

Expedia, Inc.  
Form 10-Q  
July 29, 2016  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2016**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 001-37429**

**EXPEDIA, INC.**

**(Exact name of registrant as specified in its charter)**

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

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

**333 108<sup>th</sup> Avenue NE**

**Bellevue, WA 98004**

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(Address of principal executive office) (Zip Code)

(425) 679-7200

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

The number of shares outstanding of each of the registrant's classes of common stock as of July 15, 2016 was:

Common stock, \$0.0001 par value per share	136,915,806 shares
Class B common stock, \$0.0001 par value per share	12,799,999 shares

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**Expedia, Inc.**

**Form 10-Q**

**For the Quarter Ended June 30, 2016**

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**Table of Contents****Part I. Item 1. Consolidated Financial Statements****EXPEDIA, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except for per share data)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Revenue	\$ 2,195,869	\$ 1,662,600	\$ 4,099,830	\$ 3,035,997
Costs and expenses:				
Cost of revenue <sup>(1)</sup>	406,380	321,082	808,950	643,000
Selling and marketing <sup>(1)</sup>	1,154,993	885,480	2,194,341	1,648,861
Technology and content <sup>(1)</sup>	317,921	186,516	609,475	376,971
General and administrative <sup>(1)</sup>	192,555	141,394	338,566	257,791
Amortization of intangible assets	84,181	26,880	174,180	51,922
Legal reserves, occupancy tax and other	4,344	5,510	6,318	8,039
Restructuring and related reorganization charges <sup>(1)</sup>	9,833	5,646	39,636	10,322
Operating income (loss)	25,662	90,092	(71,636)	39,091
Other income (expense):				
Interest income	4,955	4,693	8,522	10,238
Interest expense	(42,939)	(28,515)	(86,899)	(56,509)
Gain on sale of business		508,810		508,810
Other, net	127	(17,023)	(28,068)	88,078
Total other income (expense), net	(37,857)	467,965	(106,445)	550,617
Income (loss) before income taxes	(12,195)	558,057	(178,081)	589,708
Provision for income taxes	18,202	(131,221)	75,556	(130,311)
Net income (loss)	6,007	426,836	(102,525)	459,397
Net loss attributable to noncontrolling interests	25,642	22,808	25,585	34,390
<b>Net income (loss) attributable to Expedia, Inc.</b>	<b>\$ 31,649</b>	<b>\$ 449,644</b>	<b>\$ (76,940)</b>	<b>\$ 493,787</b>
<b>Earnings (loss) per share attributable to Expedia, Inc. available to common stockholders:</b>				
Basic	\$ 0.21	\$ 3.49	\$ (0.51)	\$ 3.85
Diluted	0.21	3.38	(0.51)	3.74
<b>Shares used in computing earnings (loss) per share:</b>				
Basic	149,552	128,887	150,332	128,229

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Diluted	153,532	132,960	150,332	132,184
Dividends declared per common share	\$ 0.24	\$ 0.18	\$ 0.48	\$ 0.36

(1) Includes stock-based compensation as follows:

Cost of revenue	\$ 2,884	\$ 1,316	\$ 5,292	\$ 2,474
Selling and marketing	25,454	6,860	32,496	13,332
Technology and content	28,820	5,559	39,441	12,343
General and administrative	42,803	27,759	60,467	42,231
Restructuring and related reorganization charges	470		11,643	

*See accompanying notes.*

Table of Contents**EXPEDIA, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(In thousands)

(Unaudited)

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net income (loss)	\$ 6,007	\$ 426,836	\$ (102,525)	\$ 459,397
Other comprehensive income (loss), net of tax				
Currency translation adjustments, net of tax <sup>(1)</sup>	(15,959)	21,698	(9,305)	(112,153)
Net reclassification of foreign currency translation adjustments into total other income (expense), net		(43,183)		(43,183)
Unrealized gains (losses) on available for sale securities, net of tax <sup>(2)</sup>	26	(275)	500	200
Other comprehensive income (loss), net of tax	(15,933)	(21,760)	(8,805)	(155,136)
Comprehensive income (loss)	(9,926)	405,076	(111,330)	304,261
Less: Comprehensive income (loss) attributable to noncontrolling interests	(29,376)	(27,356)	(19,718)	(71,608)
Comprehensive income (loss) attributable to Expedia, Inc.	\$ 19,450	\$ 432,432	\$ (91,612)	\$ 375,869

- (1) Currency translation adjustments include a tax expense of \$5 million and tax benefit \$5 million for the three and six months ended June 30, 2016 associated with net investment hedges and \$7 million tax benefit for both the three and six months ended June 30, 2015.
- (2) Net gains (losses) recognized and reclassified during the three and six months ended June 30, 2016 and 2015 were immaterial.

*See accompanying notes.*

**Table of Contents****EXPEDIA, INC.****CONSOLIDATED BALANCE SHEETS**

(In thousands, except per share data)

	<b>June 30, 2016 (Unaudited)</b>	<b>December 31, 2015</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,296,524	\$ 1,676,299
Restricted cash and cash equivalents	42,166	11,324
Short-term investments	38,500	33,739
Accounts receivable, net of allowance of \$28,837 and \$27,035	1,454,518	1,082,406
Income taxes receivable	135,516	13,805
Prepaid expenses and other current assets	196,753	158,688
<b>Total current assets</b>	<b>4,163,977</b>	<b>2,976,261</b>
Property and equipment, net	1,235,282	1,064,259
Long-term investments and other assets	643,851	642,802
Deferred income taxes	19,618	15,458
Intangible assets, net	2,646,039	2,793,954
Goodwill	8,019,775	7,992,941
<b>TOTAL ASSETS</b>	<b>\$ 16,728,542</b>	<b>\$ 15,485,675</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable, merchant	\$ 1,455,758	\$ 1,329,870
Accounts payable, other	689,724	485,557
Deferred merchant bookings	3,870,022	2,337,037
Deferred revenue	331,837	235,809
Income taxes payable	34,163	68,019
Accrued expenses and other current liabilities	1,065,251	1,469,725
<b>Total current liabilities</b>	<b>7,446,755</b>	<b>5,926,017</b>
Long-term debt	3,196,847	3,183,140
Deferred income taxes	512,088	473,841
Other long-term liabilities	322,098	314,432
Commitments and contingencies		
Redeemable noncontrolling interests	983,832	658,478
Stockholders' equity:		
Common stock \$.0001 par value	22	22
Authorized shares: 1,600,000		
Shares issued: 222,766 and 220,383		

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Shares outstanding: 136,793 and 137,459		
Class B common stock \$.0001 par value	1	1
Authorized shares: 400,000		
Shares issued and outstanding: 12,800 and 12,800		
Additional paid-in capital	8,877,699	8,696,508
Treasury stock - Common stock, at cost	(4,383,221)	(4,054,909)
Shares: 85,974 and 82,924		
Retained earnings	7,369	507,666
Accumulated other comprehensive income (loss)	(299,566)	(284,894)
<b>Total Expedia, Inc. stockholders equity</b>	<b>4,202,304</b>	<b>4,864,394</b>
Non-redeemable noncontrolling interests	64,618	65,373
<b>Total stockholders equity</b>	<b>4,266,922</b>	<b>4,929,767</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 16,728,542</b>	<b>\$ 15,485,675</b>

*See accompanying notes.*



**Table of Contents****EXPEDIA, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

(Unaudited)

	<b>Six months ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Operating activities:</b>		
Net income (loss)	\$ (102,525)	\$ 459,397
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation of property and equipment, including internal-use software and website development	221,278	153,722
Amortization of stock-based compensation	149,339	70,380
Amortization of intangible assets	174,180	51,922
Deferred income taxes	24,107	2,021
Foreign exchange (gain) loss on cash, cash equivalents and short-term investments, net	(23,916)	37,012
Realized (gain) loss on foreign currency forwards	19,081	(29,460)
Gain on sale of business		(508,810)
Noncontrolling interest basis adjustment		(77,400)
Other	(8,415)	8,415
Changes in operating assets and liabilities, net of effects from acquisitions and disposals:		
Accounts receivable	(367,188)	(412,670)
Prepaid expenses and other assets	(57,052)	(5,162)
Accounts payable, merchant	126,056	245,843
Accounts payable, other, accrued expenses and other current liabilities	154,368	198,606
Tax payable/receivable, net	(190,948)	(20,867)
Deferred merchant bookings	1,511,578	1,479,263
Deferred revenue	96,154	9,819
<b>Net cash provided by operating activities</b>	<b>1,726,097</b>	<b>1,662,031</b>
<b>Investing activities:</b>		
Capital expenditures, including internal-use software and website development	(379,981)	(468,727)
Purchases of investments	(20,446)	(506,109)
Sales and maturities of investments	22,758	226,325
Acquisitions, net of cash acquired		