travel products, Expedia defers the relative standalone selling price of earned points, net of expected breakage, as deferred loyalty 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, Expedia uses an adjusted market assessment approach and considers the redemption values expected from the traveler. Expedia then estimates the number of rewards that will not be redeemed based on historical activity in its members' accounts as well as statistical modeling techniques. Revenue is recognized when Expedia has satisfied its 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, \$531 million of which was recognized as revenue during the nine months ended September 30, 2018. At September 30, 2018, the related balance was \$695 million.

Deferred Revenue. Deferred revenue primarily consists of HomeAway's traveler service fees received on bookings where Expedia is 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, \$287 million of which was recognized as revenue during the nine months ended September 30, 2018. At September 30, 2018, the related balance was \$346 million.

Bodybuilding Revenue. The Company's wholly owned subsidiary, Bodybuilding, is primarily an Internet retailer of dietary supplements, sports nutrition products, and other health and wellness products. In addition to product sales revenue, Bodybuilding generates a limited amount of revenue from shipping and handling, advertising, and through All Access, its exclusive subscription service that gives its customers access to expert-designed, gym-proven fitness plans.

Practical Expedients and Exemptions. Expedia has used the portfolio approach to account for its 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, Expedia will continue to assess and refine, if necessary, how a portfolio within each rewards program is defined.

Expedia does 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 Expedia recognizes revenue at the amount to which it has the right to invoice for services performed.

(3) Earnings (Loss) Attributable to Expedia Holdings Shareholders per Common Share

Basic earnings (loss) per common share (“EPS”) is computed by dividing net earnings (loss) by the weighted average number of common shares outstanding (“WASO”) for the period. Diluted EPS presents the dilutive effect on a per share basis of potential common shares as if they had been converted at the beginning of the periods presented.

| | Three months ended September 30, | | Nine months ended September 30, | |
|---------------------------------|-------------------------------------|------|------------------------------------|------|
| | 2018 | 2017 | 2018 | 2017 |
| | number of shares in millions | | | |
| Basic WASO | 57 | 57 | 57 | 57 |
| Potentially dilutive shares (1) | 1 | 1 | 1 | 1 |
| Diluted WASO | 58 | 58 | 58 | 58 |

(1) Potentially dilutive shares are excluded from the computation of diluted EPS during periods in which losses are reported since the result would be antidilutive.

Excluded from diluted EPS for the three and nine months ended September 30, 2018 and 2017, are less than a million potential common shares, because their inclusion would be anti-dilutive.

(4) Expedia Ownership

Expedia is an online travel company, empowering business and leisure travelers with the tools and information they need to efficiently research, plan, book and experience travel. Expedia seeks to grow its business through a dynamic portfolio of travel brands, including its majority owned subsidiaries that feature the world's broadest supply portfolio as well as destination services and activities. Historically, Qurate Retail was (and, following the completion of the Expedia Holdings Split-Off, the Company is) a party to the Stockholders Agreement with Mr. Diller, pursuant to which Mr. Diller held an irrevocable proxy (the “Diller Proxy”) over all the shares of Expedia common stock (“EXPE”) and Expedia class B common stock owned by Qurate Retail. In connection with the Expedia Holdings Split-Off and the proxy arrangements, the Stockholders Agreement was assigned to us and amended to permit the assignment of the Diller Proxy to our company for a period of time up to 18 months following completion of the Expedia Holdings Split-Off (the “Outside Date”), subject to certain termination events as described in the Amended and Restated Transaction Agreement, dated as of September 22, 2016, among Mr. Diller, John C. Malone, Leslie Malone, Qurate Retail and the Company (the “Transaction Agreement”). On March 6, 2018, the Company, Qurate Retail, Mr. Malone, Mrs. Malone and Mr. Diller entered into a letter agreement (the “Letter Agreement”), which amended the termination provisions of the Transaction Agreement to extend the Outside Date for an additional one year period. As a result, unless sooner terminated upon the occurrence of certain events or the taking of certain actions, in either case, as set forth in the Transaction Agreement, as amended by the Letter Agreement, the Proxy Arrangement Termination Date will occur, and the Transaction Agreement together with certain Subject Instruments (as defined in the Transaction Agreement) will terminate, on May 4, 2019.

We began consolidating Expedia as of the completion of the Expedia Holdings Split-Off on November 4, 2016, as we then controlled a majority of the voting interest in Expedia for accounting purposes. Additionally, in conjunction with the application of acquisition accounting, we recorded a full step up in basis of Expedia along with a gain between our historical basis and the fair value of our interest in Expedia. As of September 30, 2018, Expedia Holdings beneficially owned approximately 16.0% of the outstanding Expedia common stock which represents a 52.6% voting interest in Expedia. During the third quarter of 2018, the Company purchased 269,646 additional shares of Expedia common stock for approximately \$31 million pursuant to and in accordance with the preemptive rights as detailed by the Amended and Restated Governance Agreement with Expedia, dated as of December 20, 2011, by and among the Company, Qurate Retail and Mr. Diller as assigned to and assumed by the Company pursuant to the Assignment and Assumption of Governance Agreement, dated as of November 4, 2016, by and among the Company, LEXE Marginco, LLC, LEXEB, LLC, Qurate Retail, Mr. Diller and Expedia.

Dividends declared by Expedia

During the nine months ended September 30, 2018, Expedia has declared quarterly cash dividends, and has paid in cash an aggregate amount of \$138 million to stockholders of which the Company has received \$21 million. In addition, in October 2018, Expedia declared a quarterly cash dividend of \$0.32 per share of outstanding common stock payable on December 6, 2018 to stockholders of record as of the close of business on November 15, 2018.

Expedia share repurchases

In February 2015, Expedia's Executive Committee, acting on behalf of the Board of Directors, authorized a repurchase of up to 10 million shares of its common stock. In April 2018, Expedia's Executive Committee, acting on behalf of the Board of Directors, authorized a repurchase of an additional 15 million shares of its common stock. During the nine months ended September 30, 2018, Expedia repurchased through open market transactions, 5.2 million shares for a total cost of \$602 million, excluding transaction costs and the impact of share repurchases as a result of the vesting of equity instruments. As of September 30, 2018 there were approximately 14.7 million shares remaining authorized for repurchase under the 2018 authorization. There is no fixed termination date for the repurchases. Subsequent to the end of the third quarter, Expedia repurchased an additional 0.3 million shares for a total cost of \$33 million, excluding transactions costs.

(5) Assets and Liabilities Measured at Fair Value

For assets and liabilities required to be reported at fair value, GAAP provides a hierarchy that prioritizes inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs, other than quoted market prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. The Company does not have any recurring assets or liabilities measured at fair value that would be considered Level 3.

The Company's assets and liabilities measured at fair value are as follows:

| Description | September 30, 2018 | | December 31, 2017 | | | |
|----------------------------------|---------------------|--|---|-------|--|---|
| | Total | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Total | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) |
| | amounts in millions | | | | | |
| Cash equivalents | \$ 880 | 119 | 761 | 682 | 130 | 552 |
| Short-term marketable securities | \$ 458 | — | 458 | 469 | — | 469 |
| Equity securities (1) | \$ 161 | 161 | — | 264 | 264 | — |
| Debt | \$ 403 | — | 403 | 398 | — | 398 |

(1) Equity securities are included in the Other assets, net line item in the condensed consolidated balance sheet.

Cash equivalents are valued using quoted market prices or alternative pricing sources and models utilizing market observable inputs and are accordingly classified within Level 1 or Level 2. As of September 30, 2018, 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.

Expedia holds 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 marketable securities.

During the nine months ended September 30, 2018, we recognized gross unrealized losses related to equity securities of approximately \$102 million within Other, net in our condensed consolidated statements of operations. As of

December 31, 2017, prior to our adoption of the new guidance for recognition and measurement of financial instruments, the gross unrealized loss was \$9 million and was recognized in other comprehensive income.

(6) Goodwill and Other Intangible Assets

Goodwill and Other Indefinite-lived Intangible Assets

Other indefinite-lived intangible assets relate principally to Expedia trademarks and tradenames recognized in acquisition accounting.

At December 31, 2017 a goodwill impairment was recognized for trivago, one of the Company's reporting units, which resulted in the carrying value approximating fair value as of that date. trivago's business environment is a highly competitive and volatile market. Over the first three quarters of 2018 trivago reported revenue and Adjusted OIBDA amounts that were behind previous projections and prior year amounts. Accordingly, trivago decided to shift its strategy from a focus on aggressive revenue growth with lower profitability to less aggressive revenue growth with higher profitability. As a result of this shift in revenue growth projections it was determined that an indication of impairment existed for trivago's tradenames. Updated long-term forecasts with new revenue growth assumptions were used to determine fair value as of September 30, 2018. The fair value of the tradenames was determined using the relief from royalty method (Level 3), and an impairment in the amount of \$487 million was recorded as of September 30, 2018, in the Impairment of goodwill and intangible assets line item in the condensed consolidated statement of operations. In addition, the Company calculated the fair value of trivago based on the trading price (level 1) of trivago, with a control premium for the Company's portion (level 2), which was determined with the assistance of a third party specialist, and it was determined that no goodwill impairment existed as of September 30, 2018. As of September 30, 2018, the carrying value of the trivago reporting unit goodwill and tradenames was approximately \$1.4 billion and \$0.6 billion, respectively.

Changes in the carrying amount of goodwill are as follows (amounts in millions):

| | Expedia | Corporate and other | Total |
|--|------------------|---------------------|---------------|
| Balance as of January 1, 2018 | \$ 15,194 | 57 | 15,251 |
| Foreign exchange translation and other | (53) | — | (53) |
| Impairments (1) | — | (57) | (57) |
| Balance as of September 30, 2018 | <u>\$ 15,141</u> | <u>—</u> | <u>15,141</u> |

- (1) During the third quarter of 2018, declining operating results and certain other trends related to Bodybuilding led to an interim impairment test and a determination of fair value. The fair value of Bodybuilding, including the related intangibles and goodwill, was determined using Bodybuilding's projections of future operating performance and applying a combination of market multiples (market approach) and discounted cash flow (income approach) calculations (Level 3). The test indicated that Bodybuilding's goodwill was fully impaired as of September 30, 2018.

Intangible Assets Subject to Amortization

Amortization expense for intangible assets with finite useful lives was \$438 million and \$517 million for the three months ended September 30, 2018 and 2017, respectively, and \$1,281 million and \$1,476 million for the nine months ended September 30, 2018 and 2017, respectively. Based on its amortizable intangible assets as of September 30, 2018, the Company expects that amortization expense will be as follows for the next five years (amounts in millions):

| | |
|-------------------|--------|
| Remainder of 2018 | \$ 434 |
| 2019 | 1,296 |
| 2020 | 815 |
| 2021 | 543 |
| 2022 | 372 |

(7) Long-Term Debt and Capital Lease Obligations

Outstanding debt and capital leases at September 30, 2018 and December 31, 2017 are summarized as follows:

| | Outstanding Principal September 30, 2018 | Carrying value | |
|---|--|-----------------------|----------------------|
| | | September 30, 2018 | December 31, 2017 |
| | | amounts in millions | |
| Expedia Holdings 1% Exchangeable Senior Debentures due 2047 | 400 | 403 | 398 |
| Expedia 7.456% senior notes due 2018 | — | — | 519 |
| Expedia 5.95% senior notes due 2020 | 750 | 796 | 814 |
| Expedia 2.5% (€650 million) senior notes due 2022 | 754 | 790 | 823 |
| Expedia 4.5% senior notes due 2024 | 500 | 518 | 520 |
| Expedia 5.0% senior notes due 2026 | 750 | 781 | 784 |
| Expedia 3.8% senior notes due 2028 | 1,000 | 991 | 990 |
| Bodybuilding secured notes | 7 | 7 | 8 |
| Bodybuilding revolving line of credit due 2020 | 8 | 8 | 10 |
| Capital lease obligations | — | — | 1 |
| Total debt and capital lease obligations | <u>\$ 4,169</u> | <u>4,294</u> | <u>4,867</u> |
| Less portion classified as current | | (11) | (538) |
| Total long-term debt and capital lease obligations | | <u>\$ 4,283</u> | <u>4,329</u> |

1.0% Exchangeable Senior Debentures

On June 13, 2017, the Company closed a private offering of \$400 million of 1.0% Exchangeable Senior Debentures due 2047 (the “debentures”). Upon exchange of the debentures, the Company, at its option, may deliver registered EXPE shares, cash or a combination of EXPE and cash. Initially, 5.1566 shares of EXPE (the “EXPE Reference Shares”) are attributable to each \$1,000 original principal amount of the debentures, representing an initial exchange price of approximately \$193.93 for each share of EXPE. A total of approximately 2.1 million shares of Expedia common stock are attributable to the debentures. Interest is payable quarterly on March 31, June 30, September 30 and December 31 of each year, and commenced on September 30, 2017. The debentures may be redeemed by the Company, in whole or in part, on or after July 5, 2022. Holders of the debentures also have the right to require the Company to purchase their debentures on July 5, 2022. The redemption and purchase price will generally equal 100% of the adjusted principal amount of the debentures plus accrued and unpaid interest, plus any final period distribution. The Company has elected to account for the debentures using the fair value option. The Company estimates the fair value of its debt based on the quoted market price for the same or similar issues or on the current rate offered to it for debt of the same remaining maturities not considered to be trading on active markets (level 2). Accordingly, changes in the fair value of these instruments of \$5 million and \$1 million for the three months ended September 30, 2018 and 2017, respectively, are recorded as unrealized losses and unrealized gains, respectively, and \$1 million and \$33 million for the nine months ended September 30, 2018 and 2017, respectively, are recognized as unrealized gains, in the Other, net line item in the condensed consolidated statements of operations. The Company will make an additional distribution on the debentures if Expedia makes a distribution of cash on the EXPE Reference Shares in excess of \$0.28 (an “Excess Regular Cash Dividend”). Expedia began paying Excess Regular Cash Dividends during the third quarter of 2017. The Company will make additional distributions on the debentures under certain circumstances.

Expedia Outstanding Debt

Expedia 7.456% senior notes due 2018

In August 2018, Expedia’s \$500 million in registered senior unsecured notes that bore interest at 7.456% matured and the balance was repaid.

Expedia 5.95% senior notes due 2020

Expedia has \$750 million in registered senior unsecured notes outstanding at September 30, 2018 that are due in August 2020 and bear interest at 5.95% (the "Expedia 5.95% Notes"). The Expedia 5.95% Notes were issued at 99.893% of par. Interest is payable semi-annually in February and August of each year. Expedia may redeem the Expedia 5.95% Notes, in whole or in part, at a redemption price of 100% of the principal plus accrued interest, plus a "make-whole" premium. The premium associated with the Expedia 5.95% Notes was recorded in acquisition accounting as the difference between fair value and the outstanding principal amount at the date of acquisition. This premium is being amortized over the remaining period to maturity through interest expense using the effective interest rate method.

Expedia 2.5% senior notes due 2022

Expedia has €650 million of registered senior unsecured notes outstanding at September 30, 2018 that are due in June 2022 and bear interest at 2.5% (the "Expedia 2.5% Notes"). The Expedia 2.5% Notes were issued at 99.525% of par. Interest is payable annually in arrears in June of each year. Expedia may redeem the Expedia 2.5% Notes at its option, in whole or in part, at any time or from time to time. If Expedia elects to redeem the Expedia 2.5% Notes prior to March 3, 2022, it may redeem them at a specified "make-whole" premium. If Expedia elects to redeem the Expedia 2.5% Notes on or after March 3, 2022, it 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 Expedia 2.5% Notes will be made in Euros. The premium associated with the Expedia 2.5% Notes was recorded in acquisition accounting as the difference between fair value and the outstanding principal amount at the date of acquisition. This premium is being amortized over the remaining period to maturity through interest expense using the effective interest rate method.

Expedia 4.5% senior notes due 2024

Expedia has \$500 million in registered senior unsecured notes outstanding at September 30, 2018 that are due in August 2024 and bear interest at 4.5% (the "Expedia 4.5% Notes"). The Expedia 4.5% Notes were issued at 99.444% of par. Interest is payable semi-annually in February and August of each year. Expedia may redeem the Expedia 4.5% Notes at its option at any time in whole or from time to time in part. If Expedia elects to redeem the Expedia 4.5% Notes prior to May 15, 2024, it may redeem them at a redemption price of 100% of the principal plus accrued interest, plus a "make-whole" premium. If Expedia elects to redeem the Expedia 4.5% Notes on or after May 15, 2024, it may redeem them at a redemption price of 100% of the principal plus accrued interest. The premium associated with the Expedia 4.5% Notes was recorded in acquisition accounting as the difference between fair value and the outstanding principal amount at the date of acquisition. This premium is being amortized over the remaining period to maturity through interest expense using the effective interest rate method.

Expedia 5.0% senior notes due 2026

Expedia has \$750 million in registered senior unsecured notes outstanding at September 30, 2018 that are due in February 2026 and bear interest at 5.0% (the "Expedia 5.0% Notes"). The Expedia 5.0% Notes were issued at 99.535% of par. Interest is payable semi-annually in arrears in February and August of each year. Expedia may redeem the Expedia 5.0% Notes at its option at any time in whole or from time to time in part. If Expedia elects to redeem the Expedia 5.0% Notes prior to November 12, 2025, it may redeem them at a redemption price of 100% of the principal plus accrued interest, plus a "make-whole" premium. If Expedia elects to redeem the Expedia 5.0% Notes on or after November 12, 2025, it may redeem them at a redemption price of 100% of the principal plus accrued interest. The premium associated with the Expedia 5.0% Notes was recorded in acquisition accounting as the difference between fair value and the outstanding principal amount at the date of acquisition. This premium is being amortized over the remaining period to maturity through interest expense using the effective interest rate method.

Expedia 3.8% senior notes due 2028

Expedia has \$1 billion in senior unsecured notes outstanding at September 30, 2018 that are due in February 2028 and bear interest at 3.8% (the "Expedia 3.8% Notes"). The Expedia 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. Expedia may redeem the Expedia 3.8% Notes at its option at any time in whole

or from time to time in part. If Expedia elects to redeem the Expedia 3.8% Notes prior to November 15, 2027, it may redeem them at a redemption price of 100% of the principal plus accrued interest, plus a “make-whole” premium. If Expedia elects to redeem the Expedia 3.8% Notes on or after November 15, 2027, it may redeem them at a redemption price of 100% of the principal plus accrued interest.

The Expedia 5.95%, 2.5%, 4.5%, 5.0% and 3.8% 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 existing and future unsecured and unsubordinated obligations of Expedia and the guarantor subsidiaries. In addition, the Notes include covenants that limit Expedia’s 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 its assets. The Expedia 5.95%, 2.5%, 4.5%, 3.8% 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.

Expedia Credit Facility

Expedia maintains a \$2 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 May 2023. As of September 30, 2018, Expedia did not have any revolving credit facility borrowings outstanding. The facility bears interest based on Expedia’s credit ratings, with drawn amounts bearing interest at LIBOR plus 1.25% and the commitment fee on undrawn amounts at 0.175% as of September 30, 2018. The facility contains covenants including maximum leverage and minimum interest coverage ratios. The amount of stand-by letters of credit (“LOCs”) issued under the facility reduces the credit amount available. As of September 30, 2018, there were \$14 million of outstanding stand-by LOCs issued under the facility.

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

In addition, one of Expedia’s international subsidiaries maintains a €50 million uncommitted credit facility, which is guaranteed by Expedia and may be terminated at any time by the lender. As of September 30, 2018, there were no borrowings outstanding under this facility.

Bodybuilding Secured Notes

As of September 30, 2018, Bodybuilding has two outstanding secured notes. Principal and interest payments on the secured notes are payable monthly. One of the secured notes has an interest rate of 4.14% and the other is variable at LIBOR plus 2.50% (4.63% at September 30, 2018). The maturity dates on the secured notes range from 2019 to 2022. As of September 30, 2018, the total outstanding balance of the secured notes is \$7 million.

Bodybuilding Revolving Line of Credit

As of September 30, 2018, Bodybuilding has a revolving line of credit (the “Revolver”) which is secured by substantially all of Bodybuilding’s assets. The maximum amount allowed under the Revolver is \$25 million. Bodybuilding periodically borrows and repays amounts outstanding under the Revolver depending on its cash needs. The Revolver matures on January 20, 2020. The outstanding balance accrued interest at the CB Floating Rate less 1.0%, with a rate option balance that accrued interest at LIBOR plus 1.75%. As of September 30, 2018, the outstanding balance on the Revolver was approximately \$8 million subject to an interest rate of 3.88%. Additionally, pursuant to an amendment during the first quarter of 2018, Bodybuilding does not need to comply with the fixed charge coverage ratio covenant until January 31, 2019.

Fair Value of Debt

The fair value, based on quoted market prices in less active markets (Level 2), of Expedia's publicly traded debt securities is as follows (amounts in millions):

| | September 30, 2018 |
|---|-------------------------------|
| Expedia 7.456% senior notes due 2018 | \$ — |
| Expedia 5.95% senior notes due 2020 | \$ 784 |
| Expedia 2.5% (€650 million) senior notes due 2022 (1) | \$ 793 |
| Expedia 4.5% senior notes due 2024 | \$ 504 |
| Expedia 5.0% senior notes due 2026 | \$ 767 |
| Expedia 3.8% senior notes due 2028 | \$ 926 |

(1) Approximately 683 million Euro as of September 30, 2018.

The Company believes that the carrying value of its Revolver and secured notes approximated fair value at September 30, 2018 and December 31, 2017.

Covenant Compliance

Expedia Holdings, Expedia and Bodybuilding were in compliance with their debt covenants which consist of both financial and non-financial covenants as of September 30, 2018.

(8) Commitments and Contingencies

Leases

The Company leases certain warehouse and office space, equipment, furniture and computer software under both capital and noncancelable operating leases that expire at various dates through 2026. The Company is responsible, under all leases, for related building maintenance and property taxes. Certain leases contain periodic rent escalation adjustments and renewal options. Total rental expense was \$46 million and \$45 million for the three months ended September 30, 2018 and 2017, respectively, and \$139 million and \$127 million for the nine months ended September 30, 2018 and 2017, respectively.

Litigation

The Company is subject to legal proceedings and other matters arising in the ordinary course of business. Although it is reasonably possible the Company may incur losses upon conclusion of such matters, an estimate of any loss or range of loss cannot be made. In the opinion of management, it is expected that amounts, if any, which may be required to satisfy such contingencies will not be material in relation to the accompanying condensed consolidated financial statements.

Litigation Relating to Occupancy Taxes. Ninety-six lawsuits have been filed by or against cities, counties and states involving hotel occupancy and other taxes. Ten lawsuits are currently active. These lawsuits are in various stages and Expedia continues to defend against the claims made in them vigorously. With respect to the principal claims in these matters, Expedia believes that the statutes or ordinances at issue do not apply to the services it provides and, therefore, that Expedia does not owe the taxes that are claimed to be owed. Expedia believes 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-five of these lawsuits have been dismissed. Some of these dismissals have been without prejudice and, generally, allow the governmental entity or entities to seek administrative remedies prior to pursuing further litigation. Thirty-one dismissals were based on a finding that Expedia 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, Expedia has

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 \$40 million as of September 30, 2018. Expedia's settlement reserve is based on its 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, restructuring and related reorganization charges and other in the condensed consolidated statements of operations.

In addition, Expedia was audited by the State of Colorado. The state 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. Expedia does not agree with these assessments and has filed protests.

Pay-to-Play. Certain jurisdictions may assert that Expedia is 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 Expedia believes it is subject to such taxes and, even when such payments are made, Expedia continues to defend its position vigorously. If Expedia prevails 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.

The Hawaii 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 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 has 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 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 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 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 in 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, the City of San Francisco filed a petition for review by the California Supreme Court, which was denied on August 29, 2018. On September 13, 2018, the City of San Francisco refunded all pay-to-play payments made by the Expedia companies (including Orbitz), along with accumulated interest. The \$78 million refund was recorded as a gain within Legal reserves, occupancy tax, restructuring and related reorganization charges and other in the condensed consolidated statement of operations and the \$19 million of accumulated interest to interest income during the three months ended September 30, 2018.

Other Jurisdictions. Expedia is 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 its 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 Expedia’s estimates of additional assessments mentioned above.

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

Competition and Consumer Protection 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 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” 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, Expedia notes 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 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 agreements with 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

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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. Those proceedings remain ongoing.

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

A working group of 10 European NCAs (Belgium, Czech Republic, Denmark, France, Hungary, Ireland, Italy, Netherlands, Sweden and the United Kingdom) and the European Commission has been established by the European Competition Network ("ECN") at the end of 2015 to monitor the functioning of the online hotel booking sector, following amendments made by a number of online travel companies (including Booking.com and Expedia) 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 France (July 2015), Austria (December 2016) and Italy (August 2017) have also adopted new domestic anti-parity clause legislation. Expedia believes each of these pieces of legislation violates both EU and national

legal principles and therefore, Expedia has challenged these laws at the European Commission. Moreover, in Belgium, new domestic anti-parity legislation entered into force on August 20, 2018.

A motion requesting the Swiss government to take action on narrow price parity has been adopted in the Swiss parliament. The Swiss government is now required to draft legislation implementing the motion. Expedia is unable to predict whether and with what content legislation will ultimately be adopted and, if so, when this might be the case. It is not yet clear how any adopted domestic anti-parity clause legislations and/or any possible future legislation in this area may affect Expedia'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 resolved CADE's concerns based on a settlement implementing waivers substantially similar to those provided to accommodation providers in Europe. In late 2016, Expedia 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 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.

In addition, regulatory authorities in Europe (including the UK Competition and Markets Authority, or “CMA”), Australia, and elsewhere have initiated market studies, and/or 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. On June 28, 2018, the CMA announced that it will be requiring hotel booking websites to take action to address concerns identified in the course of its ongoing investigation.

Expedia is cooperating with regulators in the investigations described above where applicable, but is unable to predict what, if any, effect such actions will have on its business, industry practices or online commerce more generally.

Certain Risks and Concentrations

Expedia is subject to certain risks and concentrations including dependence on relationships with travel suppliers, primarily airlines and hotels, dependence on third-party technology providers, exposure to risks associated with online commerce security and payment related fraud. Expedia also relies on global distribution system partners and third-party service providers for certain fulfillment services.

Off-Balance Sheet Arrangements

Expedia Holdings did not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the Company's financial condition, results of operations, liquidity, capital expenditures or capital resources.

(9) Segment Information

Expedia Holdings identifies its reportable segments as (A) those consolidated companies that represent 10% or more of its consolidated annual revenue, annual Adjusted OIBDA or total assets and (B) those equity method affiliates whose share of earnings or losses represent 10% or more of Expedia Holdings' annual pre-tax earnings (losses).

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Expedia Holdings evaluates performance and makes decisions about allocating resources to its operating segments based on financial measures such as revenue and Adjusted OIBDA. In addition, Expedia Holdings reviews nonfinancial measures such as unique visitors, customer acquisition and conversion rates.

Expedia Holdings defines Adjusted OIBDA as revenue less cost of sales, operating expenses, and selling, general and administrative expenses (excluding stock-based compensation). Expedia Holdings believes this measure is an important indicator of the operational strength and performance of its businesses, including each business's ability to service debt and fund capital expenditures. In addition, this measure allows management to view operating results and perform analytical comparisons and benchmarking between businesses and identify strategies to improve performance. This measure of performance excludes depreciation and amortization, stock-based compensation, separately reported litigation settlements and restructuring and impairment charges that are included in the measurement of operating income pursuant to GAAP. Accordingly, Adjusted OIBDA should be considered in addition to, but not as a substitute for, operating income (loss), net earnings (loss), cash flow provided by operating activities and other measures of financial performance prepared in accordance with GAAP. Expedia Holdings generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current prices.

For the nine months ended September 30, 2018, Expedia Holdings has identified Expedia as its reportable segment. Expedia is a consolidated subsidiary of the Company that provides travel 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. Expedia's revenue primarily consists of sales of travel services. Prior to obtaining a controlling interest in Expedia in connection with the Expedia Holdings Split-Off, the Company identified Expedia as a reportable segment, even though it was previously accounted for as an equity method investment.

The results of Bodybuilding are included in the Corporate and other segment for all periods presented.

Expedia Holdings' operating segments are strategic business units that offer different products and services. They are managed separately because each segment requires different technologies, distribution channels and marketing strategies. The accounting policies of the segments that are also consolidated companies are the same as those described in the Company's Summary of Significant Accounting Policies in the Annual Report on Form 10-K for the year ended December 31, 2017, and the Summary of Significant Accounting Policies updated for the adoption of new accounting guidance in note 2.

Performance Measures

| | Three months ended September 30, | | | |
|---------------------|----------------------------------|----------------|---------------------------------|----------------|
| | 2018 | | 2017 | |
| | Revenue from external customers | Adjusted OIBDA | Revenue from external customers | Adjusted OIBDA |
| | amounts in millions | | | |
| Expedia | \$ 3,276 | 891 | 2,963 | 715 |
| Corporate and other | 55 | (5) | 66 | (2) |
| | <u>\$ 3,331</u> | <u>886</u> | <u>3,029</u> | <u>713</u> |

| | Nine months ended September 30, | | | |
|---------------------|---------------------------------------|-------------------|---------------------------------------|-------------------|
| | 2018 | | 2017 | |
| | Revenue from external customers | Adjusted OIBDA | Revenue from external customers | Adjusted OIBDA |
| | amounts in millions | | | |
| Expedia | \$ 8,664 | 1,482 | 7,675 | 1,241 |
| Corporate and Other | 181 | (9) | 230 | — |
| | <u>\$ 8,845</u> | <u>1,473</u> | <u>7,905</u> | <u>1,241</u> |

Other Information

| | September 30, 2018 | |
|---------------------|---------------------|-------------------------|
| | Total assets | Capital expenditures |
| | amounts in millions | |
| Expedia | \$ 32,888 | 634 |
| Corporate and other | 181 | 5 |
| | <u>\$ 33,069</u> | <u>639</u> |

The following table provides a reconciliation of segment Adjusted OIBDA to Operating income (loss) and Earnings (loss) before income taxes:

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|--------------|
| | 2018 | 2017 | 2018 | 2017 |
| | amounts in millions | | | |
| Consolidated segment Adjusted OIBDA | \$ 886 | 713 | 1,473 | 1,241 |
| Legal reserves, occupancy tax, restructuring and related reorganization charges and other | 79 | (3) | 74 | (39) |
| Stock-based compensation | (56) | 25 | (160) | (92) |
| Depreciation and amortization | (489) | (583) | (1,442) | (1,669) |
| Impairment of goodwill and intangible assets | (544) | — | (544) | — |
| Operating income (loss) | (124) | 152 | (599) | (559) |
| Interest expense | (32) | (29) | (103) | (88) |
| Other, net | (17) | (23) | (38) | (71) |
| Earnings (loss) before income taxes | <u>\$ (173)</u> | <u>100</u> | <u>(740)</u> | <u>(718)</u> |

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

Certain statements in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our businesses, the recoverability of our goodwill and other long-lived assets; our projected sources and uses of cash; and the anticipated impact of certain contingent liabilities related to legal and tax proceedings and other matters arising in the ordinary course of business. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. The following include some but not all of the factors (as they relate to our consolidated subsidiaries) that could cause actual results or events to differ materially from those anticipated:

- customer demand for our products and services and our ability to adapt to changes in demand;
- competitor responses to our products and services;
- the levels of online traffic to our businesses' websites and our ability to convert visitors into customers or contributors;
- uncertainties inherent in the development and integration of new business lines and business strategies;
- our future financial performance, including availability, terms and deployment of capital;
- our ability to successfully integrate and recognize anticipated efficiencies and benefits from the businesses we acquire;
- the ability of suppliers and vendors to deliver products, equipment, software and services;
- the outcome of any pending or threatened litigation;
- availability of qualified personnel;
- changes in the nature of key strategic relationships with partners, distributors, suppliers and vendors;
- domestic and international economic and business conditions and industry trends, including the impact of the United Kingdom's referendum in which British citizens approved an exit from the European Union;
- consumer spending levels, including the availability and amount of individual consumer debt;
- rapid technological changes;
- failure to protect the security of personal information, subjecting us to potentially costly government enforcement actions and/or private litigation and reputational damage;
- the regulatory and competitive environment of the industries in which we operate;
- threatened terrorist attacks, political and economic unrest in international markets and ongoing military action around the world; and
- fluctuations in foreign currency exchange rates.

For additional risk factors, please see Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017. These forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this Quarterly Report, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based.

The following discussion and analysis provides information concerning our results of operations and financial condition. This discussion should be read in conjunction with our accompanying condensed consolidated financial statements and the notes thereto and our audited consolidated financial statements for the year ended December 31, 2017.

See note 2 in the accompanying condensed consolidated financial statements for an overview of new accounting standards that we have adopted or that we plan to adopt that have had or may have an impact on our financial statements.

Explanatory Note

During November 2015, the board of directors of Liberty Interactive Corporation ("Liberty Interactive"), now known as Qurate Retail, Inc. ("Qurate Retail"), authorized management to pursue a plan to distribute to holders of its then-outstanding Liberty Ventures common stock shares of a newly formed entity, Liberty Expedia Holdings, Inc. ("Expedia Holdings" or the "Company" as discussed below) ("Expedia Holdings Split-Off"). Following the Expedia Holdings Split-Off, Expedia Holdings is comprised of, among other things, Qurate Retail's former ownership interest in Expedia Group, Inc. (formerly "Expedia, Inc.") ("Expedia"), as well as Qurate Retail's former wholly-owned subsidiary Vitalize, LLC (which we refer to as "Bodybuilding").

The Expedia Holdings Split-Off occurred on November 4, 2016. Following the Expedia Holdings Split-Off, Expedia Holdings and Qurate Retail operate as separate, publicly traded companies. The Expedia Holdings Split-Off was intended to be tax-free to Qurate Retail and the former stockholders of Liberty Ventures. In February 2017, the Internal Revenue Service (the "IRS") completed its review of the Expedia Holdings Split-Off and informed Qurate Retail that it agreed with the nontaxable characterization of the transactions. Qurate Retail received an Issue Resolution Agreement from the IRS documenting this conclusion.

Overview

Expedia Holdings began consolidating Expedia as of the completion of the Expedia Holdings Split-Off, as Expedia Holdings then controlled a majority of the voting interest in Expedia. We own an approximate 16.0% equity interest and 52.6% voting interest in Expedia as of September 30, 2018.

The financial information herein refers to the consolidation of Bodybuilding and Expedia as "Expedia Holdings," "Consolidated Expedia Holdings," "the Company," "us," "we" and "our" here and in the notes to the condensed consolidated financial statements.

Expedia is an online travel company, empowering business and leisure travelers with the tools and information they need to efficiently research, plan, book and experience travel. Expedia has created a global travel marketplace used by a broad range of leisure and corporate travelers, offline retail travel agents and travel service providers. Expedia makes available, on a stand-alone and package basis, travel products and services provided by numerous lodging properties, airlines, car rental companies, destination service providers, cruise lines, vacation rental property owners and managers, and other travel product and service companies. Expedia also offers travel and non-travel advertisers access to a potential source of incremental traffic and transactions through its various media and advertising offerings on its transaction-based websites.

Bodybuilding is primarily an Internet retailer of dietary supplements, sports nutrition products, and other health and wellness products. It is also a large publisher of online health and fitness content, offering fitness content, workout programs, video databases, articles, recipes, health advice and motivational stories, as well as a paid subscription model for structured online fitness trainers and nutrition education.

Results of Operations—Consolidated

Consolidated Operating Results

General. We provide in the tables below information regarding our consolidated operating results and other income and expense, as well as information regarding the contribution to those items from our reportable segments. The "Corporate and other" category consists of those assets or businesses which do not qualify as a separate reportable segment.

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For a more detailed discussion and analysis of the financial results of our principal reportable segment see “Results of Operations – Expedia” below.

| | Three months ended September 30, | | Nine months ended September 30, | |
|--------------------------------|-------------------------------------|-------|------------------------------------|-------|
| | 2018 | 2017 | 2018 | 2017 |
| amounts in millions | | | | |
| <i>Revenue</i> | | | | |
| Expedia | \$ 3,276 | 2,963 | 8,664 | 7,675 |
| Corporate and other | 55 | 66 | 181 | 230 |
| Consolidated Expedia Holdings | \$ 3,331 | 3,029 | 8,845 | 7,905 |
| <i>Operating income (loss)</i> | | | | |
| Expedia | (59) | 158 | (522) | (549) |
| Corporate and other | (65) | (6) | (77) | (10) |
| Consolidated Expedia Holdings | \$ (124) | 152 | (599) | (559) |
| <i>Adjusted OIBDA</i> | | | | |
| Expedia | 891 | 715 | 1,482 | 1,241 |
| Corporate and other | (5) | (2) | (9) | — |
| Consolidated Expedia Holdings | \$ 886 | 713 | 1,473 | 1,241 |

Revenue

Consolidated Expedia Holdings revenue increased \$302 million and \$940 million for the three and nine months ended September 30, 2018, respectively, as compared to the corresponding periods in the prior year.

The increase in revenue during 2018 was primarily due to a \$313 million and \$989 million increase in revenue from Expedia during the three and nine months ended September 30, 2018, respectively. See “[Results of Operations – Expedia](#)” below for a more detailed discussion of Expedia’s standalone results.

The \$313 million and \$989 million increase in revenue at Expedia during the three and nine months ended September 30, 2018, respectively, as compared to the corresponding periods in the prior year, was partially offset by a decrease in Corporate and other revenue of \$11 million and \$49 million during the same respective periods due to a decrease in Bodybuilding revenue. The decrease in Bodybuilding revenue during the current year was primarily driven by a 26% decrease in store visits, leading to a decrease in order volumes from the prior year by approximately 21%. The site visit declines to the retail website are the result of a decrease in traffic from search engine optimization marketing channel due to algorithmic and ranking changes, combined with a decrease in direct navigation to the retail website as a result of distributed content now available on many social media feeds and increased product discovery on competitor channels. Strategic changes to shipping and advertising revenue also contributed to the revenue decrease, as free and flat rate shipping was launched to improve the customer experience. The decrease in revenue during the nine months ended September 30, 2018 was primarily due to a 25% decline in store visits and a 21% decrease in order volumes.

Operating Income (Loss)

Consolidated Expedia Holdings operating income decreased \$276 million and operating loss increased \$40 million for the three and nine months ended September 30, 2018, respectively, as compared to the corresponding periods in the prior year.

Expedia operating income decreased \$217 million and operating loss decreased \$27 million during the three and nine months ended September 30, 2018, respectively, when compared to the same periods in 2017. The decreases in the three and nine months ended September 30, 2018 were the result of a \$487 million impairment of trivago’s tradenames that was

recorded by the Company during the third quarter of 2018, partially offset by lower amortization resulting from accelerated expense recognition in the prior year. Expedia's operating income (loss) for the three and nine months ended September 30, 2018 and 2017 includes acquisition accounting adjustments. See "[Results of Operations – Expedia](#)" below for a more detailed discussion of Expedia's standalone results.

Corporate and other operating loss increased \$59 million and \$67 million during the three and nine months ended September 30, 2018, respectively, when compared to the same periods in 2017, due to the \$57 million goodwill impairment at Bodybuilding (see note 6 to the accompanying condensed consolidated financial statements) as well as increased operating loss at Bodybuilding. Bodybuilding's operating loss increased for the three months ended September 30, 2018 as compared to the corresponding period in the prior year, primarily as a result of an \$11 million decline in revenue, as discussed above, partially offset by an \$8 million decrease in operating expenses, primarily due to reduced cost of goods sold as a result of a decrease in product sales. Bodybuilding's operating loss increased for the nine months ended September 30, 2018, as compared to the corresponding period in the prior year, primarily as a result of a \$49 million decline in revenue, as discussed above, partially offset by a \$41 million decrease in operating expenses. The decrease in Bodybuilding's operating expense was primarily due to a \$36 million decrease in cost of goods sold as a result of a 21% decrease in the number of orders year over year, and a \$5 million decrease in operating expenses primarily due to a decrease in personnel expenses.

Adjusted OIBDA

We define Adjusted OIBDA as revenue less cost of sales, operating expenses and selling, general and administrative expense (excluding stock compensation). Our chief operating decision maker and management team use this measure of performance in conjunction with other measures to evaluate our businesses and make decisions about allocating resources among our businesses. We believe this is an important indicator of the operational strength and performance of our businesses, including each business's ability to service debt and fund capital expenditures. In addition, this measure allows us to view operating results, perform analytical comparisons and benchmarking between businesses and identify strategies to improve performance. This measure of performance excludes such costs as depreciation and amortization, stock-based compensation, separately reported litigation settlements and restructuring and impairment charges that are included in the measurement of operating income pursuant to U.S. generally accepted accounting principles ("GAAP"). Accordingly, Adjusted OIBDA should be considered in addition to, but not as a substitute for operating income (loss), net earnings (loss), cash flow provided by operating activities and other measures of financial performance prepared in accordance with GAAP. See note 9 to the accompanying condensed consolidated financial statements for a reconciliation of Adjusted OIBDA to Earnings (loss) before income taxes.

Consolidated Expedia Holdings Adjusted OIBDA increased \$173 million and \$232 million for the three and nine months ended September 30, 2018, respectively, as compared to the corresponding periods in the prior year.

Expedia Adjusted OIBDA increased \$176 million and \$241 million during the three and nine months ended September 30, 2018, respectively, when compared to the corresponding periods in 2017. See "[Results of Operations – Expedia](#)" below for a more detailed discussion of Expedia's standalone results.

Additionally, corporate and other Adjusted OIBDA decreased \$3 million and \$9 million for the three and nine months ended September 30, 2018, respectively, as compared to the corresponding periods in the prior year. The changes in both periods were primarily due to changes in Bodybuilding Adjusted OIBDA, primarily as a result of the revenue and operating expense fluctuations discussed above.

Other Income and Expense

Components of Other income (expense) are presented in the table below.

| | <u>Three months ended</u> <u>September 30,</u> | | <u>Nine months ended</u> <u>September 30,</u> | |
|-------------------------------|---|-------------|--|-------------|
| | <u>2018</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> |
| | amounts in millions | | | |
| <i>Interest expense</i> | | | | |
| Expedia | \$ (31) | (27) | (99) | (81) |
| Corporate and other | (1) | (2) | (4) | (7) |
| Consolidated Expedia Holdings | <u>\$ (32)</u> | <u>(29)</u> | <u>(103)</u> | <u>(88)</u> |
| <i>Other, net</i> | | | | |
| Expedia | \$ (12) | (22) | (40) | (41) |
| Corporate and other | (5) | (1) | 2 | (30) |
| Consolidated Expedia Holdings | <u>\$ (17)</u> | <u>(23)</u> | <u>(38)</u> | <u>(71)</u> |

Interest expense

Consolidated Expedia Holdings interest expense increased \$3 million and \$15 million during the three and nine months ended September 30, 2018, respectively, as compared to the corresponding periods in the prior year. The increase in 2018 was primarily as a result of the Expedia 3.8% senior notes due 2028 that were issued in September 2017, partially offset by the August 2018 maturity of Expedia's 7.456% senior notes.

Other, net

Other expense decreased \$6 million and \$33 million during the three and nine months ended September 30, 2018, respectively, as compared to the corresponding periods in the prior year. Expedia Other expense decreased by \$10 million and \$1 million for the three and nine months ended September 30, 2018, compared to the same periods in the prior year primarily due to unrealized losses on Expedia's minority equity investment in Despegar, offset by foreign exchange gains and interest and dividend income. Corporate and other Other expense increased \$4 million and decreased \$32 million for the three and nine months ended September 30, 2018, respectively, primarily due to a \$4 million decrease and a \$35 million increase in unrealized gains, respectively, on the Expedia Holdings 1% Exchangeable Senior Debentures due 2047.

Income tax benefit (expense)

We had income tax benefits of \$120 million and \$231 million for the three and nine months ended September 30, 2018, respectively. For the three months ended September 30, 2018, the effective tax rate is greater than the U.S. statutory tax rate of 21% due to income tax benefits from losses in foreign jurisdictions taxed at rates other than the 21% U.S. federal tax rate and an increase in federal tax credits, partially offset by excess tax expense related to share-based compensation, changes in unrecognized tax benefits, and changes in the valuation allowance. For the nine months ended September 30, 2018, the effective rate is greater than the U.S. statutory tax rate of 21% due to income tax benefits from losses in foreign jurisdictions taxed at rates other than the 21% U.S. federal tax rate and an increase in federal tax credits, partially offset by changes in unrecognized tax benefits, excess tax expense related to share-based compensation, and changes in the valuation allowance. We had an income tax benefit of \$23 million and \$259 million for the three and nine months ended September 30, 2017, respectively. For the three months ended September 30, 2017, the effective tax rate was less than the U.S. statutory tax rate of 35% income tax benefits from earnings in foreign jurisdictions taxed at rates lower than the 35% U.S. federal tax rate, an increase in federal tax credits, and the effect of state taxes, partially offset by changes in unrecognized tax benefits and the recognition of excess tax expense and windfalls related to share-based compensation. For the nine months ended September 30, 2017, the effective tax rate is greater than the U.S. statutory rate due to income tax benefits from earnings in foreign jurisdictions taxed at rates lower than the 35% U.S. federal tax rate, an increase in federal tax credits, and the effect of state taxes, partially offset by changes in unrecognized tax benefits and the recognition of excess tax expense and windfalls related to share-based compensation.

Net earnings (losses)

We had net losses of \$53 million and earnings of \$123 million for the three months ended September 30, 2018 and 2017, respectively, and net losses of \$509 million and \$459 million for the nine months ended September 30, 2018 and 2017, respectively. The change in net earnings and net losses were the result of the above described fluctuations in our revenue, expenses and other income (expense) items discussed above.

Material Changes in Financial Condition

As of September 30, 2018, substantially all of our cash and cash equivalents consist of cash on hand in global financial institutions, money market funds and marketable securities with maturities of 90 days or less at the date purchased.

The following are potential sources of liquidity: available cash balances, cash generated by Bodybuilding's operating activities (to the extent such cash exceeds the working capital needs of the subsidiary and is not otherwise restricted), proceeds from asset sales, outstanding debt facilities, debt and equity issuances and dividend and interest receipts.

Under Expedia's merchant model, Expedia receives cash from travelers at the time of booking, which are recorded in the consolidated balance sheets as deferred merchant bookings. Expedia pays its airline suppliers related to these merchant model bookings generally within a few weeks after completing the transaction, but Expedia is liable for the full value of such transactions until the flights are completed. For most other merchant bookings, primarily Expedia's merchant hotel business, Expedia generally pays after the travelers' use and, in some cases, subsequent to the billing from the hotel suppliers. Therefore, Expedia generally receives cash from the traveler prior to paying its supplier, and this operating cycle represents a working capital source of cash. Additionally, seasonal fluctuations in Expedia's merchant hotel bookings affect the timing of its 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.

As of September 30, 2018 the Company had a cash balance of \$3,012 million. Approximately \$2,920 million of the cash balance is held by Expedia. Although we have an approximate 52.6% voting interest in Expedia as of September 30, 2018, Expedia is a separate public company with a significant noncontrolling interest, as we only have a 16.0% economic interest in Expedia as of September 30, 2018. Accordingly, decision making with respect to using Expedia's cash balances must consider Expedia's minority holders. Even upon consolidation of Expedia, we do not have ready access to Expedia's cash due to the significant minority interest. Any potential distributions of cash from Expedia to us would generally be on a pro rata basis based on economic ownership interests. Expedia has historically paid quarterly cash dividends to its shareholders, of which Expedia Holdings has received cash distributions from Expedia based on our economic ownership interest.

As of September 30, 2018, the total cash and cash equivalents and short-term investments held outside the United States was \$1.4 billion (\$1.2 billion in wholly-owned foreign subsidiaries and \$180 million in majority-owned subsidiaries of Expedia).

As of September 30, 2018, Expedia has \$2.0 billion available for borrowing under its revolving credit facility. As of September 30, 2018, the Company has a corporate cash balance of approximately \$91 million.

Expedia Holdings does not have a debt rating.

Expedia Holdings, Expedia and Bodybuilding were in compliance with their debt covenants as of September 30, 2018.

| | Nine months ended | |
|--|----------------------------|----------------|
| | September 30, | |
| | 2018 | 2017 |
| | amounts in millions | |
| Cash flow information | | |
| Expedia net cash provided (used) by operating activities | \$ 2,120 | 1,946 |
| Corporate and other net cash provided (used) by operating activities | (4) | (2) |
| Net cash provided (used) by operating activities | <u>\$ 2,116</u> | <u>1,944</u> |
| Expedia net cash provided (used) by investing activities | \$ (655) | (1,479) |
| Corporate and other net cash provided (used) by investing activities | (5) | (6) |
| Net cash provided (used) by investing activities | <u>\$ (660)</u> | <u>(1,485)</u> |
| Expedia net cash provided (used) by financing activities | \$ (1,154) | 861 |
| Corporate and other net cash provided (used) by financing activities | (13) | 63 |
| Net cash provided (used) by financing activities | <u>\$ (1,167)</u> | <u>924</u> |
| Effect of foreign exchange rate changes on cash and cash equivalents | <u>\$ (119)</u> | <u>143</u> |

During the nine months ended September 30, 2018, our Corporate and other primary sources of cash were dividends received from Expedia of approximately \$21 million. Our Corporate and other primary uses of cash were capital expenditures of \$5 million and purchase of shares of Expedia of \$31 million (see note 4 to the accompanying condensed consolidated financial statements). This use of cash was funded by cash on hand and cash provided by operating activities.

The projected use of our cash will be continued investment in the Bodybuilding business and potential additional investments in new or existing businesses.

During the nine months ended September 30, 2018, Expedia's primary uses of cash included \$634 million in capital expenditures, \$620 million in share repurchases, \$500 million in repayment of long-term debt and \$138 million of cash dividends paid (including \$21 million paid to Expedia Holdings). These uses of cash were funded by cash on hand, cash provided by operating activities, cash provided by the exercise of options and employee stock purchase plans.

The \$119 million effect of foreign exchange rate changes on cash and cash equivalents during the nine months ended September 30, 2018 reflects appreciations of foreign currencies during the period.

Expedia's ongoing investments include but are not limited to improvements in infrastructure, which include its servers, networking equipment and software, release improvements to its software code, platform migrations and consolidation and search engine marketing and optimization efforts. In addition, in 2016, Expedia began its expansion into the cloud computing environment. While cloud computing expenses are expected to increase significantly over the next few years, they are expected to result in lower overall capital expenditures related to Expedia's data centers over time. Expedia's future capital requirements may include capital needs for acquisitions (including purchases of non-controlling interest), share repurchases, dividend payments or expenditures in support of its business strategy. For the new headquarters Expedia expects to spend approximately \$900 million, with final estimates contingent on completion of design plans and final determination of completed office space required in the initial build out as well as impacts from any additional tariffs. Of the total approximately \$30 million was spent in 2016 and approximately \$70 million in 2017. During 2018 and 2019, Expedia expects to spend \$230 million to \$250 million, having incurred approximately \$120 million year-to-date, and \$425 million to \$475 million, respectively, with the remaining costs to be incurred in 2020.

We believe that the available sources of liquidity are sufficient to cover our projected future uses of cash.

Results of Operations – Expedia

Expedia. Expedia is an online travel company, empowering business and leisure travelers with the tools and information they need to efficiently research, plan, book and experience travel. Expedia has created a global travel marketplace used by a broad range of leisure and corporate travelers, offline retail travel agents and travel service providers. Expedia makes available, on a stand-alone and package basis, travel products and services provided by numerous airlines, lodging properties, car rental companies, destination service providers, cruise lines, vacation rental property owners and

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managers, and other travel product and service companies. Expedia also offers travel and non-travel advertisers access to a potential source of incremental traffic and transactions through its various media and advertising offerings on its transaction-based websites.

As of September 30, 2018, we own an approximate 16.0% equity interest and 52.6% voting interest in Expedia. Historically, Qurate Retail was (and, following the completion of the Expedia Holdings Split-Off, the Company is) a party to the Stockholders Agreement with Mr. Diller, pursuant to which Mr. Diller held an irrevocable proxy (the “Diller Proxy”) over all the shares of EXPE and Expedia class B common stock owned by Qurate Retail. In connection with the Expedia Holdings Split-Off and the proxy arrangements, the Stockholders Agreement was assigned to us and amended to permit the assignment of the Diller Proxy to our company for a period of time up to 18 months following completion of the Expedia Holdings Split-Off (May 4, 2018, the “Outside Date”), subject to certain termination events as described in the Amended and Restated Transaction Agreement, dated as of September 22, 2016, among Mr. Diller, John C. Malone, Leslie Malone, Qurate Retail and the Company (the “Transaction Agreement”). On March 6, 2018, the Company, Qurate Retail, Mr. Malone, Mrs. Malone and Mr. Diller entered into a letter agreement (the “Letter Agreement”), which amended the termination provisions of the Transaction Agreement to extend the Outside Date for an additional one year period. As a result, unless sooner terminated upon the occurrence of certain events or the taking of certain actions, in either case, as listed in the Transaction Agreement, as amended by the Letter Agreement, the Proxy Arrangement Termination Date will occur, and the Transaction Agreement together with certain Subject Instruments (as defined in the Transaction Agreement) will terminate, on May 4, 2019.

As a result, we began consolidating Expedia as of the completion of the Expedia Holdings Split-Off, as we then controlled a majority of the voting interest in Expedia for accounting purposes. Additionally, in conjunction with the application of acquisition accounting, we recorded a full step up in basis of Expedia along with a gain between our historical basis and the fair value of our interest in Expedia.

The following is a discussion of Expedia's stand-alone results of operations. In order to provide a better understanding of Expedia's operations, we have included a summarized presentation of Expedia's results of operations. Expedia is a separate publicly traded company and additional information about Expedia can be obtained through its website and public filings. The amounts included in the table below represent Expedia's stand-alone results for the three and nine months ended September 30, 2018 and 2017.

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|---------|------------------------------------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| | amounts in millions | | | |
| Revenue | \$ 3,276 | 2,966 | 8,664 | 7,741 |
| Operating expenses, excluding stock-based compensation | (2,385) | (2,248) | (7,182) | (6,434) |
| Adjusted OIBDA | 891 | 718 | 1,482 | 1,307 |
| Depreciation and amortization | (243) | (227) | (723) | (653) |
| Stock-based compensation | (54) | (7) | (154) | (104) |
| Impairment of goodwill | — | — | (61) | — |
| Legal reserves, occupancy tax and other | 78 | 1 | 74 | (23) |
| Restructuring and related reorganization charges | — | (4) | — | (16) |
| Operating income (loss) | \$ 672 | 481 | 618 | 511 |

Expedia's revenue increased \$310 million and \$923 million during the three and nine months ended September 30, 2018, respectively, as compared to the corresponding periods in the prior year. The increase in 2018 was primarily driven by growth in the Expedia's Core Online Travel Companies (“Core OTA”), including growth at Brand Expedia, Hotels.com and Expedia Partner Solutions (“EPS”), as well as growth at HomeAway.

| | Three months ended September 30, | | Nine months ended September 30, | |
|---------------------------------------|-------------------------------------|-------|------------------------------------|-------|
| | 2018 | 2017 | 2018 | 2017 |
| | amounts in millions | | | |
| <i>Revenue by Service Type</i> | | | | |
| Lodging | \$ 2,347 | 2,102 | 5,951 | 5,246 |
| Air | 209 | 189 | 674 | 608 |
| Advertising and media (1) | 302 | 299 | 858 | 858 |
| Other | 418 | 376 | 1,181 | 1,029 |
| Total revenue | \$ 3,276 | 2,966 | 8,664 | 7,741 |

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

Lodging revenue increased 12% and 13% for the three and nine months ended September 30, 2018, compared to the same periods in 2017, driven by growth at HomeAway, Hotels.com, EPS and Brand Expedia. Room nights stayed increased 13% for both the three and nine months ended September 30, 2018, compared to the same periods in 2017, and revenue per room night declined 1% for the three months ended September 30, 2018 and was essentially flat for the nine months ended September 30, 2018, compared to the same periods in 2017.

Worldwide air revenue increased 11% for both the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017, on a 4% increase in air tickets sold for both periods as well as a 6% and 7% increase in revenue per ticket. Air revenue growth included an approximately 3.0% and 3.5% benefit due to an accounting change related to revenue classification of certain fees, which were previously recorded as a contra-revenue but now classified as cost of revenue with no net impact to operating income (loss).

Advertising and media revenue increased 1% for the three months ended September 30, 2018 and was essentially flat for the nine months ended September 30, 2018, compared to the same periods in 2017, due to continued growth at Expedia Group Media Solutions, mostly offset by a decline at trivago for both periods. All other revenue, which includes car rental, destination services and fee revenue related to Expedia's corporate travel business, increased by 11% and 15% for the three and nine months ended September 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 service category revenue discussion, Expedia's revenue by business model is as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|-------|------------------------------------|-------|
| | 2018 | 2017 | 2018 | 2017 |
| | amounts in millions | | | |
| <i>Revenue by Business Model</i> | | | | |
| Merchant | \$ 1,688 | 1,559 | 4,554 | 4,111 |
| Agency | 876 | 803 | 2,311 | 2,058 |
| Advertising and media | 302 | 299 | 858 | 858 |
| HomeAway | 410 | 305 | 941 | 714 |
| Total revenue | \$ 3,276 | 2,966 | 8,664 | 7,741 |

Merchant revenue increased for the three and nine months ended September 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 nine months ended September 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 nine months ended September 30, 2018, compared to the same periods in 2017, primarily due to growth in transactional revenue of approximately 50% and 60%, driven by a benefit from the traveler service fee, partially offset by subscription revenue decreasing approximately 20% and 25%.

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The increase in operating expenses during 2018 was primarily due to a \$40 million and \$384 million increase in selling and marketing expense during the three and nine months ended September 30, 2018, respectively, as compared to the same periods in the prior year. The increase for the three months ended September 30, 2018 was primarily due to higher indirect costs of \$36 million which were driven by growth in personnel in the lodging supply organization, and the increase for the nine months ended September 30, 2018 was driven by higher direct costs of \$246 million, including online and offline marketing expenses. Hotels.com, EPS and HomeAway accounted for the majority of the total direct cost increases. Additionally, technology and content expenses increased \$54 million and \$185 million during the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017, due to increased personnel and overhead of \$29 million and \$103 million from investments in Expedia's ecommerce platform and products and growth at HomeAway, as well as inorganic impact from acquisitions. Additionally, the increase in cost of revenue during 2018 was driven by \$20 million and \$82 million of higher customer operations expenses, including direct and headcount costs to support the growth of the business, as well as \$18 million and \$82 million of higher data center, cloud and other costs during the three and nine months ended September 30, 2018, as compared to the same periods in the prior year.

The increase in depreciation and amortization during 2018 was primarily due to increased depreciation and amortization of technology and data center assets, and increased amortization of intangible assets during the period related to new business acquisitions.

Stock-based compensation increased during the three and nine months ended September 30, 2018 as compared to the same periods in 2017, primarily as a result of the prior year reversal of approximately \$41 million of previously recognized stock-based compensation expense related to the departure of Expedia's former CEO in September 2017.

During the nine months ended September 30, 2018, Expedia recognized a goodwill impairment charge of \$61 million related to a reporting unit within its Core OTA segment.

Legal reserves, occupancy tax and other consists of changes in Expedia's reserves for court decisions and the potential and final settlement of issues related to hotel occupancy taxes, expenses recognized related to monies paid in advance of occupancy and other tax proceedings ("pay-to-play") as well as certain other legal reserves. During the three months ended September 30, 2018, Expedia received a refund of prepaid pay-to-play payments of \$78 million from the City of San Francisco and recorded a related gain in legal reserves, occupancy tax and other.

Expedia recognized no restructuring and related charges in the three and nine months ended September 30, 2018, and \$4 million and \$16 million during the same periods in 2017. The expenses in 2017 related to activities to centralize and optimize certain operations as well as migrate technology platforms as a result of acquisitions.

The following is a reconciliation of the results reported by Expedia, used for comparison purposes above to understand their operations, to the results reported by Expedia Holdings:

| | Three months ended September 30, 2018 | | |
|--|--|---|--|
| | As Reported by Expedia | Acquisition Accounting and Other Adjustments | As reported by Expedia Holdings |
| | amounts in millions | | |
| Service revenue | \$ 3,276 | — | 3,276 |
| Operating expenses, excluding stock-based compensation | (2,385) | — | (2,385) |
| Adjusted OIBDA | 891 | — | 891 |
| Depreciation and amortization | (243) | (241) | (484) |
| Stock-based compensation | (54) | (3) | (57) |
| Impairment of goodwill and intangible assets (1) | — | (487) | (487) |
| Other operating income (expenses) | 78 | — | 78 |
| Operating income (loss) | <u>\$ 672</u> | <u>(731)</u> | <u>(59)</u> |

| | Nine months ended September 30, 2018 | | |
|--|--------------------------------------|---|---------------------------------------|
| | As Reported by Expedia | Acquisition Accounting and Other Adjustments | As reported by Expedia Holdings |
| | amounts in millions | | |
| Service revenue | \$ 8,664 | — | 8,664 |
| Operating expenses, excluding stock-based compensation | (7,182) | — | (7,182) |
| Adjusted OIBDA | 1,482 | — | 1,482 |
| Depreciation and amortization | (723) | (707) | (1,430) |
| Stock-based compensation | (154) | (7) | (161) |
| Impairment of goodwill and intangible assets (1) | (61) | (426) | (487) |
| Other operating income (expenses) | 74 | — | 74 |
| Operating income (loss) | <u>\$ 618</u> | <u>(1,140)</u> | <u>(522)</u> |

- (1) As Expedia Holdings views its reporting units on a different level than Expedia, Expedia Holdings determined that it had no indicators of impairment to goodwill for Expedia's Core OTA reporting unit for the nine months ended September 30, 2018 and reversed Expedia's \$61 million goodwill impairment. Expedia Holdings recorded an impairment of trivago's tradenames of \$487 million that was not recorded by Expedia (see note 6 to the accompanying condensed consolidated financial statements).

| | Three months ended September 30, 2017 | | |
|--|---------------------------------------|--|---------------------------------------|
| | As Reported by Expedia | Acquisition Accounting Adjustments | As reported by Expedia Holdings |
| | amounts in millions | | |
| Service revenue | \$ 2,966 | (3) | 2,963 |
| Operating expenses, excluding stock-based compensation | (2,248) | — | (2,248) |
| Adjusted OIBDA | 718 | (3) | 715 |
| Depreciation and amortization | (227) | (352) | (579) |
| Stock-based compensation | (7) | 32 | 25 |
| Other operating income (expenses) | (3) | (1) | (4) |
| Operating income (loss) | <u>\$ 481</u> | <u>(324)</u> | <u>157</u> |

| | Nine months ended September 30, 2017 | | |
|--|--------------------------------------|--|---------------------------------------|
| | As Reported by Expedia | Acquisition Accounting Adjustments | As reported by Expedia Holdings |
| | amounts in millions | | |
| Service revenue | \$ 7,741 | (66) | 7,675 |
| Operating expenses, excluding stock-based compensation | (6,434) | (1) | (6,435) |
| Adjusted OIBDA | 1,307 | (67) | 1,240 |
| Depreciation and amortization | (653) | (1,003) | (1,656) |
| Stock-based compensation | (104) | 9 | (95) |
| Other operating income (expenses) | (39) | — | (39) |
| Operating income (loss) | <u>\$ 511</u> | <u>(1,061)</u> | <u>(550)</u> |

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk in the normal course of business due to our ongoing investing and financial activities. Market risk refers to the risk of loss arising from adverse changes in stock prices, interest rates and foreign exchange rates. We are exposed to market risk through the Company's long-term debt, revolving credit facility, derivative instruments, cash and cash equivalents, accounts receivable, intercompany receivables, investments, merchant accounts payable and deferred merchant bookings denominated in foreign currencies. The risk of loss can be assessed from the perspective of adverse changes in fair values, cash flows and future earnings. We have established policies, procedures and internal processes governing our management of market risks and the use of financial instruments to manage our exposure to such risks.

Interest Rate Risk

We are exposed to changes in interest rates primarily as a result of our borrowing activities, which include borrowings used to maintain liquidity and to fund business operations. The nature and amount of our long-term and short-term debt are expected to vary as a result of future requirements, market conditions and other factors. We manage our exposure to interest rates by maintaining what we believe is an appropriate mix of fixed and variable rate debt. We believe this best protects us from interest rate risk. We have achieved this mix by (i) issuing fixed rate debt that we believe has a low stated interest rate and significant term to maturity, (ii) issuing variable rate debt with appropriate maturities and interest rates and (iii) entering into interest rate swap arrangements when we deem appropriate.

As of September 30, 2018, our debt is comprised of the following amounts:

| | Variable rate debt | | Fixed rate debt | |
|---------------------|----------------------------|----------------------------|------------------|----------------------------|
| | Principal amount | Weighted avg interest rate | Principal amount | Weighted avg interest rate |
| | dollar amounts in millions | | | |
| Expedia | \$ — | — % | \$ 3,754 | 4.30 % |
| Corporate and Other | \$ 11 | 4.07 % | \$ 404 | 1.04 % |

Foreign Exchange Risk

Expedia conducts business in certain international markets, primarily in Australia, Canada, China and the European Union. Because it operates in international markets, it has exposure to different economic climates, political arenas, tax systems and regulations that could affect foreign exchange rates. Expedia's primary exposure to foreign currency risk relates to transacting in foreign currency and recording the activity in U.S. Dollars. Changes in exchange rates between the U.S. dollar and these other currencies will result in transaction gains or losses, which are recognized in the consolidated statements of operations.

To the extent practicable, Expedia minimizes its foreign currency exposures by maintaining natural hedges between its current assets and current liabilities in similarly denominated foreign currencies. Additionally, Expedia uses foreign currency forward contracts to economically hedge certain merchant revenue exposures, foreign denominated liabilities related to certain of Expedia's loyalty programs and other foreign currency-denominated operating liabilities. These instruments are typically short-term and are recorded at fair value with gains and losses recorded in Other, net. As of September 30, 2018, Expedia had a net forward asset of \$23 million included in Other current assets. Expedia may enter into additional foreign exchange derivative contracts or other economic hedges in the future. Expedia's goal in managing its foreign exchange risk is to reduce to the extent practicable its potential exposure to the changes that exchange rates might have on its earnings, cash flows and financial position. Expedia makes a number of estimates in conducting hedging activities including in some cases the level of future bookings, cancellations, refunds, customer stay patterns and payments in foreign currencies. In the event those estimates differ significantly from actual results, Expedia could experience greater volatility as a result of its hedges.

In June 2015, Expedia issued 650 million Euro of Expedia 2.5% Notes. The aggregate principal value of the Expedia 2.5% Notes is designated as a hedge of Expedia's net investment in certain Euro functional currency subsidiaries. The notes are measured at Euro to U.S. Dollar exchange rates at each balance sheet date and transaction gains or losses due to changes in rates are recorded in Accumulated other comprehensive income (loss). The Euro-denominated net assets of these subsidiaries are translated into U.S. Dollars at each balance sheet date, with effects of foreign currency changes also reported in Accumulated other comprehensive income (loss). Since the notional amount of the recorded Euro-denominated debt is less than the notional amount of Expedia's net investment, Expedia does not expect to incur any ineffectiveness on this hedge.

Future net transaction gains and losses are inherently difficult to predict as they are reliant on how the multiple currencies in which Expedia transacts fluctuate in relation to the U.S. Dollar, the relative composition and denomination of current assets and liabilities each period, and Expedia's effectiveness at forecasting and managing, through balance sheet netting or the use of derivative contracts, such exposures.

During the three months ended September 30, 2018 and 2017, Expedia recorded net foreign exchange rate gains of \$3 million and losses of \$11 million, respectively, and during the nine months ended September 30, 2018 and 2017, Expedia recorded net foreign exchange rate gains of \$51 million and losses of \$2 million, respectively. As Expedia increases its operations in international markets, its exposure to fluctuations in foreign currency exchange rates increases. The economic impact to Expedia of foreign currency exchange rate movements is linked to variability in real growth, inflation, interest rates, governmental actions and other factors. These changes, if material, could cause Expedia to adjust its financing and operating strategies.

Item 4. Controls and Procedures

In accordance with Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Company carried out an evaluation, under the supervision and with the participation of management, including its chief executive officer, and principal accounting and principal financial officer (the "Executives"), of the effectiveness of its disclosure controls and procedures as of the end of the period covered by this Quarterly Report. Based on that evaluation, the Executives concluded that the Company's disclosure controls and procedures were effective as of September 30, 2018 to provide reasonable assurance that information required to be disclosed in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There has been no change in the Company's internal control over financial reporting that occurred during the three months ended September 30, 2018 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary course of their respective businesses, each of Expedia and its subsidiaries and Bodybuilding are party to legal proceedings and claims involving property, occupancy taxes, personal injury, contract, alleged infringement of third-party intellectual property rights and other claims. The amounts that may be recovered in such matters may be subject to insurance coverage. There are no material pending legal proceedings or claims to which we or our subsidiaries are party or of which any of our property is the subject. However, Expedia has disclosed a number of pending legal proceedings in its Annual Report on Form 10-K for the year ended December 31, 2017 and its Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 that, while not material to Expedia, may be of interest to its stockholders. There may be claims or actions pending or threatened against us or our subsidiaries of which we are currently not aware and the ultimate disposition of which would have a material adverse effect on us.

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

During the three months ended September 30, 2018, no shares of Series A Expedia Holdings common stock and no shares of Series B Expedia Holdings common stock were surrendered by certain of our officers and employees to pay withholding taxes and other deductions in connection with the vesting of their restricted stock and restricted stock units.

Item 6. Exhibits

(a) Exhibits

Listed below are the exhibits which are filed as a part of this Report (according to the number assigned to them in Item 601 of Regulation S-K):

- 10.1 [Fifth Amendment, dated as of September 10, 2018, to the Amended and Restated Credit Agreement dated as of September 5, 2014 among Expedia Group, Inc., a Delaware corporation, Expedia, Inc., a Washington corporation, Travelscape, LLC, a Nevada limited liability company, Hotwire, Inc., a Delaware corporation, the other Borrowing Subsidiaries from time to time party thereto, the Lenders from time to time party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent and London Agent \(incorporated by reference to Exhibit 10.1 to Expedia Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 filed on October 26, 2018 \(File No. 001-37429\)\).](#)
- 31.1 [Rule 13a-14\(a\)/15d-14\(a\) Certification*](#)
- 31.2 [Rule 13a-14\(a\)/15d-14\(a\) Certification*](#)
- 32 [Section 1350 Certification**](#)
- 101.INS XBRL Instance Document*
- 101.SCH XBRL Taxonomy Extension Schema Document*
- 101.CAL XBRL Taxonomy Calculation Linkbase Document*
- 101.LAB XBRL Taxonomy Label Linkbase Document*
- 101.PRE XBRL Taxonomy Presentation Linkbase Document*
- 101.DEF XBRL Taxonomy Definition Document*

* Filed herewith

** Furnished herewith

SIGNATURES

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 thereunto duly authorized.

LIBERTY EXPEDIA HOLDINGS, INC.

Date: November 1, 2018

By: /s/ CHRISTOPHER W. SHEAN
Christopher W. Shean
President and Chief Executive Officer

Date: November 1, 2018

By: /s/ WADE HAUFSCILD
Wade Haufschild
Chief Financial Officer
(Principal Financial Officer and Principal
Accounting Officer)

CERTIFICATION

I, Christopher W. Shean, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Liberty Expedia Holdings, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements and other financial information included in this quarterly report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this quarterly report based on such evaluation; and
 - c) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2018

/s/ CHRISTOPHER W. SHEAN

Christopher W. Shean
President and Chief Executive Officer

CERTIFICATION

I, Wade Haufschild, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Liberty Expedia Holdings, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements and other financial information included in this quarterly report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this quarterly report based on such evaluation; and
 - c) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2018

/s/ WADE HAUFSCILD

Wade Haufschild
Chief Financial Officer

Certification

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Liberty Expedia Holdings, Inc., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the period ended September 30, 2018 (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 1, 2018

/s/ CHRISTOPHER W. SHEAN

Christopher W. Shean
President and Chief Executive Officer

Dated: November 1, 2018

/s/ WADE HAUFSCILD

Wade Haufschild
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

The foregoing certification is being furnished solely pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code) and is not being filed as part of the Form 10-Q or as a separate disclosure document.
