LIBERTY EXPEDIA HOLDINGS, INC.
2016 ANNUAL REPORT

Liberty Expedia Holdings

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Liberty Expedia Holdings

Certain statements in this Annual Report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our business, product and marketing strategies; new service offerings; 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. In particular, statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Quantitative and Qualitative Disclosures About Market Risk" contain forward-looking statements. 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 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 and quality of online traffic to our businesses' websites and the ability of our subsidiaries to convert visitors into consumers 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 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;
- the regulatory and competitive environment of the industries in which our subsidiaries operate;
- failure to protect the security of personal information, subjecting us to potentially costly government enforcement actions or private litigation and reputational damage;
- threatened terrorist attacks, political unrest in international markets and ongoing military action around the world; and
- fluctuations in foreign currency exchange rates.

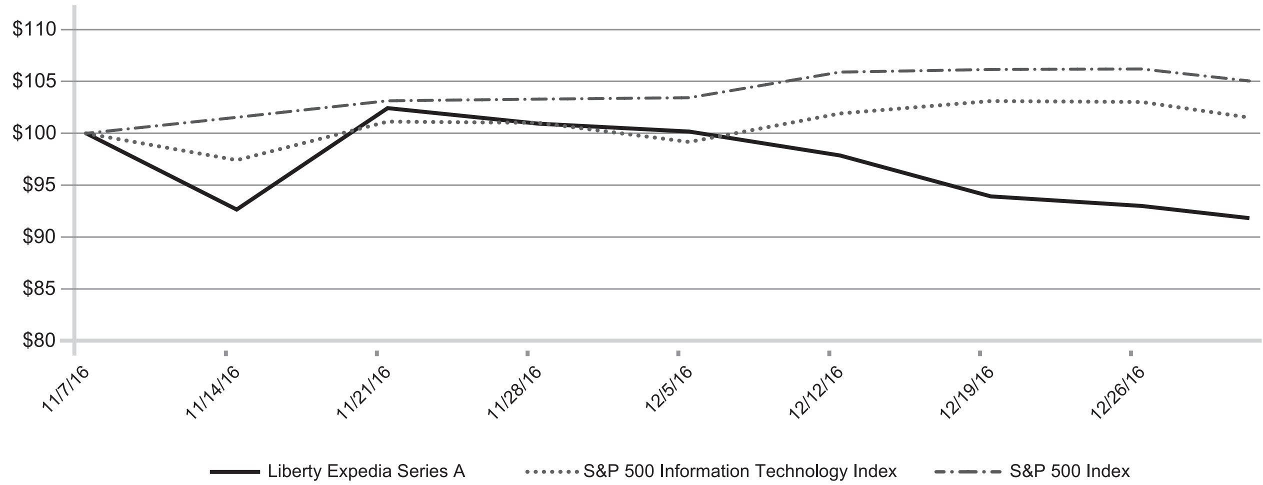
These forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this Annual Report, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based. When considering such forward-looking statements, you should keep in mind any risk factors identified and other cautionary statements contained in this Annual Report and in our publicly filed documents, including our most recent Forms 10-K and 10-Q. Such risk factors and statements describe circumstances which could cause actual results to differ materially from those contained in any forward-looking statement.

This Annual Report includes information concerning Expedia, Inc., a public company in which we have a controlling interest that files reports and other information with the SEC in accordance with the Securities Exchange Act of 1934, as amended. Information contained in this Annual Report concerning this company has been derived from the reports and other information filed by it with the SEC. If you would like further information about this company, the reports and other information it files with the SEC can be accessed on the Internet website maintained by the SEC at www.sec.gov. Those reports and other information are not incorporated by reference in this Annual Report.

STOCK PERFORMANCE

The following graph compares the percentage change in the cumulative total stockholder return on an investment in Liberty Expedia Series A common stock from November 7, 2016 (the day Liberty Expedia began trading "regular-way" following its split-off from Liberty Interactive Corporation) through December 31, 2016, in comparison to the S&P 500 Information Technology Index and S&P 500 Index.

Liberty Expedia Common Stock vs. S&P 500 Information Technology and S&P 500 Indices
11/7/16 to 12/31/16



	11/7/2016	12/31/2016
Liberty Expedia Series A	$100.00	$91.81
S&P 500 Information Technology Index	$100.00	$101.52
S&P 500 Index	$100.00	$105.03

Note: Chart excludes the Liberty Expedia Series B shares, as there was a de minimis amount of trading in the period from November 7, 2016 through December 31, 2016.

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Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Each series of our common stock has been outstanding since November 4, 2016. Our Series A and Series B common stock trades on the Nasdaq Global Select Market under the symbols "LEXEA" and "LEXEB," respectively. The following table sets forth the range of high and low sales prices of shares of each series of our common stock for periods they were outstanding during the year ended December 31, 2016.

	Series A (LEXEA)		Series B (LEXEB)	
	High	**Low**	**High**	**Low**
2016				
Fourth quarter (after November 4, 2016)	$ 45.43	39.05	41.00	41.00

Holders

As of January 31, 2017, there were 993 and 62 record holders of our Series A and Series B common stock, respectively. The foregoing numbers of record holders do not include the number of stockholders whose shares are held nominally by banks, brokerage houses or other institutions, but include each such institution as one shareholder.

Dividends

We have not paid any cash dividends on our common stock, and we have no present intention of so doing. Payment of cash dividends, if any, in the future will be determined by our board of directors in light of our earnings, financial condition and other relevant considerations.

Securities Authorized for Issuance Under Equity Compensation Plans

Information required by this item is incorporated by reference to our definitive proxy statement for our 2017 Annual Meeting of Stockholders.

Purchases of Equity Securities by the Issuer

The following table sets forth information concerning the Company's purchase of Series B Expedia Holdings common stock during the three months ended December 31, 2016:

Period	Total Number of Shares Purchased / Surrendered (1)	Average Price Paid per Share	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs
November 4 - 30, 2016	95	$ 43.61	None	None
December 1 - 31, 2016	None	NA	None	None
Total	95		None	

(1) Stockholders who received shares of Expedia Holdings common stock in the Expedia Holdings Split-Off were paid cash in lieu of fractional shares of Expedia Holdings Series A and Series B common stock. In order to fund the cash payments made to holders of shares of Expedia Holdings Series B common stock, the fractional shares that would have otherwise been issued to those holders were aggregated by the Company's transfer agent and repurchased by Expedia Holdings.

During the three months ended December 31, 2016, 2,046 shares of Series A 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.

Selected Financial Data.

The following tables present selected historical financial statement information relating to our financial condition and results of operations for the past five years. Certain prior period amounts have been reclassified for comparability with the current year presentation. The following data should be read in conjunction with the accompanying consolidated financial statements.

Summary Balance Sheet Data:

	December 31,				
	2016 (1)	2015	2014	2013	2012
	amounts in millions				
Cash and cash equivalents	$ 1,851	2	2	3	3
Accounts receivable, net	$ 1,345	1	1	1	2
Investment in Expedia	$ —	927	514	477	431
Intangible assets not subject to amortization	$ 22,740	77	77	77	77
Intangible assets subject to amortization, net	$ 6,363	24	22	22	22
Total assets	$ 33,982	1,126	706	678	594
Accounts payable, merchant	$ 1,509	—	—	—	—
Total related party notes payable (2)	$ —	—	16	20	24
Total debt and capital lease obligations, including current	$ 3,795	41	36	39	16
Deferred income tax liabilities	$ 3,477	304	156	148	142
Total equity	$ 20,292	672	390	357	316

Summary Statement of Operations Data:

	Year ended December 31,				
	2016 (1)	2015	2014	2013	2012
	amounts in millions				
Revenue	$ 1,581	465	455	421	321
Gross profit	$ 1,055	113	101	93	76
Operating income	$ (389)	10	10	9	9
Interest expense	$ (19)	(1)	(1)	(1)	—
Share of earnings (losses) of Expedia	$ 26	117	58	31	67
Realized and unrealized gains (losses) on financial instruments, net	$ —	—	—	—	(270)
Gains (losses) on transactions, net	$ 2,005	—	—	—	443
Gain (loss) on dilution of investment in Expedia	$ (2)	320	3	(1)	1
Net earnings (loss) attributable to Expedia Holdings shareholders	$ 2,292	281	45	25	157
Basic earnings (loss) attributable to Series A and Series B Expedia Holdings shareholders per common share (3)	$ 40.21	4.94	0.80	0.44	2.75
Diluted earnings (loss) attributable to Series A and Series B Expedia Holdings shareholders per common share (3)	$ 39.52	4.94	0.80	0.44	2.75

(1) As discussed in note 3 to the accompanying consolidated financial statements, in connection with the Expedia Holdings Split-Off, pursuant to the Governance Agreement and proxy arrangements, Expedia Holdings may now exercise its approximately 52.3% voting interest in Expedia. As a result, Expedia Holdings began consolidating Expedia upon completion of the Expedia Holdings Split-Off. 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.

(2) As discussed in note 11 to the accompanying consolidated financial statements, as part of a contribution agreement entered into by Liberty Interactive and Vitalize on October 15, 2015, the balance of the related party note payable and accrued interest was contributed to equity.

(3) We issued 56,946,673 common shares, which is the aggregate number of shares of Series A and Series B common stock outstanding upon the completion of the Expedia Holdings Split-Off on November 4, 2016. The number of shares issued upon completion of the Expedia Holdings Split-Off was used to determine both basic and diluted earnings (loss) per share for the years ended December 31, 2015, 2014, 2013 and 2012 and for the period from January 1, 2016 through the date of the Expedia Holdings Split-Off, as no Company equity awards were outstanding prior to the Expedia Holdings Split-Off. Basic earnings (loss) per share subsequent to the Expedia Holdings Split-Off was computed using the weighted average number of shares outstanding ("WASO") from the date of the completion of the Expedia Holdings Split-Off through December 31, 2016. Diluted earnings per share subsequent to the Expedia Holdings Split-Off was computed using the WASO from the date of the completion of the Expedia Holdings Split-Off through December 31, 2016, adjusted for potentially dilutive equity awards outstanding during the same period.

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

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 consolidated financial statements and the notes thereto. References in this section to "our company," "our business," "us," "we" and words of similar effect refer to Expedia Holdings. See note 2 in the accompanying consolidated financial statements for an overview of 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") authorized management to pursue a plan to distribute to holders of its Liberty Ventures common stock shares of a newly formed entity, Liberty Expedia Holdings, Inc. ("Expedia Holdings," the "Company," "us," "we," or "our" as discussed below) (the "Expedia Holdings Split-Off"). Following the Expedia Holdings Split-Off, Expedia Holdings is comprised of, among other things, Liberty Interactive's former ownership interest in Expedia, Inc. ("Expedia"), as well as Liberty Interactive's former wholly-owned subsidiary Bodybuilding.com, LLC. As of December 31, 2016, Expedia Holdings beneficially owned approximately 15.7% of the outstanding Expedia common stock and 52.3% of the voting interest in Expedia. Bodybuilding.com, LLC became a wholly owned subsidiary of Liberty Interactive in October 2015 when Liberty Interactive purchased the remaining ownership interest in Bodybuilding.com, LLC. In 2016, Bodybuilding.com, LLC underwent a corporate restructuring, which resulted in Bodybuilding.com, LLC becoming a wholly-owned subsidiary of Vitalize, LLC ("Vitalize").

The Expedia Holdings Split-Off was accomplished by the redemption by Liberty Interactive on a per share basis of, (i) 0.4 of each outstanding share of Liberty Interactive's Series A Liberty Ventures common stock as of 5:00 p.m., New York City time, on November 4, 2016 (such date and time, the "Redemption Date") for 0.4 of a share of Expedia Holdings' Series A common stock, and (ii) 0.4 of each outstanding share of Liberty Interactive's Series B Liberty Ventures common stock as of the Redemption Date for 0.4 of a share of Expedia Holdings' Series B common stock, with cash paid in lieu of any fractional shares of Liberty Interactive's Series A and Series B Liberty Ventures common stock and Expedia Holdings' Series A and Series B common stock. Following the Expedia Holdings Split-Off, Expedia Holdings and Liberty Interactive operate as separate, publicly traded companies. The Expedia Holdings Split-Off is intended to be tax-free to Liberty Interactive and stockholders of Liberty Ventures.

Overview

We own an approximate 15.7% equity interest and 52.3% voting interest in Expedia as of December 31, 2016. Historically, Liberty Interactive was (and, following the completion of the Expedia Holdings Split-Off, the Company is) a party to a stockholders agreement (the "Stockholders Agreement") with Mr. Barry Diller, Chairman of the Board and Senior Executive Officer of Expedia, 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 (the "Expedia class B common stock," and together with EXPE, the "Expedia common stock") then owned by Liberty Interactive. Liberty Interactive was also subject to a governance agreement (the "Governance Agreement") with Expedia which provided for the right to nominate

20% of the members of Expedia's board of directors, which is currently comprised of 13 members (three of which were nominated by Liberty Interactive). The Governance Agreement also provided for registration and other rights, and imposed certain restrictions on the ownership of shares of Expedia class B common stock. Pursuant to the Governance Agreement, Liberty Interactive had (and, following the completion of the Expedia Holdings Split-Off, the Company has) preemptive rights that entitle it to purchase a number of shares of Expedia common stock (excluding certain issuances related to options, warrants or convertible securities) so that Liberty Interactive or the Company, as applicable, will maintain the identical ownership interest in Expedia (subject to certain adjustments) that it had immediately prior to such issuance or proposed issuance (but not in excess of 20.01%). Any purchase by Liberty Interactive or the Company, as applicable, would or will be allocated between EXPE and Expedia class B common stock in the same proportion as the issuance or issuances giving rise to the preemptive right, except to the extent that Liberty Interactive or the Company, as applicable, opted or opts to acquire shares of EXPE in lieu of shares of Expedia class B common stock. Based on the Stockholders Agreement and the Governance Agreement, the Company determined that, prior to the Expedia Holdings Split-Off, it did not control Expedia but instead had significant influence with respect to Expedia and accordingly, accounted for its investment in Expedia as an equity method affiliate.

In connection with the Expedia Holdings Split-Off, (a), the Governance Agreement and Stockholders Agreement were assigned by Liberty Interactive to the Company and (b) Mr. Diller ceased to directly control a majority voting interest in Expedia by irrevocably assigning (the “Diller Assignment”) the Diller Proxy to the Company for a period of time up to 18 months following completion of the Expedia Holdings Split-Off, 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 (“Malone”), Leslie Malone (“Mrs. Malone” and together with Malone, the “Malone Group”), Liberty Interactive and the Company (the “Amended and Restated Transaction Agreement” and the date on which such termination event occurs, the “Proxy Arrangement Termination Date”). By virtue of (i) certain governance rights with respect to the Company as set forth in the Company’s restated certificate of incorporation, an amendment to the Stockholders Agreement and the Amended and Restated Transaction Agreement and (ii) the grant by the Malone Group to Mr. Diller of an irrevocable proxy to vote, subject to certain exceptions, shares of the Company’s common stock beneficially owned by the Malone Group upon the completion of the Expedia Holdings Split-Off or thereafter for a period of time ending upon termination of Mr. Diller's assignment of the Diller Proxy (the arrangements described in clauses (i) and (ii), together with the Diller Assignment, the “proxy arrangements”), Mr. Diller will be able to elect and replace the directors of the Company who will determine how the Company will exercise certain rights and vote the shares of EXPE and Expedia class B common stock owned by the Company in the election of Expedia directors, though Malone will retain the ability to remove such directors of the Company. The rights under the Governance Agreement and Stockholders Agreement, each as assigned and amended, will be maintained even upon termination of the proxy arrangements. As a result, 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.

In 2016, Bodybuilding.com, LLC underwent a corporate restructuring, which resulted in Bodybuilding.com, LLC becoming a wholly-owned subsidiary of Vitalize. Effective November 17, 2016, Bodybuilding.com, LLC amended its Certificate of Formation in the State of Delaware to change its name to Vitalize, LLC, and a new Bodybuilding.com, LLC (“Bodybuilding”) was formed in the state of Delaware, effective November 1, 2016. In addition to the new Bodybuilding, which will continue to offer online retail sales of dietary supplements, Vitalize also formed Verity Nutrition, LLC (“Verity Nutrition”) on August 23, 2016 and WeMotivate, LLC (“WeMotivate”) on October 19, 2016, both of which are also wholly-owned subsidiaries of Vitalize. Effective January 1, 2017, the financial results for Vitalize, Bodybuilding, WeMotivate, and Verity Nutrition will take this new corporate structure into account. The financial results for Vitalize are all attributable to Bodybuilding, its wholly owned subsidiary, for the years ended December 31, 2016, 2015 and 2014.

The financial information represents a combination of the historical financial information of Vitalize and Liberty Interactive's interest in Expedia. This financial information refers to the consolidation of the aforementioned subsidiary and investment as "Expedia Holdings," "the Company," "us," "we" and "our" here and in the notes to the consolidated financial statements.

Strategies and Challenges

Executive Summary

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.

Vitalize is primarily an Internet retailer of sports, fitness, dietary supplements, and other health and wellness products. It is also a large publisher of online health and fitness content, offering complimentary fitness content, workout programs, video trainers, articles, recipes, health advice and motivational stories. The online model also includes a combination of detailed product information and real-time user reviews to help its visitors achieve their health and fitness goals. Visitors include gym-goers, athletes, weightlifters and bodybuilders, and any individual wanting to improve their mental and physical well-being through diet and exercise. Vitalize launched its Bodybuilding.com website in 1999 which now includes more than 30,000 pages of editorial content, 10,000 videos and 16,000 pages of store content. Its properties encompass more than 30 million monthly unique visitors that create an inclusive fitness community that allows people of all health and fitness levels to track their progress and discuss goals, techniques, supplementation and achievements.

Our results prior to November 4, 2016 were largely dependent on the operating performance of Vitalize. Upon the completion of the Expedia Holdings Split-Off and for future periods, Expedia Holdings results have been and will be largely dependent upon the operating performance of Expedia. Therefore, the executive summary below contains the strategies and challenges of Expedia for an understanding of the business objectives of Expedia, our most significant operating business. In addition, we have included challenges and strategies related to Vitalize.

Key Drivers of Revenue

Expedia revenue is primarily derived from the facilitation of the booking of hotel rooms, airline seats, car rentals and destination services from their travel suppliers, commissions or ticketing fees from travel suppliers and/or travelers and revenue from click-through fees charged to their travel partners for traveler leads sent to the travel partners' websites. Expedia also earns revenue from term-based paid subscriptions for vacation rental listings and other ancillary services provided to property owners and managers. Expedia expects to continue to grow revenue through technology and product innovation, global expansion and new channel penetration.

Vitalize primarily earns revenue from the sale of health and fitness supplements and accessories on its Bodybuilding.com website and mobile properties, with a very limited amount of sales coming from advertising revenue. Vitalize markets approximately 550 globally recognized brands, including several brands exclusive to its retail channel. Through its Bodybuilding.com website, Vitalize offers directly to its customers one of the largest varieties of supplements, vitamins and minerals with approximately 18,000 stock keeping units, and delivers its products primarily through its fulfillment centers. Vitalize is diligent about offering a broad spectrum of products to meet the needs of its customers but also develops, identifies and retains exclusive brands for its customers. Vitalize expects to drive revenue by continuing to sell supplements, increase advertising revenue on its properties, further leverage its fitness related content, and optimize its online and mobile properties for a better shopping and online customer experience. Vitalize's business is slightly seasonal; the first quarter of the year is its busiest, as people start to implement their New Year's resolutions towards health and fitness.

Current Trends Affecting Our Business

Expedia faces strong and increasing competition from online and offline travel companies that target leisure and corporate travelers, including travel agencies, tour operators, travel supplier direct websites and their call centers, consolidators and wholesalers of travel products and services, large online portals and search websites, certain travel meta-search websites, mobile travel applications, social media websites, as well as traditional consumer eCommerce and group buying websites. Expedia faces these competitors in local, regional, national and/or international markets. In some cases, competitors are offering favorable terms and improved interfaces to suppliers and travelers which make competition increasingly difficult. Expedia also faces competition for customer traffic on Internet search engines and metasearch websites, which impacts their customer acquisition and marketing costs. Political instability, geopolitical conflicts, acts of terrorism, significant fluctuations in currency values, sovereign debt issues and macroeconomic concerns are examples of events that contribute to a somewhat uncertain environment, which could have a negative impact on the travel industry in the future.

Vitalize competes primarily against other specialty and online retailers, supermarkets, drugstores, mass merchants, multi-level marketing organizations and mail order companies. Vitalize faces these competitors in both domestic and international markets. This market is sensitive to fitness trends, product and shipping prices, government regulation, foreign currency exchange rates and the introduction of new products. As sports nutrition products become more mainstream, the size of the total addressable market will continue to increase. This will positively impact Vitalize's opportunity to serve more customers, but also attracts competition to this market. More online retailers, such as Amazon.com, have recently expanded their sports nutrition product offerings, and it is expected that such offerings will continue to put pressure on Vitalize’s ability to attract new customers as well as retain current customers. In addition, mobile visitors to its website continue to make up a larger portion of its total traffic. The capacity to increase total traffic and the ability to provide the full value proposition to visitors on a mobile platform is challenging, and these visitors make purchases at a lower rate than traditional desktop visitors. Vitalize expects these trends to negatively impact its domestic and international sales and profitability in the near-term.

Vitalize and Expedia must stay abreast of rapidly evolving technological developments and offerings to remain competitive and increase the utility of their products and services. As their operations grow in size and scope, they must continuously improve and upgrade their systems and infrastructure while maintaining or improving the reliability and integrity of their systems and infrastructure. These companies must be able to incorporate new technologies into their products and services in order to address the needs of their customers.

Results of Operations—Years Ended December 31, 2016, 2015 and 2014

The amounts included in the table below represent the Company’s results for each of the years ended December 31, 2016, 2015 and 2014, as well as a year over year comparison of revenue, operating income (loss) and Adjusted OIBDA for the years ended December 31, 2016 and 2015 on a pro forma basis, prepared utilizing the historical financial statements of Expedia, giving effect to acquisition accounting related adjustments made at the time of acquisitions, as if the consolidation of Expedia was completed on January 1, 2015. The pro forma information is not representative of the Company’s future results of operations nor does it reflect what the Company’s results of operations would have been as if the transaction had happened previously and the Company consolidated Expedia during the periods presented.

Consolidated operating results:

	Year ended December 31,			Pro forma Year ended December 31,	
	2016	**2015**	**2014**	**2016**	**2015**
	amounts in millions				
Revenue					
Expedia	$ 1,170	NA	NA		
Vitalize	411	465	455		
Consolidated Expedia Holdings	$ 1,581	465	455	9,185	6,987
Operating income (loss)					
Expedia	$ (383)	NA	NA		
Vitalize	(3)	10	10		
Corporate and other	(3)	—	—		
Consolidated Expedia Holdings	$ (389)	10	10	(1,114)	(1,816)
Adjusted OIBDA					
Expedia	$ 133	NA	NA		
Vitalize	15	33	31		
Corporate and other	(2)	—	—		
Consolidated Expedia Holdings	$ 146	33	31	1,616	942

Expedia Holdings began consolidating the results of Expedia beginning on November 4, 2016, in connection with the completion of the Expedia Holdings Split-Off. The operating results in the table above include Expedia’s consolidated results for the period November 4, 2016 through December 31, 2016. See “Results of Operations – Businesses” below for a more detailed discussion of Expedia’s and Vitalize’s stand alone results.

Revenue

Consolidated Expedia Holdings revenue increased $1.1 billion and $10 million for the years ended December 31, 2016 and 2015, respectively, as compared to the corresponding prior year periods.

Overall the increase in revenue during 2016 was primarily due to revenue from Expedia as a result of the consolidation of Expedia in connection with the Expedia Holdings Split-Off on November 4, 2016. The $1,170 million increase in revenue due to the consolidation of Expedia was partially offset by a $54 million decrease in Vitalize revenue during the year. The overall increase in revenue during 2015 was due to an increase in Vitalize revenue.

On a pro forma basis, total revenue increased by $2.2 billion for the year ended December 31, 2016 compared to the year ended December 31, 2015. The increase in revenue on a pro forma basis is primarily due to a $2.1 billion increase in Expedia's actual stand-alone revenue for the same period.

Operating Income (Loss)

Consolidated Expedia Holdings operating income (loss) declined $399 million and remained flat for the years ended December 31, 2016 and 2015, respectively, as compared to the corresponding prior year periods.

Expedia operating loss increased $383 million during the year ended December 31, 2016 when compared to the same period in 2015, due to the consolidation of Expedia in connection with the completion of the Expedia Holdings Split-Off on November 4, 2016. Expedia's operating loss for the year ended December 31, 2016 includes $439 million of operating losses due to acquisition accounting adjustments. Vitalize operating income declined $13 million for the year ended December 31, 2016 as compared to the corresponding prior year, primarily as a result of a $54 million decline in revenue, as discussed above, partially offset by a $41 million decrease in in operating expenses, including a $2 million decline in depreciation and amortization expense and a $3 million decline in stock-based compensation expense. Additionally, corporate and other operating loss increased by $3 million during the year ended December 31, 2016 when compared to the same period in 2015, due to costs incurred by the Company in connection with the Expedia Holdings Split-Off as well as corporate overhead and personnel costs and stock-based compensation expense associated with awards granted to employees of Expedia Holdings subsequent to the Expedia Holdings Split-Off.

Vitalize operating income remained flat for the year ended December 31, 2015 as compared to the corresponding prior year, primarily as a result of a $10 million increase in revenue, as discussed above, offset by a $10 million increase in operating expenses during the year, including a $2 million increase in depreciation and amortization expense.

On a pro forma basis, operating loss improved by $702 million for the year ended December 31, 2016 compared to the year ended December 31, 2015. The pro forma improvement in operating loss is primarily attributable to a $670 million improvement in acquisition accounting-related adjustments in 2016 as compared to 2015 due to an accelerated amortization model based on estimated usage. Expedia's actual stand-alone operating income improved $48 million for the same period.

Adjusted OIBDA

We define Adjusted OIBDA as revenue less cost of sales, operating expenses and selling, general and administrative expenses (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 costs such as legal reserves, occupancy tax and other, restructuring and related reorganization charges, depreciation and amortization, stock-based compensation, separately reported litigation settlements and impairment charges that are included in the measurement of operating income pursuant to generally accepted accounting principles ("GAAP"). Accordingly, Adjusted OIBDA should be considered in addition to, but not as a substitute for operating income, net income, cash flow provided by operating activities and other measures of financial performance prepared in accordance with GAAP. See note 12 to the accompanying consolidated financial statements for a reconciliation of Adjusted OIBDA to operating income (loss) and earnings (loss) before income taxes.

Consolidated Expedia Holdings Adjusted OIBDA increased $113 million and $2 million during the years ended December 31, 2016 and 2015, respectively, as compared to the corresponding prior year periods.

Expedia Adjusted OIBDA increased $133 million during the year ended December 31, 2016 when compared to the same period in 2015, due to the consolidation of Expedia in connection with the completion of the Expedia Holdings Split-Off on November 4, 2016. Expedia's Adjusted OIBDA for the year ended December 31, 2016 includes an $84 million decrease in revenue as a result of acquisition accounting adjustments. Vitalize Adjusted OIBDA declined $18 million for the year ended December 31, 2016 as compared to the corresponding prior year, primarily as a result of a $54 million decrease in revenue and a $14 million increase in selling, general and administrative expense, partially offset by a $49 million decrease in cost of product sales. Additionally, Corporate and other Adjusted OBIDA decreased $2 million during the year ended December 31, 2016, as compared to the corresponding prior year, due to corporate and other expenses incurred by the Company subsequent to the completion of the Expedia Holdings Split-Off on November 4, 2016. Corporate and other Adjusted OIBDA consists primarily of costs incurred by the Company in connection with the Expedia Holdings Split-Off as well as corporate overhead and personnel costs.

The increase in Consolidated Expedia Holdings Adjusted OIBDA during the year ended December 31, 2015 was driven by Vitalize's results of operations, including a $10 million increase in revenue, as discussed above, as well as a $2 million decrease in cost of retail sales, partially offset by a $3 million increase in operating expenses and a $7 million increase in selling, general and administrative expenses.

On a pro forma basis, Adjusted OIBDA improved by $674 million for the year ended December 31, 2016 compared to the year ended December 31, 2015. Expedia's actual stand-alone Adjusted OIBDA improved $544 million for the same period. Additionally, the pro forma improvement in Adjusted OIBDA is due to a $150 million improvement in acquisition accounting-related adjustments in 2016 as compared to 2015 due to deferred revenue adjustments that are fully recognized during the initial fiscal year of consolidation.

Other Income and Expense:

Components of Other Income (Expense) are presented in the table below.

	Year ended December 31, 2016	2015	2014
		amounts in millions	
Interest expense			
Expedia	$ (17)	—	—
Vitalize	(1)	(1)	(1)
Corporate and other	(1)	—	—
Consolidated Expedia Holdings	$ (19)	(1)	(1)
Related party interest expense			
Expedia	$ —	—	—
Vitalize	—	(1)	(2)
Corporate and other	—	—	—
Consolidated Expedia Holdings	$ —	(1)	(2)
Share of earnings (loss) of Expedia			
Expedia	$ —	—	—
Vitalize	—	—	—
Corporate and other	26	117	58
Consolidated Expedia Holdings	$ 26	117	58
Gain (loss) on dilution of investment in Expedia			
Expedia	$ —	—	—
Vitalize	—	—	—
Corporate and other	(2)	320	3
Consolidated Expedia Holdings	$ (2)	320	3
Gain on consolidation of Expedia			
Expedia	$ —	—	—
Vitalize	—	—	—
Corporate and other	2,005	—	—
Consolidated Expedia Holdings	$ 2,005	—	—
Other, net			
Expedia	$ 1	—	—
Vitalize	(1)	—	(1)
Corporate and other	—	—	—
Consolidated Expedia Holdings	$ —	—	(1)

Interest expense

Consolidated Expedia Holdings interest expense increased $18 million and remained flat for the years ended December 31, 2016 and 2015, respectively, as compared to the corresponding prior year periods. The increase in 2016 was primarily due to the consolidation of Expedia in connection with the Expedia Holdings Split-Off and approximately $1 million interest expense associated with outstanding borrowings of $350 million on a margin loan entered into by the Company on November 1, 2016.

Related party interest expense

Related party interest decreased approximately $1 million for each of the years ended December 31, 2016 and 2015, respectively, as compared to the corresponding prior year periods. Vitalize had an outstanding note with its former parent company, Liberty Interactive (the "Liberty Note"), in the amount of approximately $16 million. The Liberty Note required Vitalize to make interest only payments at a 10% interest rate on a quarterly basis with the final payment due January 31, 2020. As part of a contribution agreement entered into by Liberty Interactive and Vitalize on October 15, 2015, the balance of the note and accrued interest was considered contributed equity. The decrease in both the years ended December 31, 2016 and 2015 was due to the payment of outstanding principal during each of the periods as well as the contribution of the note to equity in the fourth quarter of 2015.

Share of earnings (losses) of Expedia

The Company’s share of earnings of Expedia decreased $91 million and increased $59 million during the years ended December 31, 2016 and 2015, respectively, as compared to the corresponding prior year periods. The decrease in Expedia Holdings' share of Expedia's earnings in 2016 is due to an overall decrease in Expedia’s results of operations for the year ended December 31, 2016 and compared to the prior year, and due to the Expedia Holdings Split-Off, the Company only recognized Expedia’s share of earnings through November 4, 2016 instead of a full year. The increase in 2015 was primarily due to a significant gain Expedia recognized on the sale of a business during the year ended December 31, 2015.

In connection with the Expedia Holdings Split-Off, (a), the Governance Agreement and Stockholders Agreement were assigned by Liberty Interactive to the Company and (b) Mr. Diller ceased to directly control a majority voting interest in Expedia by irrevocably assigning the Diller Proxy to the Company for a period of time up to 18 months following completion of the Expedia Holdings Split-Off, subject to certain termination events. As a result, 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. In conjunction with application of acquisition accounting, we recorded a full step up in basis of Expedia along with a gain related to a difference between our historical basis and the fair value of our interest in Expedia.

Gain (loss) on dilution of investment in Expedia

The Company had a loss on dilution of its investment in Expedia of $2 million and gains on dilution of investment of $320 million and $3 million during the years ended December 31, 2016, 2015 and 2014, respectively. Changes in the Company’s proportionate share of the underlying equity of its investment in Expedia, as accounted for under the equity method, which resulted from the issuance of additional equity securities by Expedia to investors other than the Company, were recognized in the Company’s consolidated statement of operations through the gain (loss) on dilution of investment in Expedia line item. Dilution losses were due to the issuance of Expedia common stock from the exercise of warrants and stock options, held by outside investors (employees and other third parties), at prices below the Company’s book basis per share. Alternatively, dilution gains were due to the issuance of Expedia common stock from the exercise of warrants and stock options, held by outside investors (employees and other third parties), at prices above the Company’s book basis per share. The significant gain in 2015 was primarily due to an acquisition by Expedia that was executed partially through the issuance of shares of Expedia common stock. This diluted our ownership percentage and is treated like a sale at a price greater than our cost basis.

Gain on consolidation of Expedia

On November 4, 2016, in connection with the completion of the Expedia Holdings Split-Off, we acquired a controlling interest in Expedia which resulted in the application of acquisition accounting and the consolidation of Expedia on that date. Expedia Holdings recorded a gain of approximately $2.0 billion associated with application of acquisition accounting based on the difference between fair value and the carrying value of the ownership interest Expedia Holdings had in Expedia prior to the acquisition of the controlling interest. See note 3 in the accompanying consolidated financial statements for additional discussion regarding this transaction.

Income taxes

The Company had an income tax benefit of $451 million and income tax expenses of $163 million and $21 million for the years ended December 31, 2016, 2015 and 2014, respectively. Our effective tax rate for the years ended December 31, 2016, 2015 and 2014 was 28%, 37% and 31%, respectively. The 2016 effective tax rate is less than the U.S. federal income tax rate of 35% due primarily to the consolidation of a previously held equity method affiliate in the current period that triggered a gain for accounting purposes but not for tax purposes and the reversal of the deferred tax liability related to the equity method affiliate, which resulted in additional tax benefit. The 2015 effective tax rate is greater than the U.S. federal income tax rate of 35% primarily due to the impact of state taxes, partially offset by the impact of the dividends received deduction on dividends from Expedia. The 2014 effective tax rate is less than the U.S. federal income tax rate of 35% primarily due to the impact of the dividends received deduction on dividends from Expedia, partially offset by the impact of state taxes.

Net earnings (losses)

We had net earnings of $2,072 million, $282 million and $46 million for the years ended December 31, 2016, 2015 and 2014, respectively. The change in net earnings was the result of the above described fluctuations in our revenue, expenses and other income (expense) items discussed above.

Liquidity and Capital Resources

As of December 31, 2016, 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 Vitalize'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.

As of December 31, 2016, the Company had a cash balance of $1,851 million. Approximately $1,797 million of the cash balance is held by Expedia. Although we have an approximate 52.3% voting interest in Expedia as of December 31, 2016, Expedia is a separate public company with a significant noncontrolling interest, as we only have a 15.7% economic interest in Expedia as of December 31, 2016. 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 December 31, 2016, approximately $1.1 billion of Expedia's cash and short-term investment balances are held in wholly-owned foreign subsidiaries (which includes $737 million related to earnings indefinitely invested outside the United States) as well as $313 million held in majority-owned subsidiaries, which is also indefinitely invested outside the United States. Cumulative earnings related to undistributed earnings of certain foreign subsidiaries that Expedia intends to indefinitely reinvest outside of the United States totaled $1.8 billion as of December 31, 2016. To date, Expedia has permanently reinvested the majority of these foreign earnings outside of the United States, and Expedia does not intend to repatriate these earnings to fund U.S. operations. Should Expedia distribute earnings of foreign subsidiaries in the form of dividends or otherwise, it may be subject to U.S. income taxes.

As of December 31, 2016, Expedia has $1.5 billion available for borrowing under its revolving credit facility.

During November 2016, prior to and in conjunction with the Expedia Holdings Split-Off, the Company borrowed $350 million under a new margin loan secured by shares of Expedia and distributed approximately $299 million to Liberty Interactive. As of December 31, 2016, the Company has a corporate cash balance of approximately $54 million and $50 million of availability under the new margin loan to cover corporate costs associated with the new public company structure.

Expedia Holdings does not have a corporate debt rating. As of December 31, 2016, Vitalize was not in compliance with one of its financial covenants related to its fixed charge coverage ratio on approximately $9 million of the Vitalize Secured Notes outstanding (see note 6 to the accompanying consolidated financial statements). The covenant violation was a direct result of a one-time charge for transaction-related tax obligations recorded in the fourth quarter. Subsequent to December 31, 2016, Vitalize obtained a waiver from the lending institutions. Other than this instance, Expedia Holdings, Expedia and Vitalize were in compliance with their debt covenants as of December 31, 2016.

	Year Ended December 31,		
	2016	2015	2014
	amounts in millions		
Cash flow information			
Expedia cash provided (used) by operating activities	$ 127	NA	NA
Vitalize cash provided (used) by operating activities	26	21	25
Corporate and other cash provided (used) by operating activities	13	17	13
Net cash provided (used) by operating activities	$ 166	38	38
Expedia cash provided (used) by investing activities	(118)	NA	NA
Vitalize cash provided (used) by investing activities	(14)	(21)	(18)
Corporate and other cash provided (used) by investing activities	1,725	(22)	(20)
Net cash provided (used) by investing activities	$ 1,593	(43)	(38)
Expedia cash provided (used) by financing activities	104	NA	NA
Vitalize cash provided (used) by financing activities	(14)	6	(2)
Corporate and other cash provided (used) by financing activities	33	—	—
Net cash provided (used) by financing activities	$ 123	6	(2)

During the year ended December 31, 2016, our primary uses of corporate and Vitalize cash included a $316 million net distribution to our former parent, inclusive of approximately $17 million of Expedia dividends received by the Company prior to the Expedia Holdings Split-Off and $299 million distributed in connection with the Expedia Holdings Split-Off. These uses of cash were funded by cash on hand, borrowings of debt and cash provided by operating activities. The significant cash provided by corporate and other investing activities was due to the consolidation of Expedia and its cash on hand at the time of acquisition.

During the year ended December 31, 2015, our primary uses of cash included investments in Expedia of $22 million and capital expenditures at Vitalize of $21 million. These uses of cash were funded by a net $38 million contribution from our former parent, operating activities and additional net borrowings of debt of $1 million.

During the year ended December 31, 2014, our primary uses of cash included investments in Expedia of $20 million and capital expenditures at Vitalize of $18 million. These uses of cash were funded by a net $5 million contribution from our former parent, operating activities and additional net borrowings of debt of $7 million.

During the years ended December 31, 2016, 2015 and 2014, Expedia paid dividends to Expedia Holdings aggregating approximately $17 million, $20 million and $15 million, respectively.

The projected use of our corporate cash may be further investment in the growth of the Vitalize business and potential additional investments in new or existing businesses.

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 our business strategy. Expedia currently estimates its new headquarters will total approximately $650 million, of which approximately $30 million was spent in 2016 and less than $100 million will be spent during 2017. The remainder will be split roughly evenly between 2018 and 2019.

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

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Information concerning the amount and timing of required payments, both accrued and off-balance sheet, under our contractual obligations, excluding uncertain tax positions as it is indeterminable when payments will be made, is summarized below.

	Payments due by period				
	Total	Less than 1 year	2 - 3 years	4 - 5 years	After 5 years
	amounts in millions				
Contractual obligations					
Long-term debt and capital leases (1)	$ 3,560	7	858	762	1,933
Interest payments (2)	$ 1,088	169	325	243	351
Operating lease obligations, including interest (3)	$ 518	122	215	91	90
Purchase obligations (4)	$ 277	247	29	1	—
Guarantees (5)	$ 150	150	—	—	—
Letters of credit (5)	$ 49	44	5	—	—
Total	$ 5,642	739	1,432	1,097	2,374

(1) Amounts are stated at the face amount at maturity of our debt instruments and may differ from the amounts stated in our consolidated balance sheet to the extent debt instruments were issued at a discount or premium. Amounts do not assume additional borrowings or refinancings of existing debt. Amounts assume that outstanding balances were the same through maturity of the notes. For the Expedia unsecured notes that are due in June 2022 and bear interest at 2.5% (the "Expedia 2.5% Notes"), the December 31, 2016 Euro exchange rate was used to convert the Euro 650 million to U.S. Dollars.

(2) Amounts (i) are based on our outstanding debt at December 31, 2016, (ii) assume the interest rates on our variable rate debt remain constant at the December 31, 2016 rates and (iii) assume that our existing debt is repaid at maturity. For the Expedia 2.5% Notes, the December 31, 2016 Euro exchange rate was used to calculate the related U.S. Dollar interest payments.

(3) The leases are for office space and related office equipment. Certain leases contain periodic rent escalation adjustments and renewal options. Lease obligations expire at various dates with the latest maturity in 2026.

(4) Purchase obligations represent the minimum obligations Expedia and Vitalize have under agreements with certain of their vendors and marketing partners. These minimum obligations are less than Expedia's and Vitalize's projected use for those periods. Payments may be more than the minimum obligations based on actual use.

(5) Guarantees and letters of credit ("LOCs") are commitments that represent funding responsibilities that may require Expedia's performance in the event of third-party demands or contingent events. Expedia uses its stand-by LOCs primarily for certain regulatory purposes as well as to secure payment for hotel room transactions to particular hotel properties. Of the outstanding balance of Expedia's stand-by LOCs, $19 million directly reduces the amount available to Expedia from its revolving credit facility. The LOC amounts in the above table represent the amount of commitment expiration per period. In addition, Expedia provides a guarantee to the aviation authorities of certain foreign countries to protect against potential non-delivery of its packaged travel services sold within those countries. These countries hold all travel agents and tour companies to the same standard. Expedia's guarantees also include bonds relating to tax assessments that it is contesting and certain surety bonds related to various company performance obligations.

Critical Accounting Estimates and Policies

The preparation of our financial statements in conformity with GAAP requires us 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. Listed below are the accounting estimates and accounting policies that we believe are critical to our financial statements due to the degree of uncertainty regarding the estimates or assumptions involved and the magnitude of the asset, liability, revenue or expense being reported.

Fair Value of Non-Financial Instruments. Our non-financial instrument valuations are primarily comprised of our determination of the estimated fair value allocation of net tangible and identifiable intangible assets acquired in business combinations, our annual assessment of the recoverability of our goodwill and other nonamortizable intangibles, and our evaluation of the recoverability of our other long-lived assets upon certain triggering events.

The Company periodically reviews the carrying value of its intangible assets with definite lives and other long-lived assets to be used in operations whenever events or changes in circumstances indicate that the carrying amount of the assets or asset groups might not be recoverable. Factors that would necessitate an impairment assessment include a significant adverse change in the extent or manner in which an asset is used, a significant adverse change in legal factors or the business climate that could affect the value of the asset group, or a significant decline in the observable market value of an asset group, among others. If such facts indicate a potential impairment, the recoverability of the asset group is assessed by determining whether the carrying value of the asset group exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the asset group over the remaining economic life of the asset group. If the carrying amount of the asset group is greater than the expected undiscounted cash flows to be generated by such asset group, including its ultimate disposition, an impairment adjustment is recognized.

If the carrying value of our intangible or long-lived assets exceeds their estimated fair value, we are required to write the carrying value down to fair value. Any such writedown is included in impairment expense in our consolidated statement of operations. A high degree of judgment is required to estimate the fair value of our intangible and long-lived assets. We may use quoted market prices, prices for similar assets, present value techniques and other valuation techniques to prepare these estimates. We may need to make estimates of future cash flows and discount rates as well as other assumptions in order to implement these valuation techniques. Due to the high degree of judgment involved in our estimation techniques, any value ultimately derived from our intangible or long-lived assets may differ from our estimate of fair value.

The accounting guidance permits entities to first perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. If the qualitative assessment supports that it is more likely than not that the carrying value of the Company's indefinite-lived intangible assets, other than goodwill, exceeds its fair value, then a quantitative assessment is performed. As of December 31, 2016, the Company had approximately $23 billion of indefinite lived intangible assets.

We perform our annual assessment of the recoverability of our goodwill in the fourth quarter each year. The Company utilizes a qualitative assessment for determining whether step one of the goodwill impairment analysis is necessary. The accounting guidance permits entities to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. In evaluating goodwill on a qualitative basis, the Company reviews the business performance of each reporting unit and evaluates other relevant factors as identified in the relevant accounting guidance to determine whether it is more likely than not that an indicated impairment exists for any of our reporting units. The Company considers whether there are any negative macroeconomic conditions, industry specific conditions, market changes, increased competition, increased costs in doing business, management challenges, the legal environments and how these factors might impact company specific performance in future periods. As part of the analysis, the Company also considers fair value determinations for certain reporting units that have been made at various points throughout the current and prior year for other purposes. At December 31, 2016, it was determined that no indication of impairment existed.

Revenue Recognition and Retail Related Adjustments. Service revenue is recognized when it is earned and realizable based on the following criteria: persuasive evidence that an arrangement exists, services have been rendered, the price is fixed or determinable and collectability is reasonably assured.

Revenue from product sales is recognized when all the following criteria are met: a customer executes an order, the sales price and shipping charge has been determined, credit card authorization has occurred and collection is reasonably assured and it is probable that the product has been received by the customer, based on estimated delivery times. Shipping charges billed to customers are classified as revenue. The sales price of orders that have been shipped, but for which the Company estimates that the order has not yet been received by the customer, is recorded as deferred revenue and included in other current liabilities.

An allowance for returned merchandise is provided as a percentage of sales based on historical experience. The total reduction in sales due to returns for the years ended December 31, 2016, 2015 and 2014 aggregated $5 million, $5 million and $6 million, respectively.

In May 2014, the Financial Accounting Standards Board (“FASB”) issued new accounting guidance on revenue from contracts with customers. The new guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This new guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In March 2016, the FASB issued additional guidance which clarifies principal versus agent considerations, and in April 2016, the FASB issued further guidance which clarifies the identification of performance obligations and the implementation guidance for licensing. The updated guidance will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or modified retrospective transition method. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, and early adoption is permitted only for fiscal years beginning after December 15, 2016. The Company has not yet selected a transition method and is currently working with our subsidiaries to evaluate the quantitative effect that the updated standard will have on the Company's consolidated financial statements and related disclosures. Significant progress has been made toward completing the evaluation of potential changes from adopting the new standard. We will continue to provide updates as to the progress of our evaluation in our quarterly reports during 2017.

Accounting for Certain Merchant Revenue. Expedia accrues the cost of certain merchant revenue based on the amount expected to be billed by suppliers. In certain instances when a supplier invoices Expedia for less than the cost accrued, Expedia generally recognizes those amounts as revenue six months in arrears, net of an allowance, when it is determined that it is not probable that Expedia will be required to pay the supplier, based on historical experience and contract terms. Actual revenue could be greater or less than the amounts estimated due to changes in hotel billing practices or changes in traveler behavior.

Loyalty Program Accruals. Expedia offers certain internally administered traveler loyalty programs to its customers, such as its Hotels.com Rewards program, Brand Expedia Expedia+ rewards program and Orbitz rewards program. Hotels.com Rewards offers travelers one free night at any Hotels.com partner property after that traveler stays 10 nights, subject to certain restrictions. Expedia+ rewards enables participating travelers to earn points on all hotel, flight, package and activities made on over 30 Brand Expedia websites. Orbitz Rewards allows travelers to earn Orbucks℠ , 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 records a liability for the estimated future cost of redemptions. The cost of these loyalty points is recorded as a reduction to revenue in the consolidated financial statements. Expedia determines the future redemption obligation based on judgment factors including: (i) the estimated cost of travel products to be redeemed, and (ii) an estimated redemption rate based on the overall accumulation and usage of points towards free travel products, which is determined through current and historical trends as well as statistical modeling techniques. The actual future cost and rate of redemptions could differ materially from Expedia's estimates.

Other Long-Term Liabilities.

Various Legal and Tax Contingencies. The Company records liabilities to address potential exposures related to business and tax positions taken that have been or could be challenged by taxing authorities. In addition, the Company records liabilities associated with legal proceedings and lawsuits. These liabilities are recorded when the likelihood of payment is probable and the amounts can be reasonably estimated. The determination for required liabilities is based upon analysis of each individual tax issue, or legal proceeding, taking into consideration the likelihood of adverse judgments and the range of possible loss. In addition, management's analysis may be based on discussions with outside legal counsel. The ultimate resolution of these potential tax exposures and legal proceedings may be greater or less than the liabilities recorded.

Occupancy Tax. Some states and localities impose a transient occupancy or accommodation tax on the use or occupancy of hotel accommodations. Generally, hotels collect taxes based on the rate paid to the hotel and remit these taxes to the various tax authorities. When a customer books a room through one of Expedia's travel services, Expedia collects a tax recovery charge from the customer which Expedia pays to the hotel. The tax recovery charge is calculated by applying the occupancy tax rate supplied to Expedia by the hotels to the amount that the hotel has agreed to receive for the rental of the room by the consumer. In all but a limited number of jurisdictions, Expedia does not collect or remit occupancy taxes, nor does Expedia pay occupancy taxes to the hotel operator, on the portion of the customer payment it retains. Some jurisdictions have questioned Expedia's practice in this regard. While the applicable tax provisions vary among the jurisdictions, Expedia generally believes that it is not required to pay such occupancy taxes. Expedia is engaged in discussions with tax authorities in various jurisdictions to resolve this issue. Some tax authorities have brought lawsuits or have levied assessments asserting that Expedia is required to collect and remit occupancy tax. The ultimate resolution in all jurisdictions cannot be determined at this time. Certain jurisdictions may require Expedia to pay tax assessments, including occupancy and other transactional tax assessments, prior to contesting any such assessments.

Expedia has established a reserve for the potential settlement of issues related to hotel occupancy taxes for prior and current periods, consistent with applicable accounting principles and in light of all current facts and circumstances. A variety of factors could affect the amount of the liability (both past and future), which factors include, but are not limited to, the number of, and amount of revenue represented by, jurisdictions that ultimately assert a claim and prevail in assessing such additional tax or negotiate a settlement and changes in relevant statutes.

There are more than 7,000 taxing jurisdictions in the United States, and it is not feasible to analyze the statutes, regulations and judicial and administrative rulings in every jurisdiction. Rather, Expedia has obtained the advice of state and local tax experts with respect to tax laws of certain states and local jurisdictions that represent a large portion of Expedia's hotel revenue. Many of the statutes and regulations that impose hotel occupancy taxes were established before the emergence of the internet and eCommerce. Certain jurisdictions have enacted, and others may enact, legislation regarding the imposition of occupancy taxes on businesses that arrange the booking of hotel accommodations. Expedia continues to work with the relevant tax authorities and legislators to clarify its obligations under new and emerging laws and regulations. The Company will continue to monitor the issue closely and provide additional disclosure, as well as adjust the level of reserves, as developments warrant. Additionally, certain of Expedia's businesses are involved in occupancy tax related litigation.

Stock-Based Compensation. As more fully described in note 9 to the consolidated financial statements, Expedia Holdings has granted to its directors, employees and employees of its subsidiaries options and restricted stock to purchase shares of Expedia Holdings common stock (collectively, "Awards"). Expedia Holdings measures the cost of employee services received in exchange for an Award based on the grant-date fair value of the Award, and recognizes that cost over the period during which the employee is required to provide service (usually the vesting period of the Award).

The estimated fair value of options granted to date is calculated using the Black-Scholes-Merton model. The Black-Scholes-Merton model incorporates assumptions to value stock-based awards, which includes the risk-free rate of return, volatility, expected term and expected dividend yield. The risk-free interest rate is based on the rates currently available on zero-coupon U.S. Treasury issues, in effect at the time of the grant, whose remaining maturity period most closely approximates the stock option's expected term assumption. Since Expedia Holdings common stock has not traded on the stock market for a significant length of time, the volatility used in the calculation for Awards granted during 2016 was based on the historical volatility of Liberty Ventures common stock and the implied volatility of publicly traded Liberty Ventures options over a period equivalent or approximate to the expected term of the stock option grants. The expected term was estimated using the simplified method for all stock options. The expected dividend yield is zero, as no dividends have been paid on the respective common stocks to date.

The fair value of stock options is amortized as stock-based compensation expense over the vesting term on a straight-line basis, with the amount of compensation expense recognized at any date at least equaling the portion of the grant-date fair value of the award that is vested at that date. The Company accounts for forfeitures as they occur.

Vitalize has granted to certain members of its management and key employees stock appreciation rights ("SARs") that will be settled in cash. Vitalize measures the cost of employee services received in exchange for SARs based on the fair value of the SARs, which is measured at each reporting date.

Additionally, Expedia has granted certain stock options and restricted stock units ("RSUs"). Expedia's primary form of employee stock-based compensation is stock option awards, which are measured on the date of grant at fair value using the appropriate valuation techniques, including the Black-Scholes and Monte Carlo option-pricing models. The fair value is amortized over the remaining term on a straight-line basis. Expedia accounts for forfeitures as they occur. The pricing models require various highly judgmental assumptions including volatility and expected option term. If any of the assumptions used in the models change significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period.

In addition, Expedia classifies certain employee option awards as liabilities when it deems it not probable that the employees holding the awards will bear the risk and rewards of stock ownership for a reasonable period of time. Such options are revalued at the end of each reporting period, and upon settlement the total compensation expense recorded from grant date to settlement date will equal the settlement amount.

Income Taxes. We are required to estimate the amount of tax payable or refundable for the current year and the deferred income tax liabilities and assets for the future tax consequences of events that have been reflected in our financial statements or tax returns for each taxing jurisdiction in which we operate. This process requires our management to make judgments regarding the timing and probability of the ultimate tax impact of the various agreements and transactions that we enter into. Based on these judgments we may record tax reserves or adjustments to valuation allowances on deferred tax assets to reflect the expected realizability of future tax benefits. Actual income taxes could vary from these estimates due to future changes in income tax law, significant changes in the jurisdictions in which we operate, our inability to generate sufficient future taxable income or unpredicted results from the final determination of each year's liability by taxing authorities. These changes could have a significant impact on our financial position.

We record liabilities to address uncertain tax positions we have taken in previously filed tax returns or that we expect to take in a future tax return. The determination for required liabilities is based upon an analysis of each individual tax position, taking into consideration whether it is more likely than not that our tax position, based on technical merits, will be sustained upon examination. For those positions for which we conclude it is more likely than not it will be sustained, we recognize the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with the taxing authority. The difference between the amount recognized and the total tax position is recorded as a liability. The ultimate resolution of these tax positions may be greater or less than the liabilities recorded.

Recent Accounting Pronouncements. For a discussion of new accounting pronouncements, see note 2 in the notes to consolidated financial statements.

Results of Operations - Businesses

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 seeks to grow its business through a dynamic portfolio of travel brands, including its majority owned subsidiaries that feature a broad supply portfolio—including over 350,000 properties and 1.2 million live vacation rental listings in 200 countries, 500 airlines, packages, rental cars and cruises, as well as destination services and activities. Travel suppliers distribute and market products via its traditional desktop offerings, as well as through alternative distribution channels including mobile and social media, Expedia's private label business and its call centers in order to reach its extensive, global audience. In addition, its advertising and media businesses help other businesses, primarily travel providers, reach a large audience of travelers around the globe.

On May 22, 2015, Expedia completed the sale of its 62.4% ownership stake in eLong, Inc. (“eLong”). On September 17, 2015, Expedia completed its acquisition of Orbitz. Orbitz was consolidated into Expedia’s results of operations starting on the acquisition date, and Expedia recognized $196 million in revenue and $163 million in operating losses, including restructuring charges of $92 million as well as fees related to the acquisition, from the acquisition date to December 31, 2015. On December 15, 2015, Expedia completed its acquisition of HomeAway. HomeAway was consolidated into Expedia’s results of operations starting on the acquisition date, and Expedia recognized $20 million in revenue and $14 million in operating loss, including fees related to the acquisition, from the acquisition date to December 31, 2015. trivago GmbH underwent a corporate reorganization and became a subsidiary of trivago N.V. (“trivago”) prior to closing its initial public offering on December 16, 2016, and trivago became a separately listed company on the Nasdaq Global Select Market, trading under the symbol “TRVG”. Following the initial public offering and as of December 31, 2016, Expedia’s ownership and voting interest of trivago N.V. and its subsidiaries was approximately 59.7% and 64.7%, respectively.

As of December 31, 2016, we own an approximate 15.7% equity interest and 52.3% voting interest in Expedia. Historically, Liberty Interactive was a party to a Stockholders Agreement with Mr. Diller, pursuant to which Mr. Diller held an irrevocable proxy over all the shares of EXPE and Expedia class B common stock owned by Liberty Interactive. 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 through the Proxy Arrangement Termination Date pursuant to the proxy arrangements. 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 each of the years ended December 31, 2016, 2015 and 2014.

	Year Ended December 31,		
	2016	2015	2014
	amounts in millions		
Revenue	$ 8,774	6,672	5,763
Operating expenses, excluding stock-based compensation	(7,171)	(5,613)	(4,748)
Adjusted OIBDA	1,603	1,059	1,015
Depreciation and amortization	(829)	(500)	(345)
Stock-based compensation	(242)	(178)	(85)
Legal reserves, occupancy tax and other	(27)	105	(42)
Restructuring and related reorganization charges	(43)	(72)	(25)
Operating income	462	414	518
Other income (expense), net	(185)	512	(53)
Earnings (loss) before income taxes	277	926	465
Income tax benefit (expense)	(15)	(203)	(92)
Net earnings	262	723	373
Less: net earnings (loss) attributable to noncontrolling interest	(20)	(42)	(25)
Net earnings attributable to Expedia shareholders	$ 282	765	398

Expedia had net earnings of approximately $262 million, $723 million and $373 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Expedia's revenue increased $2,102 million and $909 million during the years ended December 31, 2016 and 2015, respectively, as compared to the corresponding prior years. The increase in 2016 was primarily driven by the impact of acquisitions, growth in Expedia’s core online travel agencies segment, including growth at Brand Expedia, Hotels.com and the Expedia Affiliate Network (“EAN”), as well as growth at trivago, partially offset by a decrease in revenue due to the sale of eLong on May 22, 2015. Acquisitions added approximately 19% to the year-over-year growth in total revenue for 2016. During 2015, Expedia's revenue increased primarily due to growth in its core online travel agencies segment, including strong performance at Brand Expedia, Hotels.com and EAN as well as growth at trivago, partially offset by a decrease in revenue due to the sale of eLong. Acquisitions added approximately 8% to the year-over-year growth rate in total revenue for 2015.

Worldwide hotel revenue increased 15% (16% excluding eLong) in 2016 primarily due to a 12% (21% excluding eLong) increase in room nights stayed driven by the inorganic impact of acquisitions as well as organic growth in Hotels.com, Brand Expedia and EAN, and a 3% increase (4% decrease excluding eLong) in revenue per room night in 2016. Absent eLong, revenue per room night decreased primarily due to margin reductions aimed at expanding the size and availability of Expedia’s global hotel supply portfolio, unfavorable foreign exchange translation impacts as well as increased promotional activities such as growing loyalty programs. Absent impacts due to the sale of eLong, average daily rates (“ADRs”) decreased by 1% primarily due to an unfavorable foreign exchange translation impact. Acquisitions added approximately 7% of inorganic hotel revenue growth in 2016 and 6% of room night growth. Worldwide hotel revenue increased 14% (17% excluding eLong) in 2015 primarily due to a 19% (36% excluding eLong) increase in room nights stayed driven by the inorganic impact of acquisitions as well as the healthy growth in Hotels.com and Brand Expedia, partially offset by a 4% decrease (14% excluding eLong) in revenue per room night in 2015. Absent eLong, revenue per room night decreased primarily due to strategic margin reductions aimed at expanding the size and availability of Expedia’s global hotel supply portfolio, an unfavorable foreign exchange impact, both in translation and in book-to-stay, as well as increased promotional activities such as growing loyalty programs. Absent impacts due to the sale of eLong, ADRs decreased by 5% primarily due to an unfavorable foreign exchange translation impact. Acquisitions added approximately 6% of inorganic hotel revenue growth in 2015 and 7% of room night growth.

Worldwide air revenue increased 37% (39% excluding eLong) in 2016 due to a 29% (32% excluding eLong) increase in air tickets sold and a 6% (5% excluding eLong) increase in revenue per air ticket, driven by new contractual agreements and the addition of Orbitz. Acquisitions added approximately 28% of inorganic air revenue growth in 2016 and 21% of air ticket growth. Worldwide air revenue increased 21% (25% excluding eLong) in 2015 due to a 28% (35% excluding eLong) increase in air tickets sold, partially offset by a 6% (7% excluding eLong) decrease in revenue per air ticket. Acquisitions added approximately 18% of inorganic air revenue growth in 2015 and 15% of air ticket growth.

The remaining worldwide revenue, other than hotel and air discussed above, which includes advertising and media, car rental, destination services, fees related to Expedia's corporate travel business and HomeAway revenue, increased by 79% in 2016 and 19% in 2015 primarily due to the acquisition of HomeAway and strong growth in advertising and media revenue as well as growth in our travel insurance and car rental products, including an inorganic contribution from Orbitz.

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

	Year Ended December 31,		
	2016	2015	2014
	amounts in millions		
Revenue by business model			
Merchant	4,852	4,204	3,749
Agency	2,425	1,882	1,535
Advertising and media (1)	807	566	479
HomeAway	689	20	—
Total revenue	8,774	6,672	5,763

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

The increase in merchant revenue in 2016 and 2015 was primarily due to the increase in merchant hotel revenue driven by an increase in room nights stayed. The increase in agency revenue in 2016 and 2015 was primarily due to the growth in agency hotel and air. The increase in advertising and media revenue in 2016 and 2015 was primarily due to continued growth in trivago and Expedia Media Solutions.

The increase in revenue (described above) during the year ended December 31, 2016 was impacted by a $1,558 million increase in operating expenses (described below), a $329 million increase in depreciation and amortization expense, a $64 million increase in stock-based compensation expense, a $132 million decline in legal reserves, occupancy tax and other, a $29 million decrease in restructuring and related reorganization charges and a $188 million decrease in income tax expense. The increase in revenue (described above) during the year ended December 31, 2015 were partially offset by the impact of an $865 million increase in operating expenses (described below), a $155 million increase in depreciation and amortization, a $93 million increase in stock-based compensation expense, a $147 million improvement in legal reserves, occupancy tax and other, a $47 million increase in restructuring and related reorganization charges and a $111 million increase in income tax expense.

The increase in operating expenses during 2016 was primarily driven by an increase in overall costs as a result of acquisitions, increased personnel costs due to an accelerated pace of hiring in the lodging supply organization in the first half of the year and additional headcount at HomeAway and Orbitz, higher net credit card processing costs related to growth of its merchant bookings and higher data center costs and costs associated with Expedia's expansion into the cloud computing environment, growth of its technology platforms and higher licensing and maintenance expenses. These increases were slightly offset by a decrease in operating expenses as a result of the sale of eLong in May 2015. The increase in operating expenses during 2015 was primarily driven by higher selling and marketing expenses, increased personnel costs due to an accelerated pace of hiring in the lodging supply organization, higher consulting and legal fees related to heightened merger and acquisition activity, higher licensing, maintenance and data center costs to support the growth of Expedia's technology platforms, and higher net credit card processing costs related to growth of its merchant bookings, partially offset by a decrease in fraud and chargeback expenses.

The increase in depreciation and amortization during 2016 was primarily due to the amortization of intangible assets related to new business acquisitions (including Orbitz and HomeAway) as well as increased depreciation and amortization of technology assets, partially offset by certain intangible assets becoming fully amortized during the year. In 2016, Expedia recorded a $35 million impairment loss related to indefinite-lived trade names within its core online travel agencies segment due to a change in estimated future revenue of the related brands. The increase in depreciation and amortization expense during 2015 was primarily due to amortization of intangible assets related to new business acquisitions as well as increased depreciation and amortization of technology assets.

The increase in stock-based compensation during 2016 was largely due to costs associated with trivago as well as expense related to additional awards granted, partially offset by the absence of eLong related stock-based compensation in the current period. The increase in stock-based compensation during 2015 was largely due to additional options granted during the current year as well as expense related to replacement awards issued in connection with acquisitions and the acceleration of certain replacement awards.

Expedia recognized a $26 million loss in legal reserves, occupancy tax and other during 2016, primarily attributable to $12 million for amounts expected to be paid in advance of litigation related to "merchant model” car rental transactions in connection with Hawaii's general excise tax litigation. The remaining expense in 2016 related to changes in Expedia’s reserve related to hotel occupancy and other taxes. During 2015, Expedia received a refund of prepaid pay-to-play payments of $132 million from the State of Hawaii in connection with the general excise tax litigation. In addition, during 2015, Expedia recorded a $24 million benefit in legal reserves, occupancy tax and other for the recovery of costs related to occupancy tax litigation matters. These gains were partially offset by charges for changes in Expedia’s reserve related to hotel occupancy and other taxes. During 2014, Expedia recognized approximately $25.5 million related to monies paid in advance of litigation in the San Francisco occupancy tax proceedings.

In connection with the migration of technology platforms and centralization of technology, supply and other operations, primarily related to previously disclosed acquisitions, Expedia recognized $56 million, $105 million and $26 million in restructuring and related reorganization charges during 2016, 2015 and 2014, respectively. In 2016 and 2015, the charges were primarily related to employee severance and benefits as a part of the Orbitz integration and represents estimated severance amounts under pre-existing written plans and contracts Orbitz had with its employees, stock-compensation charges for acceleration of replacement awards pursuant to certain of these agreements as well as incremental retention compensation for exiting employees. In 2014, the charges primarily related to severance and related benefits as well as an Australian stamp duty tax that was payable to certain Australian jurisdictions related to business restructuring events.

During 2016, other expense, net was primarily attributable to $173 million interest expense recognized during 2016. Interest expense increased $47 million during the current year, primarily as a result of additional interest on the Euro 650 million of senior unsecured notes issued in June 2015 as well as the $750 million senior unsecured notes issued in December 2015. Interest expense increased $28 million during 2015 compared to 2014 primarily as a result of additional interest on the $500 million senior unsecured notes issued in August 2014, the Euro 650 million of senior unsecured notes issued in June 2015 and the $750 million senior unsecured notes issued in December 2015. The increase in other income, net during 2015 was primarily due to a $509 million pre-tax gain on sale of Expedia’s ownership stake in eLong.

The decrease in income tax expense for the year ended December 31, 2016 was primarily due to the tax benefits from the adoption of the new accounting guidance relating to stock-based compensation and the release of a valuation allowance on cumulative foreign net operating losses for which it is more likely than not the tax benefit will be realized. Expedia’s effective tax rate for 2016 was lower than the 35% federal statutory rate due to earnings in foreign jurisdictions outside of the United States, predominately Switzerland, where Expedia’s statutory income tax rate is lower as well as the same factors impacting the year-over-year effective tax rate comparison. The increase in income tax expense during 2015 is primarily due to the gain on the sale of eLong during 2015, and the release of liabilities related to uncertain tax positions in 2014. Expedia’s effective tax rate for 2015 was lower than the 35% federal statutory rate due to earnings in foreign jurisdictions outside of the United States as well as the sale of eLong, which had a U.S. effective tax rate of less than 35%.

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:

	Year ended December 31, 2016			
	As Reported by Expedia	Elimination for Equity Method Accounting (through November 4, 2016)	Acquisition Accounting Adjustments	As reported by Expedia Holdings
	amounts in millions			
Service revenue	$ 8,774	(7,520)	(84)	1,170
Operating expenses, excluding stock-based compensation	(7,171)	6,134	—	(1,037)
Adjusted OIBDA	1,603	(1,386)	(84)	133
Depreciation and amortization	(829)	703	(336)	(462)
Stock-based compensation	(242)	213	(19)	(48)
Other operating income (expenses)	(70)	64	—	(6)
Operating income (loss)	$ 462	(406)	(439)	(383)

Vitalize. As previously discussed, in 2016, Bodybuilding.com, LLC underwent a corporate restructuring, which resulted in Bodybuilding.com, LLC becoming a wholly-owned subsidiary of Vitalize, and a new Bodybuilding was formed in the state of Delaware, effective November 1, 2016. In addition to the new Bodybuilding, which will continue to offer online retail sales of dietary supplements, Vitalize also formed Verity Nutrition on August 23, 2016 and WeMotivate on October 19, 2016, both of which are also wholly-owned subsidiaries of Vitalize. The financial results for Vitalize are all attributable to Bodybuilding, its wholly owned subsidiary, for the years ended December 31, 2016, 2015 and 2014.

Vitalize is primarily an Internet retailer of sports, fitness, dietary supplements, and other health and wellness products. It is also a large publisher of online health and fitness content, offering complimentary fitness content, workout programs, video trainers, articles, recipes, health advice and motivational stories. The online model also includes a combination of detailed product information and real-time user reviews to help its visitors achieve their health and fitness goals. Visitors include gym-goers, athletes, weightlifters and bodybuilders, and any individual wanting to improve their mental and physical well-being through diet and exercise. Vitalize launched its Bodybuilding.com website in 1999 and now includes more than 30,000 pages of editorial content, 10,000 videos, 16,000 pages of store content and over 18,000 products. Its properties encompass approximately 30 million monthly unique visitors that create an inclusive fitness community that allows people of all health and fitness levels to track their progress and discuss goals, techniques, supplementation and achievements.

The following is a discussion of Vitalize's results of operations. In order to provide a better understanding of Vitalize's operations, we have included a summarized presentation of Vitalize's results of operations. The amounts included in the table below represent Vitalize's results for each of the years ended December 31, 2016, 2015 and 2014.

	Year Ended December 31,		
	2016	2015	2014
	amounts in millions		
Revenue	$ 411	465	455
Cost of retail sales (exclusive of depreciation shown separately below)	(303)	(352)	(354)
Operating expenses	(31)	(32)	(29)
Selling, general and administrative expense, excluding stock-based compensation	(62)	(48)	(41)
Adjusted OIBDA	15	33	31
Depreciation and amortization	(19)	(21)	(19)
Stock-based compensation	1	(2)	(2)
Operating income (loss)	(3)	10	10
Other income (expense), net	(2)	(2)	(4)
Earnings (loss) before income taxes	(5)	8	6
Income tax benefit (expense)	3	(1)	(3)
Net earnings (loss)	$ (2)	7	3

Vitalize had a net loss of approximately $2 million for the year ended December 31, 2016, and net earnings of $7 million and $3 million for the years ended December 31, 2015 and 2014, respectively.

Vitalize's revenue decreased $54 million and increased $10 million during the years ended December 31, 2016 and 2015, respectively, as compared to the corresponding prior years. The decrease in revenue during the current year was primarily driven by a 2% decrease in store visits and a 6% reduction in the average order value, due to an increased mix of mobile sales and changes to promotional strategies. In addition, order volumes decreased from the prior year by approximately 9%, due in part to lower conversion rates, changes in consumer behavior from price sensitivity, and increased competition and competitive pricing strategies. Vitalize evaluates promotions and reprices products continuously in order to present a compelling and competitive offering to customers. These changes to prices and Vitalize's ability to source products cost effectively impact margins. Private label and exclusive offerings typically have higher margins and continue to make up a larger portion of total sales compared to prior periods. The increase in revenue during 2015 was primarily due to an approximate 7% increase in order volume for the year ended December 31, 2015 as compared to the prior year. During 2015, Vitalize continued to see traffic to the Bodybuilding.com e-retail site grow as unique visitors increased 17% from the prior year. Conversion of visitors was down 68 basis points primarily due to a shift in desktop visits to mobile visits, which historically convert at lower rates. Conversion is defined as the rate at which visitors to the Bodybuilding.com e-retail site become paying customers. Offsetting the order volume gain was a decrease in the average order value of approximately 4% from the prior year due to less international orders, increased mobile sales and reduced shipping prices paid by customers. The entire supplement space became more price sensitive as competition continued to increase. Vitalize evaluates promotions and reprices products continuously in order to present a compelling and competitive offering to customers. These changes to prices and Vitalize's ability to source products cost effectively impact margins. Private label and exclusive offerings typically have higher margins and continue to make up a larger portion of total sales. Additionally, during 2015 domestic net product sales grew 8% while international net product sales decreased approximately 24%. International demand was hurt by both competition and unfavorable exchange rates which increased overseas pricing as products are priced in U.S. Dollars and then translated into local currencies for the global customer.

Vitalize's cost of retail sales decreased $49 million and $2 million during the years ended December 31, 2016 and 2015, respectively, as compared to the corresponding prior years. The decrease in cost of sales during the current year was a result of a decrease in product sales and Vitalize's ability to source products cost effectively, an increased sales mix to private label and exclusive offerings, as discussed above, a reduction in overall shipping costs and expired product recovery optimization. The decrease in 2015 was a result of Vitalize’s ability to source products cost effectively, an increased sales mix to private label, lower returns and a reduction in overall shipping costs.

Vitalize's operating expenses decreased $1 million and increased $3 million during the years ended December 31, 2016 and 2015, respectively, as compared to the corresponding prior years. The decrease in 2016 was primarily driven by lower personnel costs and lower merchant processing fees. The increase in 2015 was primarily due to additional software and content delivery expenses, as well as cloud hosting services.

Vitalize's selling, general and administrative expenses increased $14 million and $7 million during the years ended December 31, 2016 and 2015, respectively, as compared to the corresponding prior years. The increase in 2016 was due to the accrual of transaction-related tax obligations during the fourth quarter of 2016, additional search engine and product listing marketing spend, display retargeting, television ad spend and legal and compliance fees. Vitalize completed a headcount reduction in December 2016 which resulted in less than $1 million of additional costs during 2016 but is expected to result in overall cost savings during 2017. In addition, selling, general and administrative costs for the year ended December 31, 2015 were driven down by legal claim settlements and a credit due to the release of the paid time-off accrual as a result of a corporate policy change. The increase in selling, general and administrative costs during 2015 was driven by greater marketing efforts to grow site traffic, increased technology costs to sustain traffic growth and content and increased personnel costs during the period. Personnel costs were approximately $4 million higher due to increased headcount during 2016 and 2015 to support expected growth and due to changes related to merit and bonus program payments. During the period certain executives resigned and payments of severance and other retention costs of approximately $1 million were paid to secure necessary talent to manage the business. Additionally, the distribution center near Vitalize's headquarters was shut down and approximately $1 million in costs were incurred.

Vitalize depreciation and amortization expense decreased $2 million and increased $2 million during the years ended December 31, 2016 and 2015, respectively, as compared to the corresponding prior years. The decrease in 2016 was primarily due to a decrease in both internally developed software intangible assets that were fully amortized, in addition to a decrease in fixed asset additions during the year. The increase in 2015 was primarily due to continued capitalized software costs depreciated during the respective years.

Vitalize stock-based compensation decreased $3 million and remained flat during the years ended December 31, 2016 and 2015, respectively, as compared to the corresponding prior years. The decrease in 2016 was primarily due to forfeitures during the period in addition to redemptions of stock appreciation rights during the first quarter of 2016.

Vitalize other income (expense), net remained flat and improved $2 million during the years ended December 31, 2016 and 2015, respectively, as compared to the corresponding prior years. Included in Vitalize’s other income (expense), net is $1 million and $2 million of related party interest expense for the years ended December 31, 2015 and 2014, respectively. As previously discussed, the decrease in related party interest expense for both the years ended December 31, 2016 and 2015 was due to the contribution of the Liberty Note to equity in the fourth quarter of 2015.

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 December 31, 2016, 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	$ —	— %	$ 3,183	4.99 %
Vitalize	$ 20	2.51 %	$ 7	3.75 %
Corporate and Other	$ 350	2.48 %	$ —	— %

As of December 31, 2016, we had $64 million of available for sale investments in investment grade corporate debt securities. A hypothetical 1.00% (100 basis points) increase in bond prices would have resulted in a decrease in the fair value of our investments of less than $1 million as of December 31, 2016. Such losses would only be realized if the investments were sold prior to maturity.

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 December 31, 2016, Expedia had a net forward liability of $4 million included in accrued expenses and other current liabilities. As of December 31, 2015, Expedia had a net forward asset of $8 million included in prepaid expenses and other current assets. Expedia may enter into additional foreign exchange derivative contracts or other economic hedges in the future. Expedia's goal in managing our foreign exchange risk is to reduce to the extent practicable our potential exposure to the changes that exchange rates might have on our earnings, cash flows and financial position. 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 Euro 650 million of Expedia 2.5% Notes. The aggregate principal value of the 2.5% Expedia 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. As an example, if the foreign currencies in which Expedia holds net asset balances were to all weaken 10% against the U.S. Dollar and foreign currencies in which Expedia holds net liability balances were to all strengthen 10% against the U.S. Dollar, Expedia would recognize foreign exchange losses of approximately $21 million based on its foreign currency forward positions (including the impact of forward positions economically hedging its merchant revenue exposures) and the net asset or liability balances of its foreign denominated cash and cash equivalents, accounts receivable, deferred merchant bookings and merchant accounts payable balances as of December 31, 2016. As the net composition of these balances fluctuate frequently, even daily, as do foreign exchange rates, the example loss could be compounded or reduced significantly within a given period.

During 2016, 2015 and 2014, Expedia recorded net foreign exchange rate losses of approximately $15 million ($30 million loss excluding the contracts economically hedging its forecasted merchant revenue), net foreign exchange rate gains of approximately $25 million ($15 million loss excluding the contracts economically hedging its forecasted merchant revenue) and net foreign exchange rate gains of approximately $6 million ($14 million loss excluding the contracts economically hedging its forecasted merchant revenue). 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.

Financial Statements and Supplementary Data.

The consolidated financial statements of Liberty Expedia Holdings, Inc. are included herein, beginning on Page F-26.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

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 financial officer (the "Executives"), of the effectiveness of its disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Executives concluded that the Company's disclosure controls and procedures were effective as of December 31, 2016 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.

This annual report does not include a report of management’s assessment regarding internal control over financial reporting or an attestation report of the Company’s registered public accounting firm due to a transition period established by rules of the Securities and Exchange Commission for newly public companies.

There has been no change in the Company's internal control over financial reporting that occurred during the three months ended December 31, 2016 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

Other Information.

None.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Liberty Expedia Holdings, Inc.:

We have audited the accompanying consolidated balance sheets of Liberty Expedia Holdings, Inc. (the Company) (as defined in note 1), as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive earnings (loss), cash flows, and equity for each of the years in the three-year period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the balance sheet of Expedia, Inc., a consolidated subsidiary, which reflects certain assets of $4,812,318,000 as of December 31, 2016. We did not audit the financial statement of Expedia, Inc., a 15.7 percent owned investee company as of December 31, 2015. The Company's investment in Expedia, Inc. at December 31, 2015 was $763,000,000 and its share of earnings of Expedia, Inc. included $140,670,000 and $71,765,000 for the years ended December 31, 2015 and 2014, respectively, that we did not audit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Expedia, Inc, is based solely on the report of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Liberty Expedia Holdings, Inc. as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Denver, Colorado
March 1, 2017

LIBERTY EXPEDIA HOLDINGS, INC.

Consolidated Balance Sheets

December 31, 2016 and 2015

	2016	2015
	amounts in millions	
Assets		
Current assets:		
Cash and cash equivalents	$ 1,851	2
Accounts receivable, net	1,345	1
Inventory, net	40	53
Prepaid expenses	201	5
Other current assets	98	3
Total current assets	3,535	64
Investment in Expedia (note 3)	—	927
Property and equipment	898	56
Accumulated depreciation	(54)	(26)
	844	30
Intangible assets not subject to amortization (note 5):		
Goodwill	16,617	57
Tradename	6,123	20
	22,740	77
Intangible assets subject to amortization, net (note 5)	6,363	24
Other assets, net	500	4
Total assets	$ 33,982	1,126
Liabilities and Equity		
Current liabilities:		
Accounts payable, merchant	$ 1,509	—
Accounts payable, other	589	23
Accrued liabilities	1,114	13
Deferred merchant bookings	2,590	—
Deferred revenue	248	4
Other current liabilities	43	5
Total current liabilities	6,093	45
Long-term debt and capital lease obligations, net (note 6)	3,788	36
Deferred income tax liabilities (note 7)	3,477	304
Income taxes payable (note 7)	—	69
Other long term liabilities	332	—
Total liabilities	13,690	454
Equity (notes 8, 9 and 10)		
Parent's investment	—	639
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 54,114,882 and none at December 31, 2016 and 2015, respectively	1	—
Series B common stock, $.01 par value. Authorized 6,000,000 shares; issued and outstanding 2,847,971 and none at December 31, 2016 and 2015, respectively	—	—
Additional paid-in capital	423	—
Accumulated other comprehensive earnings (loss), net of taxes	(32)	(33)
Retained earnings (accumulated deficit)	2,371	66
Total stockholders' equity	2,763	672
Noncontrolling interests in equity of subsidiaries	17,529	—
Total equity	20,292	672
Commitments and contingencies (note 11)		
Total liabilities and equity	$ 33,982	1,126

See accompanying notes to consolidated financial statements.

LIBERTY EXPEDIA HOLDINGS, INC.

Consolidated Statements of Operations

Years ended December 31, 2016, 2015 and 2014

	2016	2015	2014
	amounts in millions, except per share amounts		
Service revenue	$ 1,170	—	—
Product revenue	411	465	455
Total revenue, net	1,581	465	455
Cost of service revenue	223	—	—
Cost of goods sold (exclusive of depreciation shown separately below)	303	352	354
Gross profit	1,055	113	101
Operating costs and expenses:			
Operating expense	30	32	29
Selling and marketing	619	26	22
Technology and content	150	—	—
General and administrative	157	24	21
Depreciation and amortization	481	21	19
Legal reserves, occupancy tax and other	(2)	—	—
Restructuring and related reorganization charges	9	—	—
	1,444	103	91
Operating income (loss)	(389)	10	10
Other income (expense):			
Interest expense	(19)	(1)	(1)
Related party interest expense (note 11)	—	(1)	(2)
Share of earnings (losses) of Expedia (note 3)	26	117	58
Gain (loss) on dilution of investment in Expedia (note 3)	(2)	320	3
Gain on consolidation of Expedia (note 3)	2,005	—	—
Other, net	—	—	(1)
	2,010	435	57
Earnings (loss) before income taxes	1,621	445	67
Income tax (expense) benefit (note 7)	451	(163)	(21)
Net earnings (loss)	2,072	282	46
Less net earnings (loss) attributable to the noncontrolling interests	(220)	1	1
Net earnings (loss) attributable to Liberty Expedia Holdings shareholders	$ 2,292	281	45
Basic net earnings (loss) attributable to Series A and Series B Expedia Holdings, Inc. shareholders per common share (note 2)	$ 40.21	4.94	0.80
Diluted net earnings (loss) attributable to Series A and Series B Expedia Holdings, Inc. shareholders per common share (note 2)	$ 39.52	4.94	0.80

See accompanying notes to consolidated financial statements.

LIBERTY EXPEDIA HOLDINGS, INC.

Consolidated Statements of Comprehensive Earnings (Loss)

Years ended December 31, 2016, 2015 and 2014

	2016	2015	2014
	amounts in millions		
Net earnings (loss)	$ 2,072	282	46
Other comprehensive earnings (loss), net of taxes:			
Currency translation adjustments and other	(225)	—	—
Share of other comprehensive earnings (loss) of equity affiliate	(1)	(17)	(18)
Recognition of previously unrecognized holding gains (losses)	34	—	—
Other comprehensive earnings (loss)	(192)	(17)	(18)
Comprehensive earnings (loss)	1,880	265	28
Less comprehensive earnings (loss) attributable to the noncontrolling interest	(412)	1	1
Comprehensive earnings (loss) attributable to Liberty Expedia Holdings, Inc. shareholders	$ 2,292	264	27

See accompanying notes to consolidated financial statements.

LIBERTY EXPEDIA HOLDINGS, INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2016, 2015 and 2014

	2016	2015	2014
		amounts in millions	
Cash flows from operating activities:			
Net earnings (loss)	$ 2,072	282	46
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	481	21	19
Stock-based compensation	47	2	2
Cash payments for stock-based compensation	(2)	(1)	—
Noncash interest expense	(9)	—	—
Share of (earnings) losses of Expedia	(26)	(117)	(58)
Cash receipts from returns on investment in Expedia	17	20	15
(Gain) loss on dilution of investment in affiliate	2	(320)	(3)
Gain on consolidation of Expedia	(2,005)	—	—
Realized (gain) loss on foreign currency forwards	10	—	—
Foreign exchange (gain) loss on cash, cash equivalents and short-term investments, net	(1)	—	—
Deferred income tax expense (benefit)	(469)	158	19
Other noncash charges (credits), net	17	(3)	1
Changes in operating assets and liabilities			
Current and other assets	169	(3)	6
Payables and other liabilities	(137)	(1)	(9)
Net cash provided (used) by operating activities	166	38	38
Cash flows from investing activities:			
Capital expended for property and equipment	(125)	(21)	(18)
Investment in Expedia	—	(22)	(20)
Net settlement of foreign currency forwards	(10)	—	—
Expedia cash acquired in consolidation	1,725	—	—
Other, net	3	—	—
Net cash provided (used) by investing activities	1,593	(43)	(38)
Cash flows from financing activities:			
Borrowings of debt	743	494	455
Repayments of debt	(415)	(493)	(462)
Contribution from (distribution to) former parent, net	(316)	38	5
Purchase of noncontrolling interest	—	(33)	—
Shares repurchased by subsidiary	(89)	—	—
Shares issued by subsidiary	15	—	—
Dividends paid by subsidiary	(32)	—	—
Sales of interest in controlled subsidiaries, net	214	—	—
Other financing activities, net	3	—	—
Net cash provided (used) by financing activities	123	6	(2)
Effect of foreign exchange rates on cash and cash equivalents	(33)	—	—
Net increase (decrease) in cash and cash equivalents	1,849	1	(2)
Cash and cash equivalents at beginning of period	2	1	3
Cash and cash equivalents at end of period	$ 1,851	2	1

See accompanying notes to consolidated financial statements.

Supplemental disclosure to the consolidated statements of cash flows:

	Year ended December 31,		
	2016	2015	2014
	amounts in millions		
Cash paid for interest	$ 3	2	3
Cash paid for taxes	$ 21	1	3

See accompanying notes to consolidated financial statements.

LIBERTY EXPEDIA HOLDINGS, INC.

Consolidated Statement of Equity

Years ended December 31, 2016, 2015 and 2014

	Preferred stock	Common stock Series A	Common stock Series B	Additional paid-in capital	Parent's investment	Accumulated other comprehensive earnings (loss)	Retained earnings (accumulated deficit)	Noncontrolling interest in equity of subsidiaries	Total equity
					amounts in millions				
Balance at January 1, 2014	$ —	—	—	—	614	2	(260)	1	357
Net earnings (loss)	—	—	—	—	—	—	45	1	46
Other comprehensive earnings (loss)	—	—	—	—	—	(18)	—		(18)
Contributions from (distributions to) former parent, net	—	—	—	—	5	—	—	—	5
Balance at December 31, 2014	$ —	—	—	—	619	(16)	(215)	2	390
Net earnings	—	—	—	—	—	—	281	1	282
Other comprehensive earnings (loss)	—	—	—	—	—	(17)	—		(17)
Contributions from (distributions to) former parent, net	—	—	—	—	51	—	—	—	51
Acquisition of noncontrolling interest	—	—	—	—	(31)	—	—	(3)	(34)
Other	—	—	—	—	—	—	—	—	—
Balance at December 31, 2015	$ —	—	—	—	639	(33)	66	—	672
Net earnings	—	—	—	—	—	—	2,292	(220)	2,072
Other comprehensive earnings (loss)	—	—	—	—	—	—	—	(192)	(192)
Stock-based compensation	—	—	—	8	—	—	—	40	48
Contributions from (distributions to) former parent, net	—	—	—	(299)	(17)	—	—	—	(316)
Change in capitalization in connection with Expedia Holdings Split-Off	—	1	—	621	(622)	—	—	—	—
Proceeds from exercise of equity instruments and employee stock purchase plan	—	—	—	(2)	—	—	—	17	15
Tax attributes in connection with the Expedia Holdings Split-Off	—	—	—	70	—	—	—	—	70
Establish noncontrolling interest in connection with business combination	—	—	—	—	—	—	—	16,362	16,362
Proceeds related to trivago initial public offering, net of fees and expenses	—	—	—	20	—	—	—	190	210
Adjustments to fair value of redeemable noncontrolling interests	—	—	—	—	—	—	13	75	88
Change in ownership of noncontrolling interest related to trivago initial public offering	—	—	—	(5)	—	1	—	4	—
Transfer from redeemable noncontrolling interests	—	—	—	—	—	—	—	1,381	1,381
Shares repurchased by subsidiary	—	—	—	7	—	—	—	(96)	(89)
Dividends paid to noncontrolling interest	—	—	—	—	—	—	—	(32)	(32)
Other	—	—	—	3	—	—	—	—	3
Balance at December 31, 2016	$ —	1	—	423	—	(32)	2,371	17,529	20,292

See accompanying notes to consolidated financial statements.

LIBERTY EXPEDIA HOLDINGS, INC.

Notes to Consolidated Financial Statements

December 31, 2016, 2015 and 2014

(1) Basis of Presentation

During November 2015, the board of directors of Liberty Interactive Corporation ("Liberty Interactive") authorized management to pursue a plan to distribute to holders of its 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, Liberty Interactive's former ownership interest in Expedia, Inc. ("Expedia"), as well as Liberty Interactive's former wholly-owned subsidiary Bodybuilding.com, LLC. As of December 31, 2016, Expedia Holdings beneficially owned approximately 15.7% of the outstanding Expedia common stock which represents a 52.3% voting interest in Expedia. Bodybuilding.com, LLC became a wholly owned subsidiary of Liberty Interactive in October 2015 when Liberty Interactive purchased the remaining ownership interest in Bodybuilding.com, LLC. In 2016, Bodybuilding.com, LLC underwent a corporate restructuring, which resulted in Bodybuilding.com, LLC becoming a wholly-owned subsidiary of Vitalize, LLC (“Vitalize”).

The Expedia Holdings Split-Off was accomplished by the redemption by Liberty Interactive on a per share basis of (i) 0.4 of each outstanding share of Liberty Interactive’s Series A Liberty Ventures common stock as of 5:00 p.m., New York City time, on November 4, 2016 (such date and time, the “Redemption Date”) for 0.4 of a share of Expedia Holdings’ Series A common stock, and (ii) 0.4 of each outstanding share of Liberty Interactive’s Series B Liberty Ventures common stock as of the Redemption Date for 0.4 of a share of Expedia Holdings’ Series B common stock, with cash paid in lieu of any fractional shares of Liberty Interactive’s Series A and Series B Liberty Ventures common stock and Expedia Holdings’ Series A and Series B common stock. Following the Expedia Holdings Split-Off, Expedia Holdings and Liberty Interactive operate as separate, publicly traded companies. The Expedia Holdings Split-Off is intended to be tax-free to Liberty Interactive and stockholders of Liberty Ventures.

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") and represent a consolidation of the historical financial information of Vitalize and Expedia, an equity method affiliate until the date of the Expedia Holdings Split-Off. Although the combination of Vitalize and Expedia were reported as a combined company until the date of the Expedia Holdings Split-Off, these financial statements present all periods as consolidated. These financial statements refer to the combination of the aforementioned subsidiaries as "Expedia Holdings," "the Company," "us," "we" and "our" in the notes to the consolidated financial statements. The Expedia Holdings Split-Off is accounted for at historical cost due to the pro rata nature of the distribution to holders of Liberty Ventures common stock. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Expedia Holdings did not control the decision making process or business management practices of Expedia prior to the Expedia Holdings Split-Off. Accordingly, the Company historically relied on management of this affiliate to provide it with accurate financial information prepared in accordance with GAAP that the Company used in the application of the equity method. In addition, Expedia Holdings relies on audit reports that are provided by the affiliate's independent auditors on the financial statements of such affiliate. The Company is not aware, however, of any errors in or possible misstatements of the financial information provided by its equity affiliate that would have a material effect on Expedia Holding's consolidated financial statements.

Description of Business

Expedia is an online travel company, empowering business and leisure travelers through technology with the tools and information they need to efficiently research, plan, book and experience travel. Expedia also provides various media and advertising offerings to travel and non-travel advertisers. Expedia operates a strong brand portfolio with global reach, targeting a broad range of travelers, travel suppliers and advertisers. Expedia seeks to grow its business through a dynamic portfolio of travel brands, including its majority owned subsidiaries that feature a broad supply portfolio. Travel suppliers distribute and market products via Expedia’s traditional desktop and mobile offerings, as well as through alternative distribution channels including social media, its private label business and its call centers in order to reach its extensive, global audience. In addition, Expedia’s advertising and media businesses help other businesses, primarily travel providers, reach a large audience of travelers around the globe. Upon completion of the Expedia Holdings Split-Off, the Company’s interest in Expedia is accounted for as a consolidated subsidiary. Prior to the Expedia Holdings Split-Off, Expedia was accounted for as an investment using the equity method, as more fully described in note 3.

In 2016, Bodybuilding.com, LLC underwent a corporate restructuring, which resulted in Bodybuilding.com, LLC becoming a wholly-owned subsidiary of Vitalize. Effective November 17, 2016, Bodybuilding.com, LLC amended its Certificate of Formation in the State of Delaware to change its name to Vitalize, LLC, and a new Bodybuilding.com, LLC (“Bodybuilding”) was formed in the state of Delaware, effective November 1, 2016. In addition to the new Bodybuilding, which will continue to offer online retail sales of dietary supplements, Vitalize also formed Verity Nutrition, LLC (“Verity Nutrition”) on August 23, 2016 and WeMotivate, LLC (“WeMotivate”) on October 19, 2016, both of which are also wholly-owned subsidiaries of Vitalize. The financial results for Vitalize are all attributable to Bodybuilding, its wholly-owned subsidiary, for the years ended December 31, 2016, 2015 and 2014.

Vitalize is primarily an Internet retailer of sports, fitness, dietary supplements and other health and wellness products. It is also a large publisher of online health and fitness content, offering complimentary fitness content, workout programs, video trainers, articles, recipes, health advice and motivational stories. The online model also includes a combination of detailed product information and real-time user reviews to help its visitors achieve their health and fitness goals. Vitalize's customers include gym-goers, recreational athletes, bodybuilders and any individual seeking to improve their level of health and fitness. Vitalize strives to provide everything necessary to get fit, as well as a platform for users to share their inspirational story once they get there.

Seasonality

Expedia generally experiences seasonal fluctuations in the demand for its travel products and services. For example, traditional leisure travel bookings are generally the highest in the first three quarters as travelers plan and book their spring, summer and winter holiday travel. The number of bookings typically decreases in the fourth quarter. Because revenue for most of Expedia’s travel products, including merchant and agency hotel, is recognized when the travel takes place rather than when it is booked, revenue typically lags bookings by several weeks or longer. The seasonal revenue impact is exacerbated with respect to income by the nature of 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”), are experienced in the second half of the year, as selling and marketing costs offset revenue in the first half of the year as Expedia aggressively markets during the busy booking period for spring, summer and winter holiday travel. Additionally, trivago has historically earned a substantial portion of its operating profits in the fourth quarter. 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 assimilation and growth of HomeAway, may influence the typical trend of the seasonality in the future. Expedia expects that as HomeAway continues its shift to more of a transaction-based business model for vacation rental listings, its seasonal trends will generally trend similar to Expedia’s other traditional leisure businesses over time.

Split-Off of Expedia Holdings from Liberty Interactive Corporation

Following the Expedia Holdings Split-Off, Liberty Interactive 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 Liberty Interactive and/or Liberty Media Corporation (“Liberty Media”) and 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 Liberty Interactive 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 Liberty Interactive with respect to and resulting from the Expedia Holdings Split-Off. The tax sharing agreement between Liberty Interactive and Expedia Holdings provides for the allocation and indemnification of tax liabilities and benefits between Liberty Interactive 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 will share office space with Liberty Interactive 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, less than $1 million was reimbursable to Liberty for the year ended December 31, 2016.

(2) Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments which are readily convertible into cash and have original maturities of three months or less. The Company maintains its cash and cash equivalents in various bank deposit accounts which, at times, may exceed the federally insured limits. The Company has not experienced any losses in such accounts.

Accounts Receivable and Allowance for Doubtful Accounts

Expedia accounts receivable are generally due within thirty days and are recorded net of an allowance for doubtful accounts. Expedia considers accounts outstanding longer than the contractual payment terms as past due. Expedia determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, previous loss history, a specific customer’s ability to pay its obligations and the condition of the general economy and industry as a whole. The allowance for doubtful accounts recorded by Expedia as of December 31, 2016 was $1 million.

Vitalize receivables consist of amounts in transit from banks for customer credit card, debit card and electronic funds transfer transactions that are generally processed by the banks, and collected by the company, within one to three days of authorization. Receivables also include advertising revenue that is due from vendors within 30 days. Based on the nature of these transactions, no allowance for doubtful accounts has been recorded for Vitalize receivables as of December 31, 2016 or 2015.

Inventory

Inventory, consisting entirely of finished goods, is stated at the lower of cost or market. Cost is determined on the first-in, first-out method.

Fair Value of Financial Instruments

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, other than quoted market prices included within Level 1, are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

Investments

Classification of investments in marketable securities is determined at the time of purchase and reevaluated at each balance sheet date. Based on the Company’s intent and ability to hold certain assets until maturity, certain debt securities may be classified as held to maturity and measured at amortized cost. Investments classified as available for sale are recorded at fair value with unrealized holding gains and losses recorded, net of tax, as a component of accumulated other comprehensive income. Realized gains and losses from the sale of available for sale investments, if any, are determined on a specific identification basis. Investments with remaining maturities of less than one year are classified within short-term investments. All other investments with remaining maturities ranging from one year to five years are classified within Other investments.

For those investments in affiliates in which the Company has the ability to exercise significant influence, the equity method of accounting is used. Under this method, the investment, originally recorded at cost, is adjusted to recognize the Company's share of net earnings or losses of the affiliate as they occur rather than as dividends or other distributions are received. Losses are limited to the extent of the Company's investment in, advances to and commitments for the investee. The Company's share of net earnings or loss of affiliates also includes any other than temporary declines in fair value recognized during the period. Changes in the Company's proportionate share of the underlying equity of an equity method investee, which result from the issuance of additional equity securities by such equity investee, are recognized in the statement of operations through the gain (loss) on dilution of investment in affiliate line item. To the extent there is a difference between our ownership percentage in the underlying equity of an equity method investee and our carrying value, such difference is accounted for as if the equity method investee were a consolidated subsidiary.

The Company continually reviews its equity investments to determine whether a decline in fair value below the carrying value is other than temporary. The primary factors the Company considers in its determination are the length of time that the fair value of the investment is below the Company's carrying value; the severity of the decline; and the financial condition, operating performance and near term prospects of the investee. In addition, the Company considers the reason for the decline in fair value, be it general market conditions, industry specific or investee specific; analysts' ratings and estimates of 12 month share price targets for the investee; changes in stock price or valuation subsequent to the balance sheet date; and the Company's intent and ability to hold the investment for a period of time sufficient to allow for a recovery in fair value. If the decline in fair value is deemed to be other than temporary, the carrying value of the investment is written down to fair value. In situations where the fair value of an investment is not evident due to a lack of a public market price or other factors, the Company uses its best estimates and assumptions to arrive at the estimated fair value of such investment. The Company's assessment of the foregoing factors involves considerable management judgment and accordingly, actual results may differ materially from the Company's estimates and judgments. Write-downs for equity method investments would be included in share of earnings (losses) of affiliates.

Property and Equipment

Property and equipment consisted of the following:

	December 31, 2016	December 31, 2015
	amounts in millions	
Computer equipment	$ 428	24
Land	134	3
Building and leasehold improvements	68	15
Machinery, furniture and other equipment	43	14
Construction in progress	225	—
	898	56
Accumulated depreciation	(54)	(26)
	$ 844	30

Property and equipment that is owned is recorded at cost. Plant and equipment under capital leases are stated at the present value of minimum lease payments. Depreciation is computed using the straight-line method using estimated useful lives of 3 to 5 years for computer equipment, 7 years for machinery and equipment and 39 years for buildings. We amortize leasehold improvements using the straight-line method, over the shorter of the estimated useful life of the improvement or the remaining term of the lease. Depreciation expense for the years ended December 31, 2016, 2015 and 2014 was $28 million, $7 million and $7 million, respectively. Repairs and maintenance costs are charged to expense when incurred.

Assets and liabilities are established for the estimated construction costs incurred under lease arrangements where we are considered the owner for accounting purposes, pursuant to build-to-suit lease guidance, to the extent that we are involved in the construction of structural improvements or take construction risk prior to commencement of a lease. As a result of Expedia's involvement in the construction project for a new office space of its trivago subsidiary, that lease is recorded under build-to-suit guidance. Construction costs during the construction period incurred by the landlord are recorded as a construction in progress asset along with a related construction financing obligation on the consolidated balance sheets. At December 31, 2016, construction in progress includes approximately $38 million of project construction costs that were incurred by the landlord as property and equipment, net with a related construction financing obligation in other long-term liabilities, pursuant to build-to-suit lease guidance. The building assets will begin depreciating when the costs incurred related to the build out of the office space are complete and ready for their intended use, which is expected to be in 2018.

Websites and Internal Use Software Development Costs

Certain costs incurred during the application development stage related to the development of internal use software are capitalized and included in intangibles. Capitalization occurs when the preliminary project design state is completed and management has authorized further funding for the project, which it deems probable of completion and to be used for the function intended. Capitalized costs include amounts directly related to website and software development such as payroll and payroll-related costs for employees and contractors who are directly associated with, and who devote time to, the development effort. Capitalization of such costs ceases when the project is substantially complete and ready for its intended use.

Derivative Instruments

Derivative instruments are carried at fair value in the consolidated balance sheets. The fair values of the derivative financial instruments generally represent the estimated amounts expected to be received or paid upon termination of the contracts as of the reporting date.

At December 31, 2016, the Company's derivative instruments primarily consisted of Expedia's foreign currency forward contracts. 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. The goal in managing foreign exchange risk is to reduce, to the extent practicable, the Company's potential exposure to the changes that exchange rates might have on the Company's earnings, cash flows and financial position. Expedia's foreign currency forward contracts are typically short-term and, as they do not qualify for hedge accounting treatment, the changes in their fair value are classified in other, net. The Company does not hold or issue financial instruments for speculative or trading purposes.

Expedia has outstanding Euro 650 million of registered senior unsecured notes that are due in June 2022 and bear interest at 2.5% (the "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 earnings (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 earnings (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.

Goodwill and Other Intangible Assets

The Company assigns the value of an acquired business to the tangible assets and identifiable intangible assets acquired and liabilities assumed on the basis of their fair values at the date of acquisition. Any excess purchase price over the fair value of the net tangible and intangible assets acquired is allocated to goodwill. When determining the fair values of assets acquired and liabilities assumed, management makes significant estimates and assumptions, especially with respect to intangible assets. Critical estimates in valuing certain intangible assets include but are not limited to future expected cash flows from and useful lives of tradenames, customer relationships, supplier relationships, developed technology, royalty rates, terminal growth rate, income tax rate and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. Any changes to provisional amounts identified during the measurement period are recognized in the reporting period in which the adjustment amounts are determined.

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

Goodwill and other intangible assets with indefinite useful lives (collectively, "indefinite lived intangible assets") are not amortized, but instead are tested for impairment at least annually. Our annual impairment assessment of our indefinite-lived intangible assets is performed during the fourth quarter of each year, or more frequently if events and circumstances indicate that impairment may have occurred.

The Company utilizes a qualitative assessment for determining whether step one of the goodwill impairment analysis is necessary. The accounting guidance permits entities to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. In evaluating goodwill on a qualitative basis the Company reviews the business performance and evaluates other relevant factors as identified in the relevant accounting guidance to determine whether it was more likely than not that an indicated impairment exists. The Company considers whether there are any negative macroeconomic conditions, industry specific conditions, market changes, increased competition, increased costs in doing business, management challenges, the legal environments and how these factors might impact company specific performance in future periods.

If a step one test is considered necessary based on the qualitative factors, the Company compares the estimated fair value of each reporting unit to its carrying value. Developing estimates of fair value requires significant judgments, including making assumptions about appropriate discount rates, perpetual growth rates, relevant comparable market multiples, public trading prices and the amount and timing of expected future cash flows. The cash flows employed in Expedia Holdings' valuation analyses are based on management's best estimates considering current marketplace factors and risks as well as assumptions of growth rates in future years. There is no assurance that actual results in the future will approximate these forecasts. For those reporting units whose carrying value exceeds the fair value, a second test is required to measure the impairment loss (the "Step 2 Test"). In the Step 2 Test, the fair value (Level 3) of the reporting unit is allocated to all of the assets and liabilities of the reporting unit with any residual value being allocated to goodwill. Any excess of the carrying value of the goodwill over this allocated amount is recorded as an impairment charge.

The accounting guidance also permits entities to first perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. If the qualitative assessment supports that it is more likely than not that the carrying value of the Company's indefinite-lived intangible assets, other than goodwill, exceeds its fair value, then a quantitative assessment is performed. If the carrying value of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. There were no impairment charges related to indefinite-lived intangible assets during the years ended December 31, 2016, 2015 or 2014.

Impairment of Long-lived Assets

Intangible assets with definite lives and other long-lived assets are carried at cost and are amortized on a straight-line basis over their estimated useful lives. The Company periodically reviews the carrying amounts of its long-lived assets (other than goodwill and indefinite-lived intangibles) to determine whether current events or circumstances indicate that such carrying amounts may not be recoverable. If the carrying amount of the asset group is greater than the expected undiscounted cash flows to be generated by such asset group, including its ultimate disposition, an impairment adjustment is to be recognized. Such adjustment is measured by the amount that the carrying value of such asset groups exceeds their fair value. The Company generally measures fair value by considering sale prices for similar asset groups or by discounting estimated future cash flows using an appropriate discount rate. Considerable management judgment is necessary to estimate the fair value of asset groups. Accordingly, actual results could vary significantly from such estimates. Asset groups to be disposed of are carried at the lower of their financial statement carrying amount or fair value less costs to sell. There was no indication of impairment of long-lived assets during the years ended December 31, 2016, 2015 or 2014.

Noncontrolling Interest

Historically, the Company had a noncontrolling interest related to the equity ownership interest in Vitalize until the Company purchased the remaining ownership interest in October 2015. Subsequent to the Expedia Holdings Split-Off, noncontrolling interest relates to the equity ownership interest in Expedia that the Company does not own. The Company reports noncontrolling interest of the consolidated company within equity in the consolidated balance sheet and the amount of consolidated net income attributable to the parent and to the noncontrolling interest is presented in the consolidated statements of operations. Also, changes in ownership interest in a consolidated company in which the Company maintains a controlling interest are recorded in equity.

Redeemable Noncontrolling Interest

Prior to the completion of the initial public offering ("IPO") of trivago on December 16, 2016, Expedia had noncontrolling interests in majority owned entities, which were carried at fair value as the noncontrolling interests contained certain rights, whereby Expedia could acquire and the minority shareholders could sell to Expedia the additional shares of the company. Changes in fair value of the shares for which the minority holders could sell to Expedia were recorded to the noncontrolling interest and as charges or credits to retained earnings (or additional paid-in capital in the absence of retained earnings). Fair value determinations required high levels of judgment (Level 3) and were based on various valuation techniques, including market comparables and discounted cash flow projections. In conjunction with the IPO, Expedia and trivago's founders entered into an Amended and Restated Shareholders' Agreement under which the original put/call rights were no longer effective and, as such, the redeemable non-controlling interest was reclassified into non-redeemable non-controlling interest on the consolidated balance sheet.

Revenue Recognition

Service revenue

Expedia recognizes revenue when it is earned and realizable based on the following criteria: persuasive evidence that an arrangement exists, services have been rendered, the price is fixed or determinable and collectability is reasonably assured.

Expedia also evaluates the presentation of revenue on a gross versus a net basis. The consensus of the authoritative accounting literature is that the presentation of revenue as “the gross amount billed to a customer because it has earned revenue from the sale of goods or services or the net amount retained (that is, the amount billed to a customer less the amount paid to a supplier) because it has earned a commission or fee” is a matter of judgment that depends on the relevant facts and circumstances. In making an evaluation of this issue, some of the factors that should be considered are: whether we are the primary obligor in the arrangement (strong indicator); whether we have general supply risk (before customer order is placed or upon customer return) (strong indicator); and whether we have latitude in establishing price. The guidance clearly indicates that the evaluations of these factors, which at times can be contradictory, are subject to significant judgment and subjectivity. If the conclusion drawn is that Expedia performs as an agent or a broker without assuming the risks and rewards of ownership of goods, revenue should be reported on a net basis. For Expedia’s primary transaction-based revenue models, discussed below, Expedia has determined that net presentation is appropriate for the majority of revenue transactions.

Expedia offers travel products and services on a stand-alone and package basis primarily through the following business models: the merchant model, the agency model and the advertising 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. The majority of Expedia’s merchant transactions relate to hotel bookings.

Under the agency model, Expedia acts as the agent in the transaction, passing reservations booked by the traveler to the relevant travel provider. 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 from global distribution systems partners that control the computer systems through which these 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 transaction-based websites.

In addition, Expedia’s HomeAway business facilitates vacation rental bookings and provides listing and other ancillary services to property owners and managers.

Merchant Hotel. Expedia’s travelers pay Expedia 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 stay occurs, at which point the revenue is recorded. In certain nonrefundable, nonchangeable transactions where Expedia has no significant post-delivery obligations, Expedia records revenue when the traveler completes the transaction on its website, less a reserve for chargebacks and cancellations based on historical experience. Amounts received from customers are presented net of amounts paid to suppliers. In certain instances when a supplier invoices Expedia for less than the cost accrued, Expedia generally recognizes those amounts as 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 and contract terms.

Expedia generally contracts in advance with lodging providers to obtain access to room allotments at wholesale rates. Certain contracts specifically identify the number of potential rooms and the negotiated rate of the rooms to which Expedia may have access over the terms of the contracts, which generally range from one to three years. Other contracts are not specific with respect to the number of rooms and the rates of the rooms to which Expedia may have access over the terms of the contracts. In either case Expedia may return unbooked hotel room allotments with no obligation to the lodging providers within a period specified in each contract. For hotel rooms that are cancelled by the traveler after the specified period of time, Expedia charges the traveler a cancellation fee or penalty that approximates the amount a hotel may invoice us for the cancellation.

Agency and Merchant Air. Expedia records revenue on air transactions when the traveler books the transaction, as Expedia has no significant post-delivery obligations. Expedia records a reserve for chargebacks and cancellations at the time of the transaction based on historical experience.

Agency Hotel, Car and Cruise. In addition to air tickets, Expedia's agency revenue comes from certain hotel transactions as well as cruise and car rental reservations. Expedia generally records agency revenue from hotel, cruise and car reservations on an accrual basis when the travel occurs. Expedia records an allowance for cancellations on this revenue based on historical experience.

Packages. Packages assembled by travelers through the packaging model 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 recognized in accordance with Expedia's revenue recognition policies stated above.

Advertising. Expedia records advertising revenue ratably over the advertising period or upon delivery of advertising impressions, depending on the terms of the advertising contract. Expedia records revenue from click-through fees charged to its travel partners for traveler 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.

Vacation Rental Products and Services. Vacation rental revenue is earned on a transactional or subscription basis, where property owners or managers purchase in advance online advertising services related to the listing of their properties for rent over a fixed term (typically one year). Listing revenue is also generated on a commission basis, when traveler bookings are completed on Expedia's websites. During 2016, HomeAway has been undergoing a transition from a subscription-based model to an online transaction model, and in 2016, HomeAway launched a traveler service fee paid by the traveler, which is recorded as deferred revenue, and recognized as revenue at the time of check-in. Payments for term-based paid subscriptions received in advance of services being rendered are recorded as deferred revenue and recognized ratably on a straight-line basis over the listing period. Revenue for performance-based listings is calculated as a percentage of the traveler booking or a fixed fee-per-inquiry stated in the arrangement and recognized when the service has been performed or as the customers' refund privileges lapse, which is typically at check-in. Revenue from other ancillary vacation rental services or products are recorded either upon delivery or when Expedia provides the service.

Other. Expedia records revenue from all other sources either upon delivery or when Expedia provides the service.

Product revenue

Revenue from product sales is recognized when all the following criteria are met: a customer executes an order, the sales price and shipping charge has been determined, credit card authorization has occurred and collection is reasonably assured and it is probable that the product has been received by the customer, based on estimated delivery times. Shipping charges billed to customers are classified as revenue. The sales price of orders that have been shipped, but for which the Company estimates that the order has not yet been received by the customer, is recorded as deferred revenue and included in other current liabilities.

An allowance for returned merchandise is provided as a percentage of sales based on historical experience. The total reduction in sales due to returns for the years ended December 31, 2016, 2015 and 2014 aggregated $5 million, $5 million and $6 million, respectively. Sales tax collected from customers on retail sales is recorded on a net basis and is not included in revenue.

In May 2014, FASB issued new accounting guidance on revenue from contracts with customers. The new guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This new guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In March 2016, the FASB issued additional guidance which clarifies principal versus agent considerations, and in April 2016, the FASB issued further guidance which clarifies the identification of performance obligations and the implementation guidance for licensing. The updated guidance will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or modified retrospective transition method. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, and early adoption is permitted only for fiscal years beginning after December 15, 2016. The Company has not yet selected a transition method and is currently working with our subsidiaries to evaluate the quantitative effect that the updated standard will have on the Company's consolidated financial statements and related disclosures. We will continue to provide updates as to the progress of our evaluation in our quarterly reports during 2017.

Cost of Sales

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

Cost of retail sales primarily includes actual product cost, product promotions and volume purchase discounts received from suppliers, shipping and handling costs and warehouse costs.

Vendor Rebates

Vitalize enters into arrangements with certain vendors through which Vitalize receives rebates for volume purchases or sales made during the year. As the right of offset exists under these arrangements, most rebates receivable under these arrangements are recorded as a reduction in the vendors' accounts payable balances on the consolidated balance sheets and represent the estimated amounts due to Vitalize under the rebate provisions of such contracts. The corresponding rebate income is recorded as a reduction of cost of goods sold based on sales of the associated inventory.

Marketing Promotions

Expedia periodically provides incentive offers to its customers to encourage booking of travel products and services. Generally, its incentive offers are as follows:

Current Discount Offers. These promotions include dollar off discounts to be applied against current purchases. Expedia records the discounts as reduction in revenue at the date the corresponding revenue transaction is recorded.

Inducement Offers. These promotions include discounts granted at the time of a current purchase to be applied against a future qualifying purchase. Expedia treats inducement offers as a reduction to revenue based on estimated future redemption rates. Expedia allocates the discount amount at the time of the offer between the current purchase and the potential future purchase based on the expected relative value of the transactions. Expedia estimates the redemption rates using its historical experience for similar inducement offers.

Concession Offers. These promotions include discounts to be applied against a future purchase to maintain customer satisfaction. Upon issuance, Expedia records these concession offers as a reduction to revenue based on estimated future redemption rates. Expedia estimates its redemption rates using historical experience for concession offers.

Loyalty and Points Based Offers. Expedia offers certain internally administered traveler loyalty programs to its customers, such as its Hotels.com Rewards ® program, Brand Expedia Expedia ® + rewards program and Orbitz rewards program. Hotels.com Rewards offers travelers one free night at any Hotels.com partner property after that traveler stays 10 nights, subject to certain restrictions. Expedia+ rewards enables participating travelers to earn points on all hotel, flight, package and activities made on over 30 Brand Expedia websites. Orbitz Rewards allows travelers to earn Orbucks SM , the currency of Orbitz Rewards, on flights, hotels and vacation packages and instantly redeem those Orbucks on future bookings at various hotels worldwide. As travelers accumulate points towards free travel products, Expedia records a liability for the estimated future cost of redemptions. The cost of these loyalty programs is recorded as a reduction to revenue in the consolidated financial statements. Expedia determines the future redemption obligation based on factors that require significant judgment including: (i) the estimated cost of travel products to be redeemed, and (ii) an estimated redemption rate based on the overall accumulation and usage of points towards free travel products, which is determined through current and historical trends as well as statistical modeling techniques. As of December 31, 2016 the liability related to Expedia's loyalty programs of $442 million was included in accrued liabilities.

Advertising Costs

Advertising expense consists of offline costs, including television and radio advertising, and online advertising expense. Production costs associated with advertisements are expensed in the period in which the advertisement first takes place. Costs of communicating the advertisement (e.g., television airtime) are expensed as incurred each time the advertisement is shown. Advertising expense aggregated $439 million, $9 million and $8 million for the years ended December 31, 2016, 2015 and 2014, respectively. Advertising costs are reflected in selling and marketing expense in the consolidated statements of operations.

Stock-Based Compensation

As more fully described in note 9, Expedia Holdings has granted to its directors, employees and employees of certain of its subsidiaries options and restricted stock (collectively, "Awards") to purchase shares of Expedia Holdings common stock. Expedia Holdings measures the cost of employee services received in exchange for an Award of equity instruments (such as stock options and restricted stock) based on the grant-date fair value of the Award, and recognizes that cost over the period during which the employee is required to provide service (usually the vesting period of the Award). Certain outstanding Awards of Liberty Interactive were split into Awards of Expedia Holdings and Liberty Interactive at the time of the Expedia Holdings Split-Off, but the compensation expense related to such Awards is recorded at Liberty Interactive.

Furthermore, as more fully described in note 9, Vitalize has granted to certain members of its management and key employees stock appreciation rights ("SARs") that will be settled in cash. Vitalize measures the cost of employee services received in exchange for SARs based on the fair value of the SARs, which is measured at each reporting date.

Additionally, Expedia has granted certain stock options and restricted stock units ("RSUs"). Expedia measures and amortizes the fair value of stock options and RSUs as follows:

Stock Options. Expedia measures the value of stock options issued or modified, including unvested options assumed in acquisitions, on the grant date (or modification or acquisition dates, if applicable) at fair value, using appropriate valuation techniques, including the Black-Scholes and Monte Carlo option pricing models. The valuation models incorporate various assumptions including expected volatility, expected term and risk-free interest rates. The expected volatility is based on historical volatility of Expedia's common stock and other relevant factors. Expedia bases its expected term assumptions on its historical experience and on the terms and conditions of the stock awards granted to employees. Expedia amortizes the fair value, net of estimated forfeitures, over the remaining vesting term on a straight-line basis. In addition, Expedia classifies certain employee option awards as liabilities when it deems it not probable that the employees holding the awards will bear the risk and rewards of stock ownership for a reasonable period of time. Such options are revalued at the end of each reporting period and upon settlement Expedia's total compensation expense recorded from grant date to settlement date will equal the settlement amount. The majority of Expedia's stock options vest over four years.

Restricted Stock Units. RSUs are stock awards that are granted to employees entitling the holder to shares of common stock as the award vests, typically over a three or four-year period. Expedia measures the value of RSUs at fair value based on the number of shares granted and the quoted price of Expedia's common stock at the date of grant. Expedia amortizes the fair value, net of estimated forfeitures, as stock-based compensation expense over the vesting term on a straight-line basis. Expedia records RSUs that may be settled by the holder in cash, rather than shares, as a liability and remeasured at fair value at the end of each reporting period. Upon settlement of these awards, Expedia's total compensation expense recorded over the vesting period of the awards will equal the settlement amount, which is based on Expedia's stock price on the settlement date. Performance-based RSUs vest upon achievement of certain company-based performance conditions. On the date of grant, Expedia determines the fair value of the performance-based award based on the fair value of Expedia's common stock at that time and Expedia assesses whether it is probable that the performance targets will be achieved. If assessed as probable, Expedia records compensation expense for these awards over the estimated performance period using the accelerated method. At each reporting period, Expedia reassesses the probability of achieving the performance targets and the performance period required to meet those targets. The estimation of whether the performance targets will be achieved and of the performance period required to achieve the targets requires judgment, and to the extent actual results or updated estimates differ from Expedia's current estimates, the cumulative effect on current and prior periods of those changes is recorded in the period estimates are revised, or the change in estimate will be applied prospectively depending on whether the change affects the estimate of total compensation cost to be recognized or merely affects the period over which compensation cost is to be recognized. The ultimate number of shares issued and the related compensation expense recognized will be based on a comparison of the final performance metrics to the specified targets.

Estimates of fair value are not intended to predict actual future events or the value ultimately realized by employees who receive these awards, and subsequent events are not indicative of the reasonableness of Expedia's original estimates of fair value.

Included in the accompanying consolidated statements of operations are the following amounts of stock-based compensation, a portion of which relates to Expedia for the year ended December 31, 2016 as discussed in note 9:

	Years ended December 31,		
	2016	2015	2014
	amounts in millions		
Operating costs and expenses:			
Operating expense	$ 3	—	—
Selling and marketing	10	—	—
Technology and content	13	—	—
General and administrative	21	2	2
	$ 47	2	2

In March 2016, the FASB issued new guidance which simplifies several aspects of the accounting for share-based payment award transactions, including the income tax consequences, forfeitures, classification of awards as either equity or liabilities and classification on the statement of cash flows. The new standard is effective for the Company for fiscal years and interim periods beginning after December 15, 2016, with early adoption permitted. The Company adopted this guidance in the third quarter of 2016. In accordance with the new guidance, excess tax benefits and tax deficiencies are recognized as income tax benefit or expense rather than as additional paid-in capital. The Company has elected to recognize forfeitures as they occur rather than continue to estimate expected forfeitures. In addition, pursuant to the new guidance, excess tax benefits are classified as an operating activity on the consolidated statements of cash flows. The recognition of excess tax benefits and deficiencies are applied prospectively from January 1, 2016. The Company considered whether there were any tax benefits that were not previously recognized and for adjustments to compensation cost based on actual forfeitures, noting none. Accordingly, no cumulative-effect adjustment has been recorded in retained earnings as of January 1, 2016. No changes have been made to the consolidated statements of cash flows, as excess tax benefits were insignificant for all periods presented.

Employee Benefit Plans

On January 31, 2012, Vitalize began participating in the Liberty Interactive 401(k) Plan. The plan covered substantially all employees and matched 100% of the first 6% of employee contributions. In November 2016, Vitalize began participating in its own 401(k) Plan which maintains the same employer matching provisions as the Liberty Interactive 401(k) Plan. In addition, Expedia has a separate employee benefit plan for its employees whereby Expedia makes matching contributions to the plan based on a percentage of the amount contributed by its employees. Employer cash contributions to all plans aggregated $10 million, $2 million and $1 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Income Taxes

The Company accounts for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying value amounts and income tax bases of assets and liabilities and the expected benefits of utilizing net operating loss and tax credit carryforwards. The deferred tax assets and liabilities are calculated using enacted tax rates in effect for each taxing jurisdiction in which the Company operates for the year in which those temporary differences are expected to be recovered or settled. Net deferred tax assets are then reduced by a valuation allowance if the Company believes it is more likely than not such net deferred tax assets will not be realized. The effect on deferred tax assets and liabilities of an enacted change in tax rates is recognized in income in the period that includes the enactment date.

When the tax law requires interest to be paid on an underpayment of income taxes, the Company recognizes interest expense from the first period the interest would begin accruing according to the relevant tax law. Such interest expense is included in income tax expense in the accompanying consolidated statements of operations. Any accrual of penalties related to underpayment of income taxes on uncertain tax positions is included in income tax expense in the accompanying consolidated statements of operations.

Taxes collected from customers and remitted to government authorities are presented on a net basis in the consolidated statements of operations.

The impact of a tax position, if that position is more likely than not to be sustained upon an examination, based on the technical merits of the position, is recognized in the consolidated financial statements.

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

Occupancy Tax

Some states and localities impose a transient occupancy or accommodation tax on the use or occupancy of hotel accommodations. Generally, hotels collect taxes based on the room rate paid to the hotel and remit these taxes to the various tax authorities. When a customer books a room through one of Expedia's travel services, Expedia collects a tax recovery charge from the customer which Expedia pays to the hotel. Expedia calculates the tax recovery charge by applying the occupancy tax rate supplied to it by the hotels to the amount that the hotel has agreed to receive for the rental of the room by the consumer. In all but a limited number of jurisdictions, Expedia does not collect or remit occupancy taxes, nor does Expedia pay occupancy taxes to the hotel operator on the portion of the customer payment Expedia retains. Some jurisdictions have questioned Expedia's practice in this regard. While the applicable tax provisions vary among the jurisdictions, Expedia generally believes that it is not required to collect and remit such occupancy taxes. Expedia is engaged in discussions with tax authorities in various jurisdictions to resolve this issue. Some tax authorities have brought lawsuits or have levied assessments asserting that Expedia is required to collect and remit occupancy tax. The ultimate resolution in all jurisdictions cannot be determined at this time. We have established a reserve for the potential settlement of issues related to hotel occupancy taxes when determined to be probable and estimable. See note 11 for further discussion.

Contingent Liabilities

The Company has a number of regulatory and legal matters outstanding, as discussed further in note 11. Periodically, management reviews the status of all significant outstanding matters to assess any potential financial exposure. When (i) it is probable that a liability has been incurred and (ii) the amount of the loss can be reasonably estimated, an estimated loss is recorded in the consolidated statements of operations. Disclosures are provided in the notes to the consolidated financial statements for loss contingencies that do not meet both these conditions if there is a reasonable possibility that a loss may have been incurred that would be material to the financial statements. Significant judgment is required to determine the probability that a liability has been incurred and whether such liability is reasonably estimable. Accruals are based on the best information available at the time which can be highly subjective. The final outcome of these matters could vary significantly from the amounts included in the accompanying consolidated financial statements.

Comprehensive Earnings (Loss)

Prior to the Expedia Holdings Split-Off, comprehensive earnings (loss) consisted of net income (loss) and the Company's share of the comprehensive earnings (loss) of Expedia, accounted for as an equity method affiliate. Subsequent to the Expedia Holdings Split-Off, comprehensive earnings (loss) consists of net income (loss) and Expedia's comprehensive earnings (loss).

Foreign Currency Translation and Transaction Gains and Losses

Certain of Expedia's operations outside of the United States use the related local currency as their functional currency. Expedia translates revenue and expense at average rates of exchange during the period. Expedia translates assets and liabilities at the rates of exchange as of the consolidated balance sheet dates and include foreign currency translation gains and losses as a component of accumulated other comprehensive earnings. Due to the nature of Expedia's operations and corporate structure, Expedia also has subsidiaries that have significant transactions in foreign currencies other than their functional currency. Expedia records transaction gains and losses in the consolidated statements of operations related to the recurring remeasurement and settlement of such transactions.

To the extent practicable, Expedia attempts to minimize this exposure by maintaining natural hedges between its current assets and current liabilities of similarly denominated foreign currencies. Additionally, as discussed above, Expedia uses foreign currency forward contracts to economically hedge certain merchant revenue exposures and in lieu of holding certain foreign currency cash for the purpose of economically hedging its foreign currency-denominated operating liabilities.

Earnings per Share (EPS)

Basic earnings (loss) per common share ("EPS") is computed by dividing net earnings (loss) by the weighted average number of common shares outstanding 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.

The Company issued 56,946,673 common shares, which is the aggregate number of shares of Series A and Series B common stock outstanding upon the completion of the Expedia Holdings Split-Off on November 4, 2016. The number of shares issued upon completion of the Expedia Holdings Split-Off was used to determine both basic and diluted earnings (loss) per share for the years ended December 31, 2015 and 2014 and for the period from January 1, 2016 through the date of the Expedia Holdings Split-Off, as no Company equity awards were outstanding prior to the Expedia Holdings Split-Off. Basic earnings (loss) per share subsequent to the Expedia Holdings Split-Off was computed using the weighted average number of shares outstanding ("WASO") from the date of the completion of the Expedia Holdings Split-Off through December 31, 2016. Diluted earnings per share subsequent to the Expedia Holdings Split-Off was computed using the WASO from the date of the completion of the Expedia Holdings Split-Off through December 31, 2016, adjusted for potentially dilutive equity awards outstanding during the same period.

	Years ended December 31,		
	2016	2015	2014
	number of shares in millions		
Basic WASO	57	57	57
Potentially dilutive shares	1	—	—
Diluted WASO	58	57	57

Excluded from diluted EPS for the year ended December 31, 2016 are less than a million potential common shares because their inclusion would be anti-dilutive.

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.

Financial instruments, which potentially subject the Company to concentration of credit risk, consist primarily of cash and cash equivalents and corporate debt securities. Expedia maintains some cash and cash equivalents balances with financial institutions that are in excess of Federal Deposit Insurance Corporation insurance limits. Expedia's cash and cash equivalents are primarily composed of time deposits as well as bank (both interest and non-interest bearing) account balances denominated in U.S. dollars, Euros, British pound sterling, Brazilian Real, Australian dollar and Canadian dollar.

Vitalize is subject to certain risks and concentrations including dependence on relationships with vendors. Vitalize's largest vendors, that accounted for greater than 10% of its purchases, aggregated 30%, 30% and 21% of its total purchases for the years ended December 31, 2016, 2015 and 2014, respectively.

Reclassifications and adjustments

Certain prior period amounts have been reclassified for comparability with the current year presentation.

Estimates

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) revenue recognition, (ii) recoverability of software development costs and other intangible assets, (iii) fair value of non-financial instruments, (iv) loyalty program accruals, (v) stock-based compensation and (vi) accounting for income taxes to be its most significant estimates.

Recent Accounting Pronouncements

In February 2015, the FASB issued new accounting guidance which amends the consolidation guidance in Accounting Standards Codification Topic 810, *Consolidation*. The new guidance requires an entity to reconsider and re-document the basis for previous consolidation conclusions. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. The Company adopted this guidance during the first quarter of 2016. The adoption of this guidance did not change the conclusions reached for any previous consolidation analyses.

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

In February 2016, the FASB issued new guidance 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, to be applied via a modified retrospective transition approach, is effective for the Company for fiscal years and interim periods beginning after December 15, 2018, with early adoption permitted. Companies are required to use a modified retrospective approach to adopt this guidance. 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.

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.

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

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

(3) Investment in 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 seeks to grow its business through a dynamic portfolio of travel brands, including its majority owned subsidiaries that feature a broad supply portfolio as well as destination services and activities. As of December 31, 2016, the Company owns an approximate 15.7% equity interest and 52.3% voting interest in Expedia.

Historically, Liberty Interactive was (and, following the completion of the Expedia Holdings Split-Off, the Company is) a party to a stockholders agreement (the “Stockholders Agreement”) with Mr. Barry Diller, Chairman of the Board and Senior Executive Officer of Expedia, 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 (the “Expedia class B common stock,” and together with EXPE, the “Expedia common stock”) then owned by Liberty Interactive. Liberty Interactive was also subject to a governance agreement (the “Governance Agreement”) with Expedia which provided for the right to nominate 20% of the members of Expedia's board of directors , which was comprised of 13 members (three of which were nominated by Liberty Interactive). The Governance Agreement also provided for registration and other rights, and imposed certain restrictions on the ownership of shares of Expedia class B common stock. Pursuant to the Governance Agreement, Liberty Interactive had (and, following the completion of the Expedia Holdings Split-Off, the Company has) preemptive rights that entitle it to purchase a number of shares of Expedia common stock (excluding certain issuances related to options, warrants or convertible securities) so that Liberty Interactive or the Company, as applicable, would or will maintain the identical ownership interest in Expedia (subject to certain adjustments) that it had immediately prior to such issuance or proposed issuance (but not in excess of 20.01%). Any purchase by Liberty Interactive or the Company, as applicable, would or will be allocated between EXPE and Expedia class B common stock in the same proportion as the issuance or issuances giving rise to the preemptive right, except to the extent that Liberty Interactive or the Company, as applicable, opted or opts to acquire shares of EXPE in lieu of shares of Expedia class B common stock. Based on the Stockholders Agreement and the Governance Agreement, the Company determined that, prior to the Expedia Holdings Split-Off, it did not control Expedia but instead had significant influence with respect to Expedia and accordingly, accounted for its investment in Expedia as an equity method affiliate.

In connection with the Expedia Holdings Split-Off, (a), the Governance Agreement and Stockholders Agreement was assigned by Liberty Interactive to the Company and (b) Mr. Diller ceased to directly control a majority voting interest in Expedia by irrevocably assigning (the “Diller Assignment”) the Diller Proxy to the Company for a period of time up to 18 months following completion of the Expedia Holdings Split-Off, 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 (“Malone”), Leslie Malone (“Mrs. Malone” and together with Malone, the “Malone Group”), Liberty Interactive and the Company (the “Amended and Restated Transaction Agreement” and the date on which such termination event occurs, the “Proxy Arrangement Termination Date”). By virtue of (i) certain governance rights with respect to the Company as set forth in the Company’s restated certificate of incorporation (the “restated charter”), an amendment to the Stockholders Agreement and the Amended and Restated Transaction Agreement and (ii) the grant by the Malone Group to Mr. Diller of an irrevocable proxy to vote, subject to certain exceptions, shares of the Company’s common stock beneficially owned by the Malone Group upon the completion of the Expedia Holdings Split-Off or thereafter for a period of time ending upon termination of Mr. Diller's assignment of the Diller Proxy (the arrangements described in clauses (i) and (ii), together with the Diller Assignment, the “proxy arrangements”), Mr. Diller will be able to elect the directors of the Company who will determine how the Company will exercise certain rights and vote the shares of EXPE and Expedia class B common stock owned by the Company in the election of Expedia directors, though Malone will retain the ability to remove such directors of the Company. The rights under the Governance Agreement and Stockholders Agreement, each as assigned and amended, will be maintained even upon termination of the proxy arrangements. As a result, Expedia Holdings began consolidating Expedia as of November 4, 2016, the completion of the Expedia Holdings Split-Off, as Expedia Holdings then controlled a majority of the voting interest in Expedia.

In conjunction with application of acquisition accounting, we recorded a full step up in basis of Expedia which resulted in an approximate $2.0 billion gain. The gain on the transaction was excluded from taxable income. Additionally, the deferred income tax liability that had historically resulted from the difference between the book basis and tax basis of the Company’s ownership in Expedia shares was reversed as a result of the transaction. As control of Expedia was achieved without the exchange of consideration, in order to apply acquisition accounting, we used the sum of the fair value (including an applicable control premium) of our ownership interest previously held (approximately $3.0 billion) and the fair value of the initial noncontrolling interest ($16.3 billion), as determined based on the trading price of Expedia (Level 1) at the time control was obtained and the fair value of Expedia's fully vested options (Level 2) on November 4, 2016. Following the Expedia Holdings Split-Off, Expedia is a consolidated subsidiary with an approximate 84% noncontrolling interest.

The preliminary acquisition price allocation for Expedia is as follows (amounts in millions):

Fair value of Expedia equity interests	$	2,991
Noncontrolling interest		16,295
	$	19,286
Cash and cash equivalents	$	1,725
Receivables		1,487
Property, plant and equipment		780
Goodwill		16,796
Other nonamortizable intangible assets		6,152
Intangible assets subject to amortization		6,774
Other assets		815
Debt		(3,472)
Deferred merchant bookings		(2,810)
Deferred income tax liabilities, net		(3,643)
Other liabilities assumed		(5,318)
	$	19,286

Goodwill is calculated as the excess of the consideration transferred over the identifiable net assets acquired and represents the future economic benefits expected to arise from other intangible assets acquired that do not qualify for separate recognition, including assembled workforce, value associated with future customers, continued innovation and noncontractual relationships. Acquired Expedia nonamortizable intangible assets consist of trademarks and tradenames. Expedia amortizable intangible assets were comprised of customer relationships of $4,233 million with a weighted average life of approximately 9 years, developed technology of $1,480 million with a weighted average life of approximately 5 years, supplier relationships of $980 million with a weighted average life of approximately 4 years and other intangible assets of $81 million with useful lives of 1 to 6 years. None of the acquired goodwill is expected to be deductible for tax purposes. As of December 31, 2016, the valuation related to the acquisition of a controlling interest in Expedia is not final, and the acquisition price allocation is preliminary and subject to revision. The primary areas of the acquisition price allocation that are not yet finalized are related to certain intangible assets, liabilities and tax balances.

Included in net earnings (loss) for the year ended December 31, 2016 is a loss of approximately $261 million related to Expedia's operations since the date of acquisition, which includes amortization expense of $284 million, primarily related to the fair value step-up of amortizable intangible assets acquired.

The unaudited pro forma revenue and net earnings of Expedia Holdings, prepared utilizing the historical financial statements of Expedia, giving effect to acquisition accounting related adjustments made at the time of acquisition, as if the transaction discussed above occurred on January 1, 2015, and utilizing 57 million common shares for the calculation of basic and diluted EPS, which is the aggregate number of Series A and Series B common stock outstanding upon the completion of the Expedia Holdings Split-Off on November 4, 2016, are as follows:

	Years ended December 31,	
	2016	2015
	amounts in millions	
Revenue	$ 9,185	6,987
Net earnings (loss)	$ (682)	(625)
Net earnings (loss) attributable to Expedia Holdings shareholders	$ (106)	(57)
Basic net earnings (loss) attributable to Expedia Holdings shareholders per common share	$ (1.86)	(1.00)
Diluted net earnings (loss) attributable to Expedia Holdings shareholders per common share	$ (1.86)	(1.00)

The pro forma results include adjustments primarily related to amortization of acquired intangible assets, amortization of the premiums related to the step-up to fair value of Expedia's debt, the amortization of the write-off of deferred revenue and incremental stock-based compensation for the step-up to fair value of Expedia's outstanding options and RSU's on the date of acquisition. The pro forma information is not representative of the Company's future results of operations nor does it reflect what the Company's results of operations would have been as if the transaction had happened previously and the Company consolidated Expedia during the periods presented.

During April 2015 and October 2014, Liberty Interactive exercised its pre-emptive rights under the Governance Agreement and purchased, directly from Expedia, an additional 265 thousand and 265 thousand shares, respectively, for approximately $23 million and $20 million, respectively.

Expedia Holdings recognized a loss on dilution of investment in affiliate of $2 million and gains on dilution of investment in affiliate of $320 million and $3 million during the years ended December 31, 2016, 2015 and 2014, respectively. Changes in the Company's proportionate share of the underlying equity of its investment in Expedia, as accounted for under the equity method, which resulted from the issuance of additional equity securities by Expedia to investors other than the Company, were recognized in the Company's consolidated statement of operations through the gain (loss) on dilution of investment in Expedia line item. Dilution losses were due to the issuance of Expedia common stock from the exercise of warrants and stock options, held by outside investors (employees and other third parties), at prices below the Company's book basis per share. Alternatively, dilution gains were due to the issuance of Expedia common stock from the exercise of warrants and stock options, held by outside investors (employees and other third parties), at prices above the Company's book basis per share. The significant gain in 2015 is due to an acquisition by Expedia that was partially executed through the issuance of Expedia common stock. This diluted Expedia Holdings' ownership percentage at a price greater than our cost basis. In addition, Expedia paid dividends to aggregating approximately $18 million, $20 million and $15 million which were recorded as reductions to the investment, prior to the Expedia Holdings Split-Off, during the years ended December 31, 2016, 2015 and 2014, respectively.

Upon acquisition of our initial investment in Expedia and due to subsequent repurchases of Expedia stock by Expedia, the Company allocated the excess basis between our carrying value of Expedia and their carrying value. The Company determined the applicable useful life of amortizable intangibles to be approximately four years at that time. As a result of Expedia's 2015 acquisitions of Orbitz Worldwide, Inc. ("Orbitz") and HomeAway, the Company determined the applicable useful life of amortizable intangibles to be approximately six years in connection with excess costs added subsequent to December 31, 2015. Prior to the completion of the Expedia Holdings Split-Off, amortization related to intangible assets with identifiable useful lives was included in the Company's share of earnings (losses) from affiliates line item in the accompanying consolidated statements of operations and aggregated $16 million, $14 million and $9 million for the years ended December 31, 2016, 2015 and 2014, respectively.

(4) 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:

	December 31, 2016			December 31, 2015		
Description	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	$ 464	164	300	—	—	—
Foreign currency forward contracts	$ (4)	—	(4)	—	—	—
Time deposits	$ 25	—	25	—	—	—
Available for sale securities	$ 64	—	64	—	—	—

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 December 31, 2016, 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.

Valuation of the foreign currency forward contracts is based on foreign currency exchange rates in active markets, a Level 2 input. Foreign currency forward contracts are included in the Other current liabilities line item as of December 31, 2016 in the Company's consolidated balance sheet. Expedia uses foreign currency forward contracts to economically hedge certain merchant revenue exposures, foreign denominated liabilities related to certain of its loyalty programs and its other foreign currency-denominated operating liabilities. As of December 31, 2016, Expedia was party to outstanding forward contracts hedging its liability exposures with a total net notional value of $1.9 billion. Net losses from foreign currency forward contracts were $10 million from the time of acquisition through December 31, 2016. Net losses from foreign currency forward contracts are included in the Other, net line in the Company's consolidated statement of operations.

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 other current assets.

Corporate debt securities are investment grade, all of which are classified as available for sale. As of December 31, 2016, we had $48 million of short-term available for sale securities, classified in Other current assets and $16 million of long-term available for sale investments, classified in Other investments. The amortized cost basis of the investments approximated their fair value with both gross unrealized gains and gross unrealized losses of less than $1 million.

(5) Goodwill and Other Intangible Assets

Goodwill

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

	Expedia	Vitalize	Total
Balance as of January 1, 2015	$ —	57	57
Other	—	—	—
Balance as of December 31, 2015	—	57	57
Acquisitions	16,796	—	16,796
Foreign exchange translation	(236)	—	(236)
Balance as of December 31, 2016	$ 16,560	57	16,617

As of December 31, 2016 accumulated goodwill impairment losses for Vitalize were $17 million.

Other Indefinite-lived Intangible Assets

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

Intangible Assets Subject to Amortization

Intangible assets subject to amortization are comprised of the following:

	December 31, 2016			December 31, 2015		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
			amounts in millions			
Customer relationships	$ 4,064	(111)	3,953	—	—	—
Supplier relationships	949	(119)	830	—	—	—
Technology, including internally developed software	1,554	(59)	1,495	66	(45)	21
Other	230	(178)	52	3	(1)	2
	6,797	(467)	6,330	69	(46)	23
Construction in progress - Internally developed software	33	—	33	1	—	1
Total	$ 6,830	(467)	6,363	70	(46)	24

The Company's customer relationships are amortized using a declining method over 9 years. The Company's supplier relationships are amortized using a declining method over 4 years. Technology is amortized over 5 years. The Company's internally developed software intangible assets are amortized straight-line over 3 to 5 years. The Company's other intangibles are amortized straight-line over 1 to 6 years. Intangible assets included in construction in progress—internally developed software are not amortized until they are capitalized to internally developed software.

Amortization expense for intangible assets with finite useful lives was $453 million, $14 million and $12 million for the years ended December 31, 2016, 2015 and 2014, respectively. Based on its amortizable intangible assets as of

December 31, 2016, the Company expects that amortization expense will be as follows for the next five years (amounts in millions):

2017	$ 1,903
2018	1,411
2019	1,003
2020	591
2021	473
Total	$ 5,381

(6) Debt

Outstanding debt at December 31, 2016 and 2015 is summarized as follows:

	Outstanding Principal December 31, 2016	Carrying value December 31, 2016	Carrying value December 31, 2015
	amounts in millions		
Expedia Holdings margin loan	$ 350	$ 350	—
Expedia 7.456% senior notes due 2018	500	544	—
Expedia 5.95% senior notes due 2020	750	837	—
Expedia 2.5% (€650 million) senior notes due 2022	683	727	—
Expedia 4.5% senior notes due 2024	500	523	—
Expedia 5.0% senior notes due 2026	750	787	—
Vitalize Secured Notes	13	13	18
Vitalize revolving line of credit due 2020	11	11	19
Capital lease obligations	3	3	4
Total debt	$ 3,560	$ 3,795	41
Less debt classified as current (1)		(7)	(5)
Total long-term debt		$ 3,788	36

(1) Included in the other current liabilities line in the consolidated balance sheets as of December 31, 2016 and 2015.

$400 Million Margin Loan due 2018

On November 1, 2016, LEXE Marginco, LLC ("SplitSPV"), a wholly-owned subsidiary of Expedia Holdings, entered into a margin loan agreement with an availability of $400 million with various lender parties. Approximately 10.8 million shares of EXPE held by the Company with a value of $1.2 billion were pledged by SplitSPV as collateral to the loan as of December 31, 2016. This margin loan has a term of two years and bears interest at a rate of LIBOR plus 1.60% and contains an undrawn commitment fee of 0.75% per annum. Interest on the term loan is payable on the last business day of each calendar quarter, beginning on December 31, 2016. As of December 31, 2016, the interest rate on this margin loan was 2.48%. The outstanding margin loan contains various affirmative and negative covenants that restrict the activities of the borrower. The loan agreement does not include any financial covenants. On November 2, 2016, Expedia Holdings drew $350 million under the margin loan, and on November 4, 2016, Expedia Holdings distributed approximately $299 million of the proceeds to Liberty Interactive as a dividend. Additionally, Expedia Holdings reimbursed Liberty Ventures approximately $549 thousand for debt issuance costs incurred in connection with this loan.

Expedia Outstanding Debt

Expedia 7.456% senior notes due 2018

Expedia has $500 million in registered senior unsecured notes outstanding at December 31, 2016 that are due in August 2018 and bear interest at 7.456% (the "Expedia 7.456% Notes"). Interest is payable semi-annually in February and August of each year. At any time Expedia may redeem the Expedia 7.456% Notes at a redemption price of 100% of the principal plus accrued interest, plus a "make-whole" premium, in whole or in part. The premium associated with the Expedia 7.456% 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 5.95% senior notes due 2020

Expedia has $750 million in registered senior unsecured notes outstanding at December 31, 2016 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 at a redemption price of 100% of the principal plus accrued interest, plus a "make-whole" premium, in whole or in part. 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 Expedia 2.5% Notes outstanding at December 31, 2016. The Expedia 2.5% Notes were issued at 99.525% of par. Interest is payable annually in arrears in June of each year, beginning June 3, 2016. Expedia may redeem the Expedia 2.5% Notes at its option, at 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 December 31, 2016 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

In December 2015, Expedia privately placed $750 million of senior unsecured notes at 99.535% of par that are due in February 2026 and bear interest at 5.0%. In November 2016, Expedia completed an offer to exchange these notes for registered notes having substantially the same financial terms and covenants as the original notes (the unregistered and registered notes collectively, the "Expedia 5.0% Notes"). Interest is payable semi-annually in arrears in February and August of each year, beginning August 15, 2016. 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.

The Expedia 7.456%, 5.95%, 2.5%, 4.5% and 5.0% Notes (collectively the “Notes”) are senior unsecured obligations issued by Expedia and guaranteed by certain domestic Expedia subsidiaries. The Notes rank equally in right of payment with all of Expedia’s 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% 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

As of December 31, 2016, Expedia maintained a $1.5 billion unsecured revolving credit facility with a group of lenders, which is unconditionally guaranteed by certain domestic Expedia subsidiaries that are the same as under the Notes and expires in February 2021. As of December 31, 2016, 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 137.5 basis points and the commitment fee on undrawn amounts at 17.5 basis points as of December 31, 2016. 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 December 31, 2016, there were $19 million of outstanding stand-by LOCs issued under the facility.

In addition, one of Expedia’s international subsidiaries maintains a Euro 50 million uncommitted credit facility, which is guaranteed by Expedia and may be terminated at any time by the lender. As of December 31, 2016, there were no borrowings outstanding under this facility.

Vitalize Secured Notes

As of December 31, 2016, Vitalize has various outstanding secured notes. Principal and interest payments on the secured notes are payable monthly based on the date of issuance. The secured notes are comprised of both fixed and variable rate notes with an interest rate of 4.14% on the fixed rate note and an interest rate of LIBOR plus 250 basis points on the variable rate notes (3.21% on the two variable rate notes at December 31, 2016). The maturity dates on the secured notes range from 2019 to 2022.

In March 2012, Vitalize purchased land and a building for its new corporate headquarters for a total price of $7.6 million, a portion of which was paid for with debt proceeds. In March 2013, Vitalize entered into a loan for $2.9 million as a construction loan to finance modifications on the new office building. In March 2014, Vitalize entered into a loan with US Bank for $3.1 million for construction renovations on its new corporate headquarters. The land and building serve as collateral under the terms of the master term loan agreement for both the March 2013 and 2014 notes. In January 2015, Vitalize entered into an agreement with J.P. Morgan Chase Bank for a $12.5 million secured note. As of December 31, 2016, the total outstanding balance of the construction loans and secured note is approximately $13 million.

Vitalize Revolving Line of Credit

On February 10, 2015, Vitalize entered into a revolving line of credit agreement (the "Revolver") that is secured by Vitalize's inventory and accounts receivable. The maximum amount allowed under the Revolver is $50 million, and the outstanding balance accrues interest at LIBOR plus 150 basis points, with a rate option balance that accrues interest at the CB Floating Rate less 125 basis points. The Revolver matures on January 20, 2020. Vitalize periodically borrows and repays amounts outstanding under the Revolver depending on its cash needs. As of December 31, 2016, the outstanding balance on the Revolver was approximately $11 million with a weighted average interest rate of 2.00%.

Five Year Maturities

The annual principal maturities of the Company's debt, excluding capital leases, based on stated maturity dates, for each of the next five years is as follows (amounts in millions):

2017	$	7
2018	$	851
2019	$	7
2020	$	762
2021	$	—

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):

	December 31, 2016	
Expedia 7.456% senior notes due 2018	$	541
Expedia 5.95% senior notes due 2020	$	823
Expedia 2.5% (€650 million) senior notes due 2022 (1)	$	718
Expedia 4.5% senior notes due 2024	$	511
Expedia 5.0% senior notes due 2026	$	782

(1) Approximately 682 million Euro as of December 31, 2016.

The Company estimates the fair value of its secured notes and Revolver based on the current rate offered to the Company for debt of the same remaining maturities (level 3). The Company believes that the carrying amount of its Revolver and secured notes approximated fair value at December 31, 2016 and December 31, 2015.

Covenant Compliance

As of December 31, 2016, Vitalize was not in compliance with one of its financial covenants related to its fixed charge coverage ratio on approximately $9 million of the Vitalize Secured Notes outstanding. The covenant violation was a direct result of a one-time charge for transaction-related tax obligations recorded in the fourth quarter. Subsequent to December 31, 2016, Vitalize obtained a waiver of the default from the lending institution. Other than this instance, the Company was in compliance with its debt covenants which consist of both financial and non-financial covenants as of December 31, 2016.

(7) Income Taxes

Expedia Holdings, as consolidated, was included in the federal consolidated income tax return of Liberty Interactive prior to the Expedia Holdings Split-Off. For periods prior to the Expedia Holdings Split-Off, the tax provision included in these financial statements was prepared on a stand-alone basis, as if Expedia Holdings was not part of the consolidated Liberty Interactive group. Expedia was not historically included in the Liberty Interactive consolidated group tax return and is not currently included in the Expedia Holdings consolidated group tax return, as Expedia Holdings owns less than 80% of Expedia. The $73 million income taxes payable allocated to Expedia Holdings by Liberty Interactive as of November 4, 2016 was treated as an equity contribution upon completion of the Expedia Holdings Split-Off.

The following table summarizes our U.S. and foreign income (loss) before income taxes:

	Year ended December 31,		
	2016	2015	2014
	amounts in millions		
U.S.	$ 1,565	445	67
Foreign	56	—	—
Total	$ 1,621	445	67

Income tax benefit (expense) consists of:

	Year ended December 31,		
	2016	2015	2014
	amounts in millions		
Current:			
Federal	$ 16	(4)	(2)
State and local	(3)	(1)	—
Foreign	(31)	—	—
	$ (18)	(5)	(2)
Deferred:			
Federal	$ 401	(139)	(17)
State and local	51	(19)	(2)
Foreign	17	—	—
	469	(158)	(19)
Income tax benefit (expense)	$ 451	(163)	(21)

Income tax benefit (expense) differs from the amounts computed by applying the U.S. federal income tax rate of 35% as a result of the following:

	Year ended December 31, 2016	2015	2014
	amounts in millions		
Computed expected tax benefit (expense)	$ (567)	(156)	(23)
State and local income taxes, net of federal income taxes	32	(13)	(2)
Foreign taxes, net of foreign tax credit	(8)	1	—
Change in valuation allowance affecting tax expense	(1)	(1)	—
Dividends received deduction	6	5	4
Federal tax credits	1	1	—
Nontaxable consolidation of Expedia	992	—	—
Other, net	(4)	—	—
Income tax benefit (expense)	$ 451	(163)	(21)

The tax benefit from the consolidation of a previously held equity method affiliate for the year ended December 31, 2016 is the result of the acquisition of a controlling interest in Expedia in the fourth quarter of 2016. The Company recorded a $2.0 billion gain on the transaction, which was excluded from the Company's taxable income. In addition, the deferred tax liability related to the Company's difference between the book basis and tax basis of Expedia, as previously accounted for under the equity method, was relieved and, as a result, the Company recorded additional deferred tax benefit.

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities are presented below:

	December 31, 2016	2015
	amounts in millions	
Deferred tax assets:		
Net operating and credit carryforwards	$ 117	1
Accrued stock compensation	175	—
Other accrued liabilities	101	2
Other	280	2
Deferred tax assets	673	5
Valuation allowance	(66)	(1)
Net deferred tax assets	607	4
Deferred tax liabilities:		
Intangible assets	3,909	15
Investments	—	292
Other	175	1
Deferred tax liabilities	4,084	308
Net deferred tax liabilities	$ 3,477	304

During the year ended December 31, 2016, there was a $1 million increase in the Company's valuation allowance that affected tax expense. The Company added $64 million of valuation allowance upon the consolidation of Expedia during the year.

Expedia has not provided deferred income taxes on taxable temporary differences related to investments in certain foreign subsidiaries where the foreign subsidiary has or will invest undistributed earnings indefinitely outside of the United States. The total amount of such undistributed earnings was $1.8 billion as of December 31, 2016, which approximates the related taxable temporary difference. In the event Expedia distributes such earnings in the form of dividends or otherwise, Expedia may be subject to income taxes. Further, a sale of these subsidiaries may cause these temporary differences to become taxable. Due to complexities in tax laws, uncertainties related to the timing and source of any potential distribution of such earnings, and other important factors such as the amount of associated foreign tax credits, it is not practicable to estimate the amount of unrecognized deferred taxes on these taxable temporary differences.

At December 31, 2016, the Company has a deferred tax asset of $117 million for federal, state, and foreign loss and credit carryforwards. Of this amount, $114 million is recorded at Expedia. If not utilized to reduce income tax liabilities at Expedia in future periods, the federal and state loss carryforwards will expire at various times between 2017 and 2036. In addition, Expedia Holdings has $3 million of loss and credit carryforwards at its level which are expected to be utilized in future periods.

A reconciliation of unrecognized tax benefits is as follows:

	December 31, 2016
	amounts in millions
Balance at beginning of year	$ —
Increase in tax positions from the acquisition of a controlling interest in Expedia	220
Increases to tax positions related to the current year	1
Balance at end of year	$ 221

As of December 31, 2016, the Company had recorded tax reserves of $221 million related to unrecognized tax benefits for uncertain tax positions. If such tax benefits were to be recognized for financial statement purposes, $181 million would be reflected in the Company's tax expense and affect its effective tax rate. Prior to the acquisition of a controlling interest in Expedia, the Company did not have any unrecognized tax benefits for uncertain tax positions. The Company's estimate of its unrecognized tax benefits related to uncertain tax positions requires a high degree of judgment. We do not currently anticipate that our existing reserves related to uncertain tax positions as of December 31, 2016 will significantly increase or decrease during the twelve-month period ending December 31, 2017; however, various events could cause our current expectations to change in the future. We recognize interest and penalties related to unrecognized tax benefits in income tax expense. As of December 31, 2016, total gross interest and penalties accrued was $15 million.

As of December 31, 2016, Liberty Interactive's tax years prior to 2013 are closed for federal income tax purposes, and the Internal Revenue Service (“IRS”) has completed its examination of Liberty Interactive's 2012 and 2014 tax year. Liberty Interactive's 2015 and 2016 tax years are being examined currently as part of the IRS's Compliance Assurance Process program. Expedia Holdings’ 2016 tax year is not currently under audit.

As previously discussed, because Expedia Holdings' ownership of Expedia is less than the required 80%, Expedia is not consolidated with Expedia Holdings for federal income tax purposes. The IRS is currently examining Expedia’s U.S. consolidated federal income tax returns for the periods ended December 31, 2009 through December 31, 2013. As of December 31, 2016, for Expedia and its subsidiaries, the statutes of limitations for tax years 2009 through 2015 remain open to examination in the federal and most state jurisdictions. For the HomeAway and Orbitz groups, the statutes of limitations for tax years 2001 through 2015 remain open to examination in the federal and most state jurisdictions due to net operating loss carryforwards.

(8) Stockholders' Equity

As discussed in note 1, in the Expedia Holdings Split-Off, record holders of Liberty Interactive's Series A and Series B Liberty Ventures common stock received 0.4 of a share of the corresponding series of Expedia Holdings common stock for each 0.4 share of Liberty Ventures common stock held by them as of 5:00 p.m., New York City Time, on November 4, 2016, with cash paid in lieu of fractional shares of Liberty Ventures common stock and Expedia Holdings common stock. This resulted in the issuance of an aggregate 56,946,673 shares of our Series A and Series B common stock.

Preferred Stock

Expedia Holdings' preferred stock is issuable, from time to time, with such designations, preferences and relative participating, optional or other rights, qualifications, limitations or restrictions thereof, as shall be stated and expressed in a resolution or resolutions providing for the issue of such preferred stock adopted by the Company's board of directors. As of December 31, 2016, no shares of preferred stock were issued.

Common Stock

Expedia Holdings' Series A common stock has one vote per share and Expedia Holdings' Series B common stock has ten votes per share (other than the election or removal of Common Stock Directors (as defined in Expedia Holdings' restated charter), in which case Expedia Holdings Series A common stock has one vote per share and Expedia Holdings Series B common stock has two votes per share). Each share of the Series B common stock is exchangeable at the option of the holder for one share of Series A common stock. Both series of our common stock participate on an equal basis with respect to dividends and distributions.

As of December 31, 2016, there were 1.3 million and 659 thousand shares of Series A and Series B common stock, respectively, reserved for issuance under exercise privileges of outstanding stock options.

Expedia Redeemable Noncontrolling Interests

In connection with Expedia's acquisition of its majority ownership interest in trivago in 2013, Expedia entered into a shareholders agreement with trivago's founders that contained certain put/call rights whereby Expedia could cause the founders to sell to it, and the founders could cause Expedia to acquire from them, up to 50% and 100% of the trivago shares held by them at fair value during two windows. The first window would have closed during the first half of 2016. However, during the second quarter of 2016, Expedia and the founders agreed not to exercise their respective put/call rights during that window and instead to postpone the window while the parties explored the feasibility of an IPO of trivago shares. On December 16, 2016, trivago completed its IPO for proceeds of approximately $210 million after deducting discounts, commissions and offering expenses and became a separately listed company on the NASDAQ. Prior to the IPO, Expedia owned 63.5% of trivago. In conjunction with the IPO, Expedia and trivago's founders entered into an Amended and Restated Shareholders' Agreement under which the original put/call rights were no longer effective and were replaced with a contingent founder held put right whereby Expedia would be obligated to buy all, but not less than all, of a founder's shares in the event a founder is removed from trivago's management board under certain circumstances which are within the control of Expedia. Immediately prior to the offering and the effective date of the newly Amended and Restated Shareholders' Agreement, Expedia adjusted the fair value of its redeemable non-controlling interest to reflect the estimated fair value immediately prior to the IPO. Expedia then subsequently reclassified the redeemable non-controlling interest into non-redeemable non-controlling interest on the consolidated balance sheet as the non-controlling interest was no longer redeemable pursuant to the Amended and Restated Shareholders' Agreement. Post IPO, and as of December 31, 2016, Expedia's ownership interest was approximately 59.7% of trivago and its subsidiaries.

A reconciliation of Expedia's redeemable noncontrolling interest for the year ended December 31, 2016 is as follows (amounts in millions):

	2016
Acquisition of redeemable noncontrolling interest upon Expedia Holdings Split-Off	$ 1,541
Purchase of subsidiary shares at fair value	(1)
Net loss attributable to noncontrolling interests	3
Fair value adjustments	(89)
Currency translation adjustments	(82)
Other	9
Transfer to non-redeemable non-controlling interest	(1,381)
Balance, end of year	$ —

Historically, the fair value of the redeemable noncontrolling interest was determined based on a blended analysis of the present value of future discounted cash flows and market value approach (Level 3). Expedia's significant estimates in the discounted cash flow model include its weighted average cost of capital as well as long-term growth and profitability of the business. Expedia's significant estimates in the market value approach include identifying similar companies with comparable business factors and assessing comparable revenue and operating multiples in estimating the fair value of the business.

Dividends declared by subsidiary

On October 24, 2016, Expedia declared a dividend of $0.26 per share for holders on record as of November 17, 2016, which was paid on December 8, 2016. In February 2017, Expedia declared a quarterly cash dividend of $0.28 per share of outstanding common stock payable on March 30, 2017 to the stockholders of record as of the close of business on March 9, 2017.

(9) Stock-Based Compensation

Expedia Holdings Incentive Plan

In connection with the Expedia Holdings Split-Off, the holder of an outstanding option ("Award") to purchase shares of Liberty Interactive's Liberty Ventures Series A and Series B common stock (a "Liberty Ventures Award") received an Award to purchase shares of the corresponding series of Expedia Holdings common stock (an "Expedia Holdings Award") and an adjustment to the exercise price and number of shares subject to the original Liberty Ventures Award (as so adjusted, an "adjusted Liberty Ventures Award"). The exercise prices of and number of shares subject to the new Expedia Holdings Award and the adjusted Liberty Ventures Award were determined based on (1) the exercise price and number of shares subject to the original Liberty Ventures Award, (2) the redemption ratios used in the Expedia Holdings Split-Off, (3) the pre-Expedia Holdings Split-Off trading price of Liberty Ventures common stock and (4) the relative post-Expedia Holdings Split-Off trading prices of Liberty Ventures common stock and Expedia Holdings common stock, such that the pre-Expedia Holdings Split-Off intrinsic value of the original Liberty Ventures Award was allocated between the new Expedia Holdings Award and the adjusted Liberty Ventures Award. The terms and conditions of the Expedia Holdings Awards are governed by the Liberty Expedia Holdings, Inc. Transitional Stock Adjustment Plan (the "Transitional Plan") in respect of a maximum of 2.0 million shares of Expedia Holdings common stock. No additional grants may be made pursuant to the Transitional Plan.

Following the Expedia Holdings Split-Off, employees of Liberty Interactive hold Awards in both Liberty Ventures common stock and Expedia Holdings common stock. The compensation expense relating to employees of Liberty Interactive is recorded at Liberty Interactive. Therefore, compensation expense related to Awards resulting from the Expedia Holdings Split-Off will not be recognized in the Company's consolidated financial statements.

Except as described above, all other terms of an adjusted Liberty Ventures Award and a new Expedia Holdings Award (including, for example, the vesting terms thereof) are in all material respects, the same as those of the corresponding original Liberty Ventures Award.

Pursuant to the Liberty Expedia Holdings, Inc. 2016 Omnibus Incentive Plan, the Company may grant Awards to be made in respect of a maximum of 3.7 million shares of Expedia Holdings common stock. Awards generally vest over 4-5 years and have a term of 7-10 years. Expedia Holdings issues new shares upon exercise of equity awards.

Expedia Holdings – Grants of Stock Options

The Company has calculated the grant-date fair value for all of its equity classified awards and any subsequent remeasurement of its liability classified awards using the Black-Scholes Model. The Company estimates the expected term of the Awards based on historical exercise and forfeiture data. For the grant made in 2016, the expected term was 5.9 years. Since Expedia Holdings common stock has not traded on the stock market for a significant length of time, the volatility used in the calculation for Awards is based on the historical volatility of Liberty Ventures common stock and the implied volatility of publicly traded Liberty Ventures options. For the grant made in 2016, the volatility was 25.9%. The Company uses a zero dividend rate and the risk-free rate for Treasury Bonds with a term similar to that of the subject option.

During the year ended December 31, 2016 and pursuant to the Transitional Plan, the Company granted 6 thousand options to purchase shares of Series A common stock to its non-employee directors. Such options had a weighted average grant-date fair value of $12.40 per share and cliff vest over a 1-year vesting period. There were no options to purchase shares of Series B common stock granted during the period.

Expedia Holdings – Outstanding Awards

The following table presents the number and weighted average exercise price ("WAEP") of Awards to purchase Expedia Holdings common stock granted to certain officers, employees and directors of the Company, as well as the weighted average remaining life and aggregate intrinsic value of the Awards.

	Series A	WAEP	Weighted average remaining contractual life	Aggregate intrinsic value
	(in thousands)			(in millions)
Outstanding at January 1, 2016	—	$ —		
Expedia Holdings Split-Off adjustment	1,330	$ 24.34		
Granted	6	$ 41.40		
Exercised	(19)	$ 21.59		
Forfeited/Cancelled	—	$ —		
Outstanding at December 31, 2016	1,317	$ 24.46	3.4 years	$ 21
Exercisable at December 31, 2016	1,022	$ 19.77	2.5 years	$ 20

	Series B (in thousands)	WAEP	Weighted average remaining contractual life	Aggregate intrinsic value (in millions)
Outstanding at January 1, 2016	—	$ —		
Expedia Holdings Split-Off adjustment	659	$ 38.48		
Granted	—	$ —		
Exercised	—	$ —		
Forfeited/Cancelled.	—	$ —		
Outstanding at December 31, 2016	659	$ 38.48	5.2 years	$ 2
Exercisable at December 31, 2016	123	$ 40.46	5.9 years	$ —

As of December 31, 2016, the total unrecognized compensation cost related to unvested Expedia Holdings Awards was approximately $67 thousand. Such amount will be recognized in the Company's consolidated statements of operations over a weighted average period of approximately 1 year.

As of December 31, 2016, Expedia Holdings reserved 2.0 million shares of Series A and Series B common stock for issuance under exercise privileges of outstanding stock Awards.

Expedia Holdings – Exercises

The aggregate intrinsic value of all options exercised during the year ended December 31, 2016 was $426 thousand.

Expedia Holdings – Restricted Shares

The aggregate fair value of all Series A and Series B restricted shares of Expedia Holdings common stock that vested during the year ended December 31, 2016 was $283 thousand.

As of December 31, 2016, the Company had approximately 67 thousand unvested restricted shares of Series A and Series B Expedia Holdings common stock held by certain directors, officers and employees of the Company with a weighted average grant-date fair value of $29.31 per share.

Expedia - Stock-based Compensation

Pursuant to the Amended and Restated Expedia, Inc. 2005 Stock and Annual Incentive Plan ("Expedia Stock Plan"), Expedia may grant restricted stock, restricted stock awards, RSUs, stock options and other stock-based awards to its directors, officers, employees and consultants. Expedia issues new shares to satisfy the exercise or release of stock-based awards.

The following table presents a summary of Expedia's stock option activity:

	Options (in thousands)	WAEP	Weighted average remaining contractual life	Aggregate intrinsic value (in millions)
Outstanding at January 1, 2016	—	$ —		
Awards outstanding upon Expedia Holdings Split-Off on November 4, 2016	19,081	$ 83.69		
Granted	63	$ 126.58		
Exercised	(207)	$ 52.41		
Forfeited/Cancelled	(96)	$ 95.21		
Outstanding at December 31, 2016	18,841	$ 84.07	4.7 years	$ 552
Exercisable at December 31, 2016	5,770	$ 58.27	3.1 years	$ 318

The total intrinsic value of stock options exercised was $15 million from the date of the Expedia Holdings Split-Off, November 4, 2016, through December 21, 2016.

The fair value of stock options granted during the period from November 4, 2016 through December 31, 2016 was estimated at the date of grant using appropriate valuation techniques, including the Black-Scholes and Monte Carlo option-pricing models, assuming the following weighted average assumptions:

Risk-free interest rate	1.38%
Expected volatility	37.48%
Expected life	3.5 years
Expected dividend yield	0.82%

The weighted average grant-date fair value of options granted during the period from November 4, 2016 through December 31, 2016 was $34.59 per share.

The following table presents a summary of RSU activity:

	RSUs (in thousands)	Weighted Average Grant-Date Fair Value
Balance as of January 1, 2016	—	$ —
Awards outstanding upon Expedia Holdings Split-Off on November 4, 2016	1,302	113.98
Granted	113	125.20
Vested	(58)	122.12
Cancelled	(8)	120.30
Balance as of December 31, 2016	1,349	$ 114.58

Expedia's RSUs generally vest over three or four years, but may accelerate in certain circumstances, including certain changes in control. The total market value of shares vested during the period from November 4, 2016 through December 31, 2016 was approximately $7 million.

In addition to the Expedia Stock Plan, there were certain shares held by trivago employees which were originally awarded in the form of stock options pursuant to the trivago employee stock option plan and subsequently exercised by such employees. During 2016, Expedia exercised its call right on these shares and elected to do so at a premium to fair value, which resulted in an incremental stock-based compensation charge of approximately $49 million pursuant to liability award treatment.

The stock-based compensation recognized by Expedia Holdings related to Expedia stock options and restricted stock awards was $48 million, including amounts related to trivago discussed above, for the period from November 4, 2016 through December 31, 2016. As of December 31, 2016, the total unrecognized compensation cost related to unvested Expedia stock options was $385 million and will be recognized in the Company's consolidated statements of operations over a weighted average period of approximately 2.7 years.

Expedia also has an Employee Stock Purchase Plan ("ESPP"), which allows shares of EXPE to be purchased by eligible employees at three-month intervals at 85% of the fair market value of the stock on the last day of each three-month period. Eligible employees are allowed to contribute up to 10% of their base compensation. During 2016, subsequent to the Expedia Holdings Split-Off, approximately 36 thousand shares were purchased under this plan for an average price of $105.44 per share. As of December 31, 2016, Expedia has reserved approximately 1.1 million shares of EXPE for issuance under the ESPP.

Vitalize Stock Appreciation Rights

Vitalize maintains certain stock appreciation rights ("SAR") plans under which officers and key employees are granted SARs. SARs granted under Vitalize's SAR plans generally vest over a period of three to five years and expire seven years from the date of issuance. SARs are cash settled and recorded as liability awards. The total stock-based compensation recorded related to Vitalize's outstanding SARs was less than $1 million, $2 million and $2 million for each of the years ended December 31, 2016, 2015 and 2014, respectively. The total intrinsic value of SARs exercised during the years ended December 31, 2016, 2015 and 2014 was $2 million, $2 million and less than $1 million, respectively, which equals the total cash used to settle the exercised units. As of December 31, 2016, the total unrecognized compensation cost related to 866 thousand shares of unvested Vitalize SARs was approximately $5.5 million. Such amount will be recognized in the Company's consolidated statements of operations over a weighted average period of approximately 2.9 years.

(10) Other Comprehensive Earnings (Loss)

Accumulated other comprehensive earnings (loss) included in the Company's consolidated balance sheets and consolidated statements of equity reflect the aggregate of foreign currency translation adjustments, unrealized holding gains and losses on AFS securities and the Company's share of accumulated other comprehensive earnings of affiliates.

The change in the components of accumulated other comprehensive earnings (loss), net of taxes ("AOCI"), is summarized as follows:

	Currency translation adjustments and other	Share of other comprehensive earnings (loss) of affiliate	Other	AOCI
	amounts in millions			
Balance at January 1, 2014	$ —	2	—	2
Other comprehensive earnings (loss) attributable to Expedia Holdings stockholders	—	(18)	—	(18)
Balance at December 31, 2014	—	(16)	—	(16)
Other comprehensive earnings (loss) attributable to Expedia Holdings stockholders	—	(17)	—	(17)
Balance at December 31, 2015	—	(33)	—	(33)
Other comprehensive earnings (loss) attributable to Expedia Holdings stockholders	(33)	33	—	—
Change in ownership of noncontrolling interest related to trivago initial public offering	—	—	1	1
Balance at December 31, 2016	$ (33)	—	1	(32)

The components of other comprehensive earnings (loss) are reflected in the Company's consolidated statements of comprehensive earnings (loss) net of taxes. The following table summarizes the tax effects related to each component of other comprehensive earnings (loss).

	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
	amounts in millions		
Year ended December 31, 2016:			
Currency translation adjustments and other	$ (260)	35	(225)
Share of other comprehensive earnings (loss) of affiliate	(2)	1	(1)
Recognition of previously unrecognized holding gains (losses)	55	(21)	34
Other comprehensive earnings (loss)	$ (207)	15	(192)
Year ended December 31, 2015:			
Share of other comprehensive earnings (loss) of affiliate	$ (27)	10	(17)
Other comprehensive earnings (loss)	$ (27)	10	(17)
Year ended December 31, 2014:			
Share of other comprehensive earnings (loss) of affiliate	$ (29)	11	(18)
Other comprehensive earnings (loss)	$ (29)	11	(18)

(11) 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. Rent expense related to such leases is recorded on a straight-line basis.

At December 31, 2016, commitments under noncancelable leases with initial terms in excess of one year were as follows (amounts in millions):

Year ended December 31,		
2017	$	122
2018		118
2019		97
2020		54
2021		37
Thereafter		90
	$	518

Rental expense under operating leases was approximately $26 million, $3 million and $2 million for the years ended December 31, 2016, 2015 and 2014, respectively. It is expected that in the normal course of business, leases that expire generally will be renewed or replaced by leases on other properties; thus, it is anticipated that future lease commitments will not be less than the amount shown for 2016. In future periods, it is expected that rental expense will not be less than the amounts shown for 2017 in the table above.

Letters of Credit, Purchase Obligations and Guarantees

Expedia has commitments and obligations that include purchase obligations, guarantees and LOCs, which could potentially require payment by Expedia in the event of demands by third parties or contingent events. The following table presents these commitments and obligations as of December 31, 2016:

			By period			
		Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
		amounts in millions				
Purchase obligations	$	277	247	29	1	—
Guarantees		150	150	—	—	—
Letters of credit		49	44	5	—	—
	$	476	441	34	1	—

Expedia's purchase obligations represent the minimum obligations it has under agreements with certain of its vendors. These minimum obligations are less than Expedia's projected use for those periods. Payments may be more than the minimum obligations based on actual use.

Expedia has guarantees which consist primarily of bonds relating to tax assessments that it is contesting as well as bonds required by certain foreign countries' aviation authorities for the potential non-delivery, by Expedia, of packaged travel sold in those countries. The authorities also require that a portion of the total amount of packaged travel sold be bonded. Expedia's guarantees also include certain surety bonds related to various company performance obligations.

Expedia's LOCs consist of stand-by LOCs, underwritten by a group of lenders, which Expedia primarily issues for certain regulatory purposes as well as to certain hotel properties to secure its payment for hotel room transactions. The contractual expiration dates of these LOCs are shown in the table above. There were no material claims made against any stand-by LOCs during the years ended December 31, 2016, 2015 or 2014.

Related Party Transactions

In addition to serving as Expedia's Chairman of the Board of Directors and Senior Executive, Mr. Diller also serves as Chairman of the Board of Directors and Senior Executive at IAC/InterActiveCorp ("IAC"). IAC and Expedia are related parties, given that Mr. Diller serves as Chairman of the Board of Directors and Senior Executive of both Expedia and IAC. Each of IAC and Expedia has a 50% ownership interest in two aircraft that may be used by both companies. Expedia shares equally in fixed and nonrecurring costs for both planes; direct operating costs are pro-rated based on actual usage. As of December 31, 2016, the net basis in Expedia's ownership interest in both planes was $30 million, recorded in other assets, net. Operating and maintenance costs paid directly to the jointly-owned subsidiary for the airplanes during 2016 were nominal.

As of December 31, 2014, Vitalize had an outstanding note with its former parent company, Liberty Interactive Corporation (the "Liberty Note"), in the amount of approximately $16 million. The Liberty Note required Vitalize to make interest only payments at a 10% interest rate on a quarterly basis with the final payment due January 31, 2020. Vitalize voluntarily made principal payments on the outstanding debt of $3 million and $4 million during the years ended December 31, 2015 and 2014, respectively. As part of a contribution agreement entered into by Liberty Interactive and Vitalize on October 15, 2015, the balance of the note and accrued interest which aggregated $13 million was considered contributed equity. During the years ended December 31, 2015 and 2014, Vitalize recognized approximately $1 million and $2 million, respectively, in interest expense related to the Liberty Note.

The Company paid approximately $480 thousand, $551 thousand and $1.8 million during the years ended December 31, 2016, 2015 and 2014, respectively, to Liberty Interactive for legal and tax expenses that Liberty Interactive remitted on behalf of the Company.

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 consolidated financial statements.

Litigation Relating to Occupancy Taxes. Ninety-five lawsuits have been filed by cities, counties and states involving hotel occupancy and other taxes. Twenty 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 of these lawsuits have been dismissed. Some of these dismissals have been without prejudice and, generally, allow the governmental entity or entities to seek administrative remedies prior to pursuing further litigation. Twenty six 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 $71 million as of December 31, 2016. It is also reasonably possible that amounts paid in connection with these issues could include up to an additional $5 million related to interest payments in one jurisdiction. 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 and other in the consolidated statements of operations.

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. As Expedia had previously expensed the pay-to-play payments in prior periods, Expedia recognized a gain in legal reserves, occupancy tax and other during the third quarter of 2015 related to this matter. 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 Department of Taxation also issued final assessments for general excise taxes against the Expedia companies, including Orbitz, dated December 23, 2015 for the time period 2000 to 2014 for hotel and car rental revenue for “agency model” transactions. Those assessments are currently under review in the Hawaii tax courts.

Final assessments by the Hawaii Department of Taxation for general exercise taxes against the Expedia companies, including Orbitz, relating to merchant car rental transactions during the years 2000 to 2014 are also under review in the Hawaii tax courts. With respect to merchant model car rental transactions at issue for the tax years 2000 through 2013, the Hawaii tax court held on August 5, 2016 that general excise tax is due on the online travel companies’ services to facilitate car rentals. The court further ruled that for merchant model car rentals in Hawaii, the online travel companies are required to pay general excise tax on the total amount paid by consumers, with no credit for tax amounts already remitted by car rental companies to the State of Hawaii for tax years 2000 through 2013, thus resulting in a double tax on the amount paid by consumers to car rental companies for the rental of the vehicle. The court, however, ruled that when car rentals are paid for as part of a vacation package, tax is only due once on the amount paid by consumers to the car rental company for the rental of the vehicle. In addition, the court ruled that the online travel companies are required to pay interest and certain penalties on the amounts due. The Expedia companies intend to appeal, and will be expected to pay under protest the full amount claimed due, or approximately $16.5 million, as a condition of appeal. The Hawaii tax court’s decision did not resolve “merchant model” car rental transactions for the tax year 2014, which also remain under review.

San Francisco. During 2009, Expedia was required to “pay-to-play” and paid $48 million in advance of litigation relating to occupancy tax proceedings with the city of San Francisco. The city of San Francisco subsequently issued additional assessments of tax, penalties and interest for the time period from the fourth quarter of 2007 through the fourth quarter of 2011 against the online travel companies, including against certain Expedia companies. The additional assessments, including the prepayment of such assessments, were contested by the Expedia companies on the basis that the court has already ruled that taxes are not due from the online travel companies and that binding precedent by the California Court of Appeals precludes the city’s claim for taxes. On May 14, 2014, the court heard oral argument on the Expedia companies’ contest of the prepayment requirement for the additional assessments and held that the Expedia companies were required to prepay in order to litigate the legality of the assessments. On May 26, 2014, the Expedia companies paid $25.5 million under protest in order to contest the additional assessments. The additional assessments were expensed during the second quarter of 2014. In addition, Orbitz in total has paid $4.6 million to the city of San Francisco to contest these assessments issued against it by the city. On August 6, 2014, the California Court of Appeals stayed this case pending review and decision by the California Supreme Court of the *City of San Diego v. Hotels.com L.P., et al.*, Judicial Council Coordination Proceeding No. 4472 (Superior Court of the Country of San Diego). The stay is now lifted and the appeal will proceed in light of the California Supreme Court's decision in the *San Diego* litigation.

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

The ultimate resolution of these contingencies may be greater or less than the pay-to-play payments made and 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 in the United Kingdom, regarding the application of VAT to its 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 Expedia owes additional taxes. In certain jurisdictions, including the United Kingdom, Expedia 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.

Matters Relating to Competition Reviews and Legislation Relating to Parity Clauses. Over the last several years, the online travel industry has become the subject of investigations by various national competition authorities ("NCAs"), particularly in Europe. Expedia is or has been involved in investigations predominately related to whether certain parity clauses in contracts between Expedia entities and accommodation providers, sometimes also referred to as "most favored nation" 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, in this context, on April 21, 2015, the French, Italian and Swedish NCAs, working in close cooperation with the European Commission, announced that they had accepted formal commitments offered by Booking.com to resolve and close the investigations against Booking.com in France, Italy and Sweden by Booking.com removing and/or modifying certain rate, conditions and availability parity provisions in its contracts with accommodation providers in France, Italy and Sweden as of July 1, 2015, among other commitments. Booking.com voluntarily extended the geographic scope of these commitments to accommodation providers throughout Europe as of the same date.

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

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

Booking.com has appealed the decision and the appeal will be heard by the Higher Regional Court Düsseldorf on February 8, 2017.

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

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

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

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 has 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.

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 has issued questionnaires to online travel agencies including Expedia, metasearch sites and hotels in 2016, and is expected to report its results early in 2017.

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

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

Outside of Europe, a number of NCAs have also opened investigations or inquired about contractual parity provisions in contracts between hotels and online travel companies in their respective territories, including Expedia. A Brazilian hotel sector association — Forum de Operadores Hoteleiros do Brasil — filed a complaint with the Brazilian Administrative Council for Economic Defence ("CADE") against a number of online travel companies, including Booking.com, Decolar.com and Expedia, on July 27, 2016 with respect to parity provisions in contracts between hotels and online travel companies. On September 13, 2016, Expedia submitted its response to the complaint to CADE. Expedia recently resolved the concerns of the Australia and New Zealand NCAs based on implementation of the waivers substantially similar to those provided to accommodation providers in Europe on September 1, 2016 in Australia and on October 28, 2016 in New Zealand. 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.

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

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

JYM litigation. Vitalize is engaged in litigation arising from a dispute with Jim Stoppani and his company PhD Fitness, LLC ("PhD Fitness") over the ownership of trademarks relating to JYM brand supplement products. Mr. Stoppani has demanded that Vitalize discontinue manufacturing and selling JYM products. Vitalize filed an action against Mr. Stoppani and PhD Fitness for declaratory relief in U.S. Federal Court seeking a judicial declaration that Vitalize is the owner of the JYM trademark, and asserting trademark infringement claims. Mr. Stoppani and PhD Fitness have filed counterclaims, including claims for trademark infringement and false advertising, seeking a declaratory judgment that Mr. Stoppani and PhD Fitness own the JYM mark, actual damages in excess of $50 million (actual amount to be proven at trial), punitive damages of not less than $10 million, injunctive relief and attorneys' fees. Vitalize and Mr. Stoppani and PhD Fitness have each filed competing motions seeking a preliminary injunction for the use of the JYM trademark and corresponding trade dress on supplement products in commerce. On October 31, 2016, the Court granted Vitalize permission to file an amended complaint to add General Nutrition Center ("GNC") as a defendant and to add a claim for trade dress infringement, due to Mr. Stoppani and PhD Fitness' launch of a competing supplement line through GNC utilizing the JYM mark.

Bodybuilding branding of dietary supplements. In September, 2009, the US Marshall's Service executed a search warrant on behalf of the US Food and Drug Administration (the "FDA") at two Vitalize locations. The search was related to an investigation into Vitalize's sale of dietary supplements that the FDA alleged were misbranded. The FDA provided the results of its investigation to the US Attorney ("Idaho District") for further action. In cooperation with the FDA, Vitalize conducted a voluntary recall of certain products. Legal expenses were expensed as incurred.

On May 7, 2012, Vitalize signed a settlement with the US Attorney whereby it agreed to the entry of a plea of guilty to five misdemeanor counts of selling drugs misbranded by various manufacturers as dietary supplements. Vitalize also agreed to four years' probation, which lapsed in May 2016, and fines which were paid during prior periods. Vitalize no longer has a liability associated with the FDA settlement as of December 31, 2014.

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.

(12) 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 Holding's annual pre-tax earnings (losses).

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 costs such as legal reserves, occupancy tax and other, restructuring and related reorganization charges, depreciation and amortization, stock-based compensation, separately reported litigation settlements 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, net earnings, 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 year ended December 31, 2016, Expedia Holdings has identified Expedia and Vitalize as its reportable segments. 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. Beginning on the date of the Expedia Holdings Split-Off, the Company will only include the results of Expedia, as consolidated, in the segment information reported below. 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. Vitalize is a wholly-owned subsidiary of the Company that is primarily an Internet retailer of sports, fitness and nutritional supplements. Vitalize also hosts an online health-and-fitness publication, offering free fitness content, workout programs, video trainers, recipes, health advice and motivational stories. Vitalize's revenue primarily consists of sales of health and wellness products.

It is not expected that Vitalize, will be a reportable segment subsequent to 2016 due to the overall size of the business in comparison to the consolidated results of Expedia Holdings. Vitalize has met the reportable segment quantitative thresholds for the periods presented due to the size of the business as compared to the consolidated results of the Company prior to consolidation of Expedia.

Expedia Holding's 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 Company's annual financial statements.

Performance Measures

	Year ended December 31,					
	2016		2015		2014	
	Revenue from external customers	Adjusted OIBDA	Revenue from external customers	Adjusted OIBDA	Revenue from external customers	Adjusted OIBDA
	amounts in millions					
Expedia	$ 1,170	133	NA	NA	NA	NA
Vitalize	411	15	465	33	455	31
Corporate and Other	—	(2)	—	—	—	—
Consolidated Expedia Holdings	$ 1,581	146	465	33	455	31

Other Information

	December 31, 2016		December 31, 2015		
	Total Assets	Capital Expenditures	Total Assets	Investment In Expedia	Capital Expenditures
	amounts in millions				
Expedia	$ 33,746	111	NA	NA	NA
Vitalize	182	14	150	—	21
Corporate and other	54	—	976	927	—
Consolidated Expedia Holdings	$ 33,982	125	1,126	927	21

Revenue by Geographic Area

	Year ended December 31,		
	2016	2015	2014
	amounts in millions		
United States	$ 994	401	372
Other countries	587	64	83
Consolidated Expedia Holdings	$ 1,581	465	455

Long-lived Assets by Geographic Area

	Year ended December 31,	
	2016	2015
	amounts in millions	
United States	$ 739	28
Other countries	105	2
Consolidated Expedia Holdings	$ 844	30

The following table provides a reconciliation of segment Adjusted OIBDA to earnings (loss) from continuing operations before income taxes:

	Year ended December 31,		
	2016	2015	2014
	amounts in millions		
Consolidated segment Adjusted OIBDA	$ 146	33	31
Legal reserves, occupancy tax and other	2	—	—
Restructuring and related reorganization charges	(9)	—	—
Stock-based compensation	(47)	(2)	(2)
Depreciation and amortization	(481)	(21)	(19)
Operating income (loss)	(389)	10	10
Interest expense	(19)	(1)	(1)
Related party interest expense	—	(1)	(2)
Share of earnings (loss) of affiliates, net	26	117	58
Gain (loss) on dilution of investment in affiliate	(2)	320	3
Gain on investment in Expedia	2,005	—	—
Other, net	—	—	(1)
Earnings (loss) before income taxes	$ 1,621	445	67

(13) Quarterly Financial Information (Unaudited)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	amounts in millions, except per share information			
2016:				
Revenue	$ 116	112	97	1,256
Operating income (loss)	$ 3	3	2	(397)
Net earnings (loss)	$ (14)	5	29	2,052
Net earnings (loss) attributable to Expedia Holdings Series A and Series B shareholders	$ (14)	5	29	2,272
Basic earnings (loss) attributable to Expedia Holdings Series A and Series B shareholders	$ (0.25)	0.09	0.51	39.86
Diluted earnings (loss) attributable to Expedia Holdings Series A and Series B shareholders	$ (0.25)	0.09	0.51	39.17

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	amounts in millions, except per share information			
2015:				
Revenue	$ 125	120	116	104
Operating income (loss)	$ 3	3	4	—
Net earnings (loss)	$ 6	50	34	192
Net earnings (loss) attributable to Expedia Holdings Series A and Series B shareholders	$ 6	50	34	191
Basic earnings (loss) attributable to Expedia Holdings Series A and Series B shareholders	$ 0.11	0.88	0.60	3.35
Diluted earnings (loss) attributable to Expedia Holdings Series A and Series B shareholders	$ 0.11	0.88	0.60	3.35

BOARD OF DIRECTORS

John C. Malone
Chairman of the Board
Liberty Expedia Holdings, Inc.

Stephen M. Brett
Chairman of the Board
General Communication, Inc.

Gregg L. Engles
Chairman of the Board and
Chief Executive Officer
The WhiteWave Foods Company

Robert Hammond
Co-Founder and Executive Director
Friends of the High Line

Scott W. Schoelzel
Retired Vice President and Portfolio Manager
Janus Twenty and Janus Forty Funds

Christopher W. Shean
President and Chief Executive Officer
Liberty Expedia Holdings, Inc.

Alexandre von Furstenburg
Chief Investment Officer
Ranger Global Advisors, LLC

EXECUTIVE COMMITTEE

John C. Malone
Christopher W. Shean

COMPENSATION COMMITTEE

Stephen M. Brett (Chairman)
Gregg L. Engles
Scott W. Schoelzel

AUDIT COMMITTEE

Gregg L. Engles (Chairman)
Stephen M. Brett
Scott W. Schoelzel

NOMINATING & CORPORATE GOVERNANCE COMMITTEE

Scott W. Schoelzel (Chairman)
Stephen M. Brett
Gregg L. Engles

SERIES B DIRECTORS

Robert Hammond
Alexandre von Furstenburg

COMMON STOCK DIRECTORS

John C. Malone
Stephen M. Brett
Gregg L. Engles
Scott W. Schoelzel
Christopher W. Shean

SENIOR OFFICERS

Christopher W. Shean
President and Chief Executive Officer

Richard N. Baer
Chief Legal Officer

Wade D. Haufschild
Chief Financial Officer

Albert E. Rosenthaler
Chief Corporate Development Officer

CORPORATE SECRETARY

Pamela L. Coe

CORPORATE HEADQUARTERS

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STOCK INFORMATION

Series A Common Stock (LEXEA) and Series B Common Stock (LEXEB) trade on the NASDAQ Global Select Market.

CUSIP NUMBERS

LEXEA – 53046P 109
LEXEB – 53046P 208

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FINANCIAL STATEMENTS

Liberty Expedia Holdings, Inc. financial statements are filed with the Securities and Exchange Commission. Copies of these financial statements can be obtained from the Transfer Agent or through the Liberty Expedia Holdings, Inc. website.

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