

FRANCHISE DISCLOSURE DOCUMENT



CRUISESHIPCENTERS USA INC.
d/b/a Expedia® CruiseShipCenters®
A Nevada corporation
333 108th Avenue NE
Bellevue, Washington 98004
(425) 679-7200
www.cruiseshipcenters.com

The franchise offered is for the operation of a travel agency business that offers reservations for cruise ships, airlines, car rentals and hotels, as well as other related travel services and products.

The total estimated investment required to begin operation of an Expedia® CruiseShipCenters® franchised travel business ranges from ~~\$167,350~~ \$165,495 to ~~\$264,375~~ \$281,990 including \$39,000 that must be paid to us as a non-refundable initial fee.

This disclosure document summarizes certain provisions of your franchise agreement and other information in plain English. Read this disclosure document and all accompanying agreements carefully. You must receive this disclosure document at least 14 calendar days before you sign a binding agreement with, or make any payment to the franchisor or an affiliate in connection with the proposed franchise sale. **Note, however, that no government agency has verified the information contained in this document.**

The terms of your contract will govern your franchise relationship. Do not rely on the disclosure document alone to understand your contract. Read all of your contract carefully. Show your contract and this disclosure document to an advisor, like a lawyer or an accountant.

Buying a franchise is a complex investment. The information in this disclosure document can help you make up your mind. More information on franchising, such as "A Consumer's Guide to Buying a Franchise," which can help you understand how to use this disclosure document is available from the Federal Trade Commission. You can contact the FTC at 1-877-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue, NW, Washington, DC 20580. You can also visit the FTC's home page at www.ftc.gov for additional information. Call your state agency or visit your public library for other sources of information on franchising.

There may also be laws on franchising in your state. Ask your state agencies about them. Registration of this franchise with the state does not mean that the state recommends it or has verified the information in this disclosure document. If you learn that anything in this Disclosure Document is untrue, contact the Federal Trade Commission and the applicable state authority listed in **Exhibit F**.

Issuance Date: March ~~31, 2017~~ 29, 2018

STATE COVER PAGE

Your state may have a franchise law that requires a franchisor to register or file with a state franchise administrator before offering or selling in your state. REGISTRATION OF A FRANCHISE BY A STATE DOES NOT MEAN THAT THE STATE RECOMMENDS THE FRANCHISE OR HAS VERIFIED THE INFORMATION IN THIS DISCLOSURE DOCUMENT. Call the state franchise administrator listed in **Exhibit F** for information about the franchisor, or about franchising in your state.

We use the services of one or more FRANCHISE BROKERS or referral sources to assist us in selling our franchise. A franchise broker or referral source represents us, not you. We pay this person a fee for selling our franchise or referring you to us. You should be sure to do your own investigation of the franchise.

MANY FRANCHISE AGREEMENTS DO NOT ALLOW YOU TO RENEW UNCONDITIONALLY AFTER THE INITIAL TERM EXPIRES. YOU MAY HAVE TO SIGN A NEW AGREEMENT WITH DIFFERENT TERMS AND CONDITIONS IN ORDER TO CONTINUE TO OPERATE YOUR BUSINESS. BEFORE YOU BUY, CONSIDER WHAT RIGHTS YOU HAVE TO RENEW YOUR FRANCHISE, IF ANY, AND WHAT TERMS YOU MIGHT HAVE TO ACCEPT IN ORDER TO RENEW.

Please consider the following RISK FACTORS before you buy this franchise:

THE FRANCHISE AGREEMENT PERMITS YOU TO LITIGATE ONLY IN THE STATE WHERE OUR HEADQUARTERS ARE LOCATED (CURRENTLY, THE STATE OF WASHINGTON). OUT OF STATE LITIGATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT. IT MAY ALSO COST YOU MORE TO LITIGATE WITH US IN A STATE OTHER THAN YOUR HOME STATE.

THE FRANCHISE AGREEMENT STATES THAT THE LAWS OF THE STATE WHERE OUR HEADQUARTERS ARE LOCATED (CURRENTLY, THE STATE OF WASHINGTON) GOVERN. WASHINGTON STATE LAW MAY NOT PROVIDE THE SAME PROTECTIONS AND BENEFITS AS YOUR LOCAL LAW. YOU MAY WANT TO COMPARE THESE LAWS.

THE FRANCHISE AGREEMENT REQUIRES THAT CERTAIN DISAGREEMENTS BE SETTLED BY NON-BINDING MEDIATION AND ARBITRATION IN WASHINGTON STATE. OUT OF STATE MEDIATION OR ARBITRATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT. IT MAY ALSO COST YOU MORE TO MEDIATE OR ARBITRATE WITH US IN A STATE OTHER THAN YOUR HOME STATE.

FRANCHISE OWNERS AND THEIR SPOUSES MUST SIGN A PERSONAL GUARANTY PLACING THEIR PERSONAL ASSETS AT RISK.

THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

Effective Date: See the next page for state effective dates.

STATE EFFECTIVE DATES

The following states require that the Franchise Disclosure Document be registered or filed with the state, or be exempt from registration: California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington and Wisconsin

This Franchise Disclosure Document is registered, on file or exempt from registration in the following states having franchise registration and disclosure laws, with the following effective dates:

STATE	EFFECTIVE DATE
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California	
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Indiana	
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Michigan	
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New York	
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Virginia	
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Washington	
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Wisconsin	
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States not requiring	<u>March 29, 2018</u>
Registration or Filing	March 31, 2017

FOR MICHIGAN OFFEREES

THE STATE OF MICHIGAN PROHIBITS CERTAIN UNFAIR PROVISIONS THAT ARE SOMETIMES IN FRANCHISE DOCUMENTS. IF ANY OF THE FOLLOWING PROVISIONS ARE IN THESE FRANCHISE DOCUMENTS, THE PROVISIONS ARE VOID AND CANNOT BE ENFORCED AGAINST YOU.

1. Each of the following provisions is void and unenforceable if contained in any documents relating to a franchise:

- (a) A prohibition on the right of a franchisee to join an association of franchisees.
- (b) A requirement that a franchisee assent to a release, assignment, notation, waiver, or estoppel which deprives a franchisee of rights and protections provided in this act. This shall not preclude a franchisee, after entering into a franchise agreement, from settling any and all claims.

2. A provision that permits a franchisor to terminate a franchise before the expiration of its term except for good cause. Good cause shall include the failure of the franchisee to comply with any lawful provision of the franchise agreement and to cure such failure after being given written notice thereof and a reasonable opportunity, which in no event need be more than 30 days, to cure such failure.

3. A provision that permits a franchisor to refuse to renew a franchise without fairly compensating the franchisee by repurchase or other means for the fair market value at the time of expiration of the franchisee's inventory, supplies, equipment, fixtures, and furnishings. Personalized materials which have no value to the franchisor and inventory, supplies, equipment, fixtures, and furnishings not reasonably required in the conduct of the franchise business are not subject to compensation. This subsection applies only if: (i) the term of the franchise is less than 5 years and (ii) the franchisee is prohibited by the franchise or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising, or other commercial symbol in the same area subsequent to the expiration of the franchise or the franchisee does not receive at least 6 months advance notice of franchisor's intent not to renew the franchise.

4. A provision that permits the franchisor to refuse to renew a franchise on terms generally available to other franchisees of the same class or type under similar circumstances. This section does not require a renewal provision.

5. A provision requiring that arbitration or litigation be conducted outside this state. This shall not preclude the franchisee from entering into an agreement, at the time of arbitration, to conduct arbitration at a location outside this state.

6. A provision which permits a franchisor to refuse to permit a transfer of ownership of a franchise, except for good cause. This subdivision does not prevent a franchisor from exercising a right of first refusal to purchase the franchise. Good cause shall include, but is not limited to:

- (a) The failure of the proposed transferee to meet the franchisor's then-current reasonable qualifications or standards.
- (b) The fact that the proposed transferee is a competitor of the franchisor or subfranchisor.
- (c) The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.
- (d) The failure of the franchisee or proposed transferee to pay any sums owing to the franchisor or to cure any default in the franchise agreement existing at the time of the proposed transfer.

7. A provision that requires the franchisee to resell to the franchisor items that are not uniquely identified with the franchisor. This subdivision does not prohibit a provision that grants to a franchisor a right of first refusal to purchase the assets of a franchise on the same terms and conditions as a bona fide third party willing and able to purchase those assets, nor does this subdivision prohibit a provision that grants the franchisor the right to acquire the assets of a franchise for the market or appraised value of such assets if the franchisee has breached the lawful provisions of the franchise agreement and has failed to cure the breach in the manner provided in subdivision (c).

8. A provision which permits the franchisor to directly or indirectly convey, assign, or otherwise transfer its obligations to fulfill contractual obligations to the franchisee unless provision has been made for providing the required contractual services.

If the franchisor's most recent financial statements are unaudited and show a net worth of less than \$100,000.00, the franchisee may request the franchisor to arrange for the escrow of initial investment and other funds paid by the franchisee until the obligations, if any, of the franchisor to provide real estate, improvements, equipment, inventory, training or other items included in the franchise offering are fulfilled. At the option of the franchisor, a surety bond may be provided in place of escrow.

THE FACT THAT THERE IS A NOTICE OF THIS OFFERING ON FILE WITH THE ATTORNEY GENERAL DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION, OR ENDORSEMENT BY THE ATTORNEY GENERAL.

Any questions regarding this notice should be directed to:

State of Michigan
Department of Attorney General
CONSUMER PROTECTION DIVISION
Attention: Franchise
670 Law Building
Lansing, Michigan 48913
Telephone Number: (517) 373-7117

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ITEM 1. THE FRANCHISOR AND ANY PARENTS, PREDECESSORS AND AFFILIATES

To simplify the language in this Disclosure Document, “Expedia® CruiseShipCenters®”, “we”, “us” or “our” means CruiseShipCenters USA Inc., d/b/a Expedia® CruiseShipCenters®, the franchisor. “You” means the person who is awarded a travel agency business franchise, and includes your equity owners if you are a corporation or other business entity. “CII” means CruiseShipCenters International, Inc., a British Columbia, Canada, corporation, trading as Expedia® CruiseShipCenters®. “CSC Holdings” means CSC Holdings, Inc., a British Columbia, Canada, corporation. “Expedia” means Expedia, Inc., a Washington corporation.

EXPEDIA® CRUISESHIPCENTERS®, ITS PARENT, PREDECESSORS AND AFFILIATES

We are a Nevada corporation formed on March 1, 2007. Our agents for service of process are listed in **Exhibit F**. Our business address is 333 108th Avenue NE, Bellevue, Washington 98004. We have been offering franchises since April 2008. ~~We currently operate a travel business of the type similar to the non-commercial storefront format mentioned below.~~ We do not engage in any business activities other than operating and franchising the travel business described in this Disclosure Document. We have not offered franchises in other lines of business, however, in addition to the franchise format discussed in this Disclosure Document, we have in the past also offered travel business franchises in a non-commercial storefront sales center format through a different Disclosure Document and separate franchise agreement.

We have no predecessors. We have the following affiliates: Expedia is our sole owner and parent. Expedia’s and CSC Holdings’ address is 333 108th Avenue NE, Bellevue, Washington 98004. CII owns and licenses to us certain marks and software that we, in turn, license to you in connection with the travel business franchise. CII also provides training services to our franchisees. Expedia also owns and licenses to us certain marks that we, in turn, license to you in connection with the travel business franchise. CII is owned by CSC Holdings, a wholly-owned subsidiary of Expedia. CII’s address is Suite 900, 1066 West Hastings Street, Vancouver, BC V6E 3X1.

CII operates a travel agency and franchises travel agencies specializing in cruise vacations and has done so since January 1988. As of the date of this Disclosure Document, we have franchised ~~sixty-seven (67)~~eighty-nine (89) travel businesses of the type discussed in this Disclosure Document in the United States. There are an additional 166 franchises located in Canada and operating under the name Expedia® CruiseShipCenters®. We also have franchised ~~four (4)~~two (2) non-commercial storefront format travel businesses.

Expedia is a subsidiary of Expedia Group, Inc. (Delaware) (~~“EI”~~) (NASDAQ: EXPE), which 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. ~~El~~Expedia Group has created a global travel marketplace used by a broad range of leisure and corporate travelers and offline retail travel agents as well as travel service providers. ~~El~~Expedia Group makes available, on a stand-alone and package basis, travel products and services provided by numerous airlines, lodging properties, car rental companies, destination service providers, cruise lines and other travel product and service companies. ~~El~~sExpedia Group’s portfolio of brands includes: Expedia.com®, Hotels.com®, Hotwire®, HomeAway® which includes VRBO®, Orbitz®, Travelocity®, trivago®, Wotif.com®, Expedia Local Expert®, Classic Vacations®, Egencia®, and CarRentals.com™. In addition, many of these brands have related international points of sale. Expedia does not operate the type of travel agency business of the type you will operate.

Neither our parent nor any of our affiliates have engaged in franchising travel businesses or any other businesses.

THE FRANCHISE OFFERED

We award franchises for the operation of an Expedia® CruiseShipCenters® travel agency business (“Travel Business”) that will operate from a retail storefront location (“Center”). The Travel Business will offer reservations services for cruises and certain other leisure products and related travel services (collectively, the “Travel Products and Services”) using our “System” and “Marks” described below. Each Travel Business generates revenues on sales of Travel Products and Services, with those revenues (usually a percentage of sales) generally paid by the suppliers of those Travel Products and Services. We refer to those revenues paid by suppliers and any other revenues generated through your Travel Business as “Gross Revenues”. You will pay us a Service Fee as a percentage of your Gross Revenues.

We will enter into franchise agreements (“Franchise Agreements”) with persons who want to establish and operate a Travel Business. Under our Franchise Agreement, we will grant you the right and you will accept the obligation to operate a Travel Business. Our current form of Franchise Agreement is attached as **Exhibit B**. If you are a business entity (corporation, limited liability company or general partnership), your owners must sign a “Franchisee Owners Statement” identifying each owner and their interest in you and a “Franchisee Owner’s Guaranty” requiring your owners and their spouses to guaranty your obligations under the Franchise Agreement. Our current forms of Franchisee Owners Statement and Franchisee Owner’s Guaranty are attached to the Franchise Agreement as Schedules E and F, respectively.

SYSTEM AND MARKS

All Franchises operate under our distinctive “System”, which includes proprietary methods, procedures, techniques, designs, standards and specifications, and a business format utilizing the “CruiseDesk®” system, a proprietary online software application and marketing system developed specifically for the cruise specialist travel agency or agent by our affiliate, CII. CII licenses CruiseDesk® directly to its franchisees in Canada and licenses the right to use and to sublicense the use of CruiseDesk® in the U.S. to us. CruiseDesk® provides a fully-integrated means of researching, communicating, booking, invoicing and conducting travel agency business on the Internet and includes a secure business portal application for travel agents. CruiseDesk® also provides permission-based personalized Internet marketing programs, product research, on-line booking, sales administration and business management tools, including invoicing capabilities, cash flow analysis and commission reporting, and allows authorized users to work from any location where secure, broadband access to the Internet is available. You must operate your Center from a retail storefront location acceptable to us, however, our agreement as to a particular Center site is not a guaranty or warranty of the success of the site.

You must use certain computer software in conjunction with CruiseDesk® (which includes our proprietary software and additional third-party software), all of which we may improve, further develop, or otherwise modify from time to time. In addition, in conjunction with the operation of your Travel Business, you will use certain trademarks, service marks, trade names, slogans and other commercial symbols, including the trademarks “EXPEDIA® CRUIESHIPCENTER®” and “EXPEDIA® CENTRODECRUCEROS®” (collectively, the “Marks”), which we have the right to use, promote and sublicense to you and other franchisees in conjunction with the operation of Travel Businesses. As noted above, CII owns and licenses to us certain Marks, with the right to sublicense those Marks in the U.S., which we, in turn, license to you for use in connection with the Travel Business. Expedia owns and licenses to us the trademark “EXPEDIA®”, with the right to sublicense that mark in the U.S. as part of the “EXPEDIA® CRUIESHIPCENTER®” and “EXPEDIA® CENTRODECRUCEROS®” combined marks, which we, in turn, license to you for use in connection with the Travel Business. We may in the future develop, enhance or modify various aspects of the System and/or the Marks, as well as add new trademarks, trade names, service marks, trade dress, slogans, logotypes and other commercial symbols we specify for use in each

Travel Business.

You may recruit individuals as independent contractors (we refer to these individuals as “Consultants”) to sell Approved Travel Products and Services through your Travel Business and under our System. Any Consultant you recruit must enter into an Independent Contractor Agreement with you. The form of Independent Contractor Agreement you must use is available through CruiseDesk®. You must provide us with a fully-executed digital copy of each Independent Contractor Agreement you enter into so that we may provide your Consultant with access to CruiseDesk®. You may not change the terms of the Independent Contractor Agreement.

Each Franchise Agreement authorizes you to use CruiseDesk® at only one Center.

MARKET AND COMPETITION

The general market for your Travel Business will be leisure travelers seeking vacation cruises and related travel products and services. As a Travel Business franchisee, you will compete with: (1) other Expedia® CruiseShipCenters® franchisees including those operating non-commercial storefront franchise formats; (2) other retail and non-retail or home-based travel businesses; (3) specialized and full-service travel agencies; (4) travel suppliers; and (5) web-based travel reservation businesses, including Expedia Group, us, and CII. Some of these travel businesses are large organizations; others are smaller, independent operations. Some travel businesses are franchised.

REGULATORY MATTERS

Some states require travel agents to obtain a “seller of travel” license or permit. You also may be required to file an application and post a bond. In addition to state-specific laws and regulations applicable to sellers of travel, you must comply with all federal, state and local laws and regulations applicable to business operations generally. The classification of Consultants as independent contractors is subject to rules and regulations imposed by certain federal and state government agencies. Consultants that do not satisfy the criteria of these rules and regulations to be classified as independent contractors will be classified as employees and may be subject to certain terms of employment including taxation, benefits, and withholdings. You are encouraged to speak to an attorney and a tax professional regarding any labor and other laws and regulations that may apply to you in connection with the establishment and operation of a Travel Business in your locale.

ITEM 2. BUSINESS EXPERIENCE

PRESIDENT AND DIRECTOR: MATTHEW EICHHORST

Mr. Eichhorst has served as our President since November 2008 and as a Director since our inception on March 1, 2007. He was our Chief Operating Officer since our inception on March 1, 2007 to October 1, 2013. He also serves as President of CruiseShipCenters International Inc., located in Vancouver, B.C. and has done so since November 2008, and was the Chief Operating Officer of CruiseShipCenters International Inc. from May 2002 to October 1, 2013. Additionally, Mr. Eichhorst serves as Vice President, Global Cruise at Expedia ~~Inc.~~ Group and has done so since March 2016.

SECRETARY AND DIRECTOR: ROBERT J. DZIELAK

Mr. Dzielak has served as Secretary and Director since October 1, 2013. He also serves as Executive Vice President, General Counsel and Secretary of Expedia, ~~Inc.~~ Group located in Bellevue, Washington and has done so since April 2012. Previously, Mr. Dzielak served as Senior Vice President and acting General Counsel

of Expedia, ~~Inc.~~ Group from October 2011 until April 2012 and as Vice President and Associate General Counsel of Expedia, ~~Inc.~~ Group from February 2007 until October 2011.

DIRECTOR: FRANCES J. ERSKINE

Ms. Erskine has served as Director since October 1, 2013. She also serves as Senior Vice President, Global Tax at Expedia, ~~Inc.~~ Group located in Bellevue, Washington and has done so since March 2017. Previously, Ms. Erskine served as Vice President, Tax of Expedia, ~~Inc.~~ Group from February 2009 until March 2017 and as Senior Director, Tax of Expedia, ~~Inc.~~ Group from May 2005 until February 2009.

DIRECTOR: LANCE A. SOLIDAY

Mr. Soliday has served as Director since October 1, 2013. He also serves as Senior Vice President, Chief Accounting Officer and Controller of Expedia, ~~Inc.~~ Group located in Bellevue, Washington and has done so since March 2017. Previously, Mr. Soliday served as President, Chief Accounting Officer and Controller of Expedia, ~~Inc.~~ Group from September 2011 until March 2017, as Senior Director, Financial Reporting of Expedia, ~~Inc.~~ Group from February 2009 to September 2011 and as Director, Financial Reporting of Expedia, ~~Inc.~~ Group from December 2006 to February 2009.

DIRECTOR: ROBERT JACOBY, CPA, CA

Mr. Jacoby has served as Director since October 1, 2013. He also serves as Vice President, Finance of CruiseShipCenters International Inc. located in Vancouver, B.C. and has done so since May 2003. Additionally, Mr. Jacoby serves as Senior Director, Finance and Strategy of Global Cruise at Expedia Group and has done so since July 2017.

VICE PRESIDENT, FRANCHISING: ROBERT TIPPLE

Mr. Tipple has served as Vice President, Franchising at CruiseShipCenters International Inc. located in Vancouver, B.C. since October 2014. Previously, he served as Director and General Manager, Baskin-Robbins, Canada for Dunkin' Brands Inc. from May 2011 until September 2014 and as Vice President, Operations of Quizno's Canada from December 2009 until March 2011. Both positions were based in Vancouver, B.C.

DIRECTOR, FRANCHISE PERFORMANCE COACHING: MIKE BARRON

Mr. Barron has served as Director, Franchise Performance Coaching at CruiseShipCenters International Inc. located in Vancouver, B.C. since October 2015. Previously, he served as an Operating Partner for Taywood Ventures, a securities trading firm, from April 2014 to October 2015 and as Director of Sales at PepsiCo Canada where he was responsible for direct sales to the franchise restaurant business from May 2005 to February 2014. Prior to this he held roles in sales, procurement and franchise operations from February 1995 to April 2005.

FRANCHISE SALES MANAGER: DANIEL MEYER

Mr. Meyer has served as Franchise Sales Manager since October 2014. Prior to joining CruiseShipCenters International Inc., Mr. Meyer owned and operated a Tutor Doctor franchise in Abbotsford, B.C. from May 2011 to November 2013 and then served as Director of Franchise Development at Tutor Doctor Systems based in Abbotsford, B.C. from November 2013 until October 2014. He previously served as National Sales Manager at JRT Nurseries in Aldergrove, B.C. from September 2009 until May 2011; and as Director of Business Development at Applied Management Centre based in Abbotsford, B.C. from November 2008 until August 2009.

FRANCHISE SALES MANAGER: JEFFTON WARKENTIN

Mr. Warkentin has served as Franchise Sales Manager since November 2012. Previously, he served as Franchise Development Manager of CruiseShipCenters International Inc., located in Vancouver, B.C., supporting franchises in Western Canada and Quebec from January 2010 to November 2012. Prior to joining CruiseShipCenters International Inc. he owned and operated an Expedia® CruiseShipCenters® franchise in Vancouver, B.C. from March 2007 to October 2009.

FRANCHISE SALES MANAGER: GEOFFREY COYLE

~~Mr. Coyle has served as Franchise Sales Manager since June 2016. Prior to joining CruiseShipCenters International Inc., Mr. Coyle services as Operational manager from July 2015 to April 2016 at Jukebox Print Ltd., an online high quality printing company, in Vancouver B.C. From September 2012 through November 2014, Mr. Coyle was a General Manager with Platinum Pro Claim Restoration, a 24 hour emergency restoration service in Vancouver, B.C.~~

ITEM 3. LITIGATION

No litigation is required to be disclosed in this Item.

ITEM 4. BANKRUPTCY

No bankruptcy information is required to be disclosed in this Item.

ITEM 5. INITIAL FEES

The non-refundable initial franchise fee payable in a lump sum when you sign the Franchise Agreement is \$39,000.

The initial franchise fee, includes certain goods and services we provide to you with a total value of up to approximately \$10,000. These goods and services include a travel credit of up to \$1,500 towards your cabin for your first National Conference and a travel credit of up to \$600 towards your accommodations for your first Regional Franchisee (Anchor) Meeting (travel credits are for the lesser of the amounts indicated or your actual travel costs incurred); services of a professional real estate and leasing broker; and specific required décor and merchandising items including a customized signature porthole interior window, a logoed interior sign, up to 2 specials boards window displays, 4 snap frames, 2 portable merchandising roll-up displays, and a logoed table cloth and skirt for recruitment, consumer and tradeshow events.

For qualified existing franchisees, the non-refundable initial franchisee fee is \$29,000. This amount does not include the certain goods National Conference and services mentioned above Regional Franchisee (Anchor) Meeting travel credits.

ITEM 6. OTHER FEES

Type of Fee ⁽¹⁾	Amount	Due Date	Remarks
Service Fee	9% of Gross Revenues ⁽²⁾ paid to you by suppliers	Monthly - we will initiate an electronic funds transfer or “EFT” ⁽⁴⁾ of the Service Fee on or before the 15th day of the month from your designated bank account (“Designated Account”).	At the start of each year we reconcile the total Service Fees actually earned and payable in the prior year against what we collected during the prior year and draft or refund the difference by EFT. ⁽⁵⁾
Management Information Systems (MIS) Fee ⁽³⁾	\$300 per month	Monthly - we will initiate an EFT of this amount from your Designated Account on or before the 15th day of the month.	Pays for your use and updates to CruiseDesk®. Commences the first month after your -Center opens for business.
Marketing Fee ⁽³⁾	\$600 per month	Monthly - we will initiate an EFT of this amount from your Designated Account on the 1st day of the month.	Paid into the Marketing Fund (See Item 11). Commences the first month after your -Center opens for business.
In-person Training: Cruise Management Academy (“CMA”) – Additional Trainee	\$495	Prior to attendance of additional persons at In-person Training in Vancouver.	In-Person Training for up to two persons is at no charge. You must pay this fee if you wish to bring a third trainee (at your option)
Additional Term Franchise Fee ⁽³⁾	\$5,000	Upon execution of Additional Term Franchise Agreement	The Additional Term Franchise Fee is paid if you are granted an Additional Term Franchise.
Transfer Fee	\$10,000	Upon execution of documents effecting a transfer of a controlling ownership interest in the Franchisee or your Travel Business.	Transferee pays the Transfer Fee upon transfer of a controlling ownership interest in the Franchisee or your Travel Business (where the transfer results in a change of control or shared control) to a new owner, that is, a person or company that does not already have an ownership interest in the Franchisee or your Travel Business, and our then-current form of Franchise Agreement must be signed.

Type of Fee ⁽¹⁾	Amount	Due Date	Remarks
Document Administration -Fee	The greater of \$295 or our actual expenses incurred.	Payable upon execution of documents.	Payable if we approve a Transfer of a non-controlling ownership interest in you or your Travel Business or if you take other actions requiring document preparation or modification. (e.g., a change of your entity name).
Site Relocation Fee	The greater of \$495 or our actual expenses incurred in reviewing your relocation site and any document preparation or modification.	Payable if we approve the relocation of your Center.	You will pay the Site Relocation Fee if you request a relocation of your Center and we approve it. (This fee includes any Document Administration Fee.)
Audit Fee	Cost of inspection or audit and related expenses	15 days after billing	Payable only if the audit is a result of your failure to furnish accurate reports, supporting records or other required information under the Franchise Agreement.
Interest	The lesser of 15% per annum or the highest contract rate of interest permitted by applicable law	15 days after billing	Interest is charged on all past due amounts.
Insufficient Funds Fee	\$50 per occurrence	As Incurred	Payable if your bank fails to honor an electronic funds transfer ("EFT") request.
Costs and Attorneys' Fees	Will vary under circumstances	As Incurred	You must reimburse us for costs we incur as a result of your failure to comply with the Franchise Agreement.

NOTES

- (1) All fees are non-refundable and payable to us unless otherwise stated. All fees are imposed uniformly.
- (2) Approved Travel Suppliers pay you a percentage of the revenues generated by your sales of their Approved Travel Products and Services. We refer to these revenues plus any other revenues generated through your Franchised Travel Business as "Gross Revenues".
- (3) We may increase the Additional Term Franchise Fee, MIS Fee and the Marketing Fee annually on July 1st by a percentage of up to the percentage increase in the U.S. Consumer Price Index ("CPI") between January 1st and December 31st of the immediately prior year. If we increase the MIS Fee or the Marketing Fee by less than the full CPI percentage increase in a given year, we may carry the difference forward and add it to the allowable percentage increase for the following year. By way of example, if

the CPI increases 5% and we implement only a 3% increase in the MIS Fee, we may carry the remaining 2% forward and add to the CPI increase in the following year, so that if the following year CPI is 2%, we may increase the MIS Fee by up to 4%.

- (4) You will comply with the procedures we specify in the Franchise Operations Manual (the “Manual”) and sign and deliver the documents necessary to allow us to credit and debit by EFT your “Designated Account.” You will make funds available in the Designated Account for withdrawal by EFT no later than the date the payments are due. If we determine at any time that you have under-reported or underpaid amounts due to us, we will be authorized to transfer from the Designated Account the amount owed to us plus applicable interest.
- (5) We will draft by EFT the “Service Fee” on or before the 15th day of each month. We may change the amount debited each month periodically based on the expected Gross Revenue you will earn. We will notify you prior to any change. At the end of each of your fiscal years during the term of this Agreement and at the end of the term of the Agreement, we will reconcile the actual Service Fees earned and payable for that prior fiscal year or portion of the current fiscal year (as applicable) based on your actual Gross Revenues for that year (or portion thereof). We then will draft (or refund) by EFT the difference between the total of all Service Fees you paid and the actual total Service Fees due and payable for the year (or portion thereof). We will issue you an invoice for that amount drafted or refunded.

ITEM 7. ESTIMATED INITIAL INVESTMENT

YOUR ESTIMATED INITIAL INVESTMENT

Type of Expenditure ⁽¹⁾	Amount (low range)	Amount (high range)	Method of Payment	When Due	To Whom Paid ⁽²⁾
<u>Costs incurred prior to opening</u>				When Franchise Agreement is	
Initial Franchise Fee	\$39,000	\$39,000	Lump Sum		Us
In-person Training - Your Transportation and Accommodation ⁽³⁾	\$1,200	\$3,500	As Arranged	As Incurred	Suppliers
In-person Training – Additional Trainee ⁽³⁾	\$0	\$495	As Arranged	As Incurred	Us
In-person Training – Additional Trainee -Transportation and Accommodation ⁽³⁾	\$0	\$1,750	As Arranged	As Incurred	Suppliers
Premises Lease Security Deposit ⁽⁴⁾	\$2,000 \$3,500	\$48,000	As Arranged	As Incurred	Landlord
Utilities and Telephone Deposit ⁽⁵⁾	\$0 \$350	\$580 \$1,650	As Arranged	As Incurred	Suppliers
Leasehold Improvements ⁽⁶⁾	\$20,000 \$21,500	\$39,600 \$55,000	As Incurred	As Incurred	Suppliers
Signage (interior and exterior) ⁽⁶⁾ ⁽⁷⁾⁽⁴⁷¹⁶⁾	\$2,500 \$5,000	\$12,000 \$10,500	As Incurred	As Incurred	Suppliers
Computers and Software ⁽⁸⁾	\$2,500 \$4,000	\$67,000	Lump Sum	As Incurred	Suppliers

Type of Expenditure ⁽¹⁾	Amount (low range)	Amount (high range)	Method of Payment	When Due	To Whom Paid ⁽²⁾
Office Equipment and Supplies ⁽⁹⁾	\$2,500,000	\$4,350,500	As Incurred	As Incurred	Suppliers
Office Furniture and Furnishings ⁽¹⁰⁾⁽⁴⁷¹⁶⁾	\$10,000,500	\$1614,000	As Incurred	As Incurred	Us or Suppliers
Telephone and Alarm Equipment, Installed ⁽⁴⁴⁾	\$1,000	\$3,000	As Incurred	As Incurred	Suppliers
Insurance ⁽⁴²¹¹⁾	\$1,000,750	\$3,000,200	As Arranged	As Arranged	Insurance Provider
Professional Fees ⁽⁴³¹²⁾	\$1,000,500	\$3,500	As Arranged	As Arranged	Professionals
Business Licenses and Permits ^{(44 (13))}	\$550,400	\$1,500,650	Lump Sum	As Incurred	Local Authorities
TOTAL COSTS INCURRED PRIOR TO OPENING	\$83,250,89,700	\$138,275,153, 745			
<u>Costs incurred subsequent to opening</u>					
Additional Funds - Working Capital for the first 18-2436 Months ⁽⁴⁵¹⁴⁾	\$84,100,75,795	\$126,100,128, 245	As Needed	As Incurred	Varies
TOTAL ESTIMATED INITIAL INVESTMENT ⁽¹⁾⁽⁴⁶¹⁵⁾	\$167,350,165,4 95	\$264,375,281, 990			

NOTES

- (1) You should expect to incur these types of expenses as part of your initial investment from the day you sign the Franchise Agreement until you open and begin operating your Travel Business (typically 6 to 9 months), except for Additional Funds, Working Capital, which you should expect to cover the first 18 to 2436 months after you open and begin operating your Travel Business. However, the actual amounts of your expenses may vary.
- (2) Payments made to us are non-refundable. The ability to obtain a refund of any payments made to third parties and governmental agencies will depend on their individual refund policies.
- (3) We provide In-person Training, which is classroom-style training we refer to as Cruise Management Academy (“CMA”), at our offices in Vancouver. We make Cruise Management Academy available for up to two persons at no additional cost, including lunch meals. Other meals, hotel and transportation, including airfare, automobile and transfers, are at your cost. You are required to book your own transport and accommodation. Costs may vary depending upon whether you have one or two persons attend the In-person Training in Vancouver and also upon factors including your point of origin, seasonality, and the Canadian-United States dollar foreign exchange rate. Low range transportation and accommodation amounts presented are for one person, high range amounts are for two persons.

If you wish to bring a third trainee to In-person Training in Vancouver, we require a \$495 fee and the additional trainee will be responsible for their own private hotel accommodations, transportation, and

meals other than lunch meals while on site. See “Training” in Item 11 for more information about the In-person Training program and associated costs.

- (4) Rent can vary significantly by site location and size (we require the location of the Travel Business to be at least 800 square feet and typically no greater than approximately 1,200 square feet). A ~~one~~two month security deposit is included in these estimates. You may also be required to prepay your first month rent, which is not included in these estimates, rather is included as an operating cost included in the estimate of additional funds – working capital as described in note 15 below. If you own your business premises, we cannot estimate or anticipate what, if any, additional investment may be required. The costs of ownership may differ from the rent-based amounts included in these estimates.
- (5) The amount of deposit required, if any, for utilities and telephone will depend upon supplier policy and potentially your credit and/or past customer history.
- (6) Leasehold improvement expenses will vary significantly depending on the size of your location, the condition and facilities of the premises selected, the market for materials and labor in your area and arrangements with your landlord on who is responsible for improvements. This estimated amount assumes that the premises meets vanilla shell specifications prior to commencing construction. If the landlord does not deliver the premises to vanilla shell specifications, you may be required to incur additional costs, which in turn you may be able to recover from the landlord in the form of a tenant improvement allowance. Leasehold improvement expenses include, among other things, obtaining building permits, framing, drywall, electrical, plumbing, millwork, painting, and flooring which includes carpeting that must be purchased from our approved vendor.
- (7) Signage expenses will vary significantly depending on the size and nature of your location, the market for materials and labor in your area and arrangements with your landlord on who is responsible for signage. Expenses include exterior sign(s), logo window decal, specials boards, and/or window dressing posters. Expenses exclude the cost of interior logoed sign, interior portal window, and snap frames that are funded by Franchisor.
- (8) Franchisees must have at least 5 to 8 computers and software that meet our requirements described under the heading “Computer System” in Item 11. The amount you must spend on computers and software will vary based on the type of computers and software you already have, if any. The high range of the estimate assumes that you purchase new computers and all required software, with specifications greater than what we require at a minimum. You will need to have a high-speed Internet connection at your Center, including wireless internet router, switch and cables.
- (9) Office equipment and supplies include telephone and alarm equipment and associated installation costs, television, fridge, dishwasher, microwave, coffee maker, shredder, printer/copier/fax machine, vacuum cleaner and general office supplies including stationery. The amount you spend on these items will vary based on the quality of ~~office~~ equipment and supplies you select and whether you already own items that are suitable and compliant with our design standards.
- (10) Office furniture and furnishings include desks, chairs, cabinets, display units, bookshelf and installation. Certain of these items must be purchased from our approved vendors.
- ~~(11) Telephone and alarm equipment and associated installation costs will vary based on the quality of equipment you select and whether you already own items that are suitable.~~

~~(12)~~(11) We require you to maintain certain minimum level of errors and omissions and general liability insurance coverages for your Travel Business. The amounts of insurance coverage disclosed above vary depending on if you pay your annual insurance coverage up front or pay premiums each month. See “Insurance” in Item 8 for more information about your insurance obligations.

~~(13)~~(12) You should consult with a professional, such as an attorney and/or accountant before you decide to invest in a Travel Business. The costs associated with these consultations can vary based on the particular professional and the scope of their review and assistance.

~~(14)~~(13) Typical licenses and permits include business name search and registration, business license, CLIA application, IATA application, and travel insurance seller license. Depending on where you are located, you may be required to obtain a “seller of travel” permit (which may require you to post a bond or provide other financial security) and other business licenses and/or permits. The amount of any such security or costs related to arranging required financial security is in addition to amounts presented above. You should consult with an attorney regarding any obligation you may have to obtain such business licenses and/or permits and the expected costs, if any.

~~(15)~~(14) This estimate assumes you will receive no income from your Travel Business during the first 18-~~24~~36 months after you open and begin operating your Travel Business. You will need additional funds to cover your cost of living and other expenses during that period or longer.

Working Capital includes your net operating costs for the first 18-~~24~~36 months after you open and begin operating and is estimated based on projected “Medium” net revenue for each of the first ~~and~~ second ~~and third~~ years less ~~mid-range~~ operating costs for 23 years (excluding insurance for year 1, which is included in pre-opening costs above and net of the travel credit of up to \$1,500 towards your cabin for your first National Conference and of up to \$600 towards your accommodations for your first Regional Franchisee (Anchor) Meeting as addressed in Item 5). These net revenue and operating cost amounts are provided in this Item 19. The low and high ranges presented in this table are the estimate of net revenue less operating costs as described above, less ~~20~~25%, for low range and plus ~~20~~25% for the high range. Your costs and working capital requirements will depend on factors such as the size of your offices and your operations, the degree to which you follow our methods and procedures for the Travel Business, your management skill, experience and business acumen, general economic conditions, competition and your labor market forces. We relied on our prior experience and recent performance of our existing franchisees to compile these estimates and, although these estimates are based on our current expectations, financial, economic and competitive data currently available, these estimates are inherently uncertain. You may require more or less working capital than the estimates provided in this table. Your costs, financial performance, and actual living expenses may be more or less than the averages of other new Franchisees.

~~(16)~~(15) We are unable to calculate the exact investment required of each Franchisee due to the many factors that influence the total cost to establish a Travel Business. The actual amount of your investment will vary based on location, local economy, competition, and other factors discussed in the previous notes. You should review these estimates carefully with a business advisor and/or accountant before making any decisions to invest in a Travel Business.

~~(17)~~(16) In order to expedite ordering and delivery of certain required furniture, décor and merchandising materials, as well as to gain the best possible pricing, we may purchase the items on your behalf and require you to pay us directly in advance to reimburse us for payments we make or will make to various suppliers on your behalf. If this occurs, we will submit to you a detailed invoice in advance of your

required payment. We do not add any fees or other amounts to the amount invoiced by the supplier. This will typically occur once a lease for your Center has been finalized.

ITEM 8. RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

REQUIRED PURCHASES

We provide you with a prototype design plan for the layout of a Center, showing furniture placement and facilities with color coordination scheme and advise you as to the particulars and specifications of office furniture, equipment and supplies to be used in the operation of the Center. We do not require you to purchase or lease any inventory, supplies, fixtures, equipment or services from us or our affiliates. However, we do require you to purchase some of these items from certain approved vendors which we will identify in our Center Design Specifications Resource which we will make available to you or through CruiseDesk® from time to time and we may require you to purchase furniture, décor and merchandising materials through us at our suppliers' price.

You must record all sales activity of all Travel Products and Services in CruiseDesk®. All bookings must be accomplished under our brand and any contracts we have in place with suppliers and vendors, and you must use our identification numbers as the agent code for all bookings. Although you may only offer for sale to your customers those Approved Travel Products and Services, you will not actually *purchase* any Travel Products and Services. The purchases will be made by your customers (See "Approved Travel Suppliers" below).

You are required to license certain software from us and you must have access to CruiseDesk® for which you must pay the monthly MIS Fee. You also must make a monthly Marketing Fee contribution to the Marketing Fund for advertising, marketing and public relations programs and materials we develop (See Item 6 and Item 11 for more information regarding the software you are required to license from us and the Marketing Fund).

APPROVED TRAVEL SUPPLIERS

You are required to use suppliers approved by us and identified in the Manual or CruiseDesk® ("Approved Travel Suppliers") for the sale of all Approved Travel Products and Services. We also may identify suppliers or Travel Products and Services that are expressly not approved. While you do not "purchase" Travel Products and Services from such Approved Travel Suppliers, the Gross Revenues generated by your Travel Business may vary based on which Approved Travel Suppliers you use. We may change Approved Travel Suppliers from time to time. We will update the list of Approved Travel Suppliers, including any suppliers or Travel Products and Services that are expressly not approved, through the Manual, CruiseDesk®, or other forms of communication. You must register with certain Approved Travel Suppliers as a member agency of CII or as directed by us. We and/or our affiliates may be Approved Travel Suppliers for certain products and services. To the extent that we and/or our affiliates are currently the only Approved Travel Supplier for certain products and services, required purchases of such products and services are included in the estimates for "Required Purchases" in the first paragraph above. Our affiliates, CII and Expedia Group, are Approved Travel Suppliers of Travel Services.

COMPENSATION WE RECEIVE FROM YOUR PURCHASES

If you meet an Approved Travel Supplier's eligibility requirements for bonuses or tour conductor status, on your own and without aggregation with our activities or those of other Franchisees, then you will receive the benefit of the bonus or tour conductor status. We and/or our affiliates retain any bonuses or tour conductor benefits that are paid to us by the Approved Travel Suppliers, if your efforts alone did not result in its issuance.

We and/or our affiliates are also entitled to retain any overrides, bonuses, overages and advertising allowances paid by such Approved Travel Suppliers that are only available to us.

Approved Travel Suppliers pay you Gross Revenues on your sales of their Approved Travel Products and Services. The Gross Revenues (that is, the percentage of your sales) that each Approved Travel Supplier will pay is dictated by that particular Approved Travel Supplier and varies among Approved Travel Suppliers.

CHANGES OF APPROVED TRAVEL SUPPLIERS OR APPROVED VENDORS

We may terminate, suspend and change Approved Travel Suppliers or approved vendors at any time in our sole discretion, including identification of any suppliers or Travel Products and Services that are expressly not approved. Whether or not we designate a supplier or vendor as an Approved Travel Supplier will be based on meeting the quality standards that we establish from time to time (see “System Standards” below), and may consider not just the quality standards of the products or services, but also, among other things, the proposed supplier’s reputation, management, product selection and pricing, delivery capabilities, financing terms and ability to service our franchisees and Expedia® CruiseShipCenters® customers as a whole.

SYSTEM STANDARDS

Your Travel Business must be operated in accordance with the mandatory and suggested specifications, standards, operating procedures, trademark usage guidelines, and rules that we prescribe from time to time for the operation of a Travel Business (collectively, the “System Standards”). System Standards may regulate, among other things, marketing materials, use and display of the Marks, insurance coverage requirements, computer system requirements, pricing and other policies governing the conduct of Travel Businesses. We may periodically modify the System Standards, which may accommodate regional or local variations as we determine. Such modifications may obligate you to invest additional capital in your Travel Business and/or incur higher operating costs. We will notify you of changes to the System Standards and/or names of Approved Travel Suppliers through updates to the Manual or other communications.

ADVERTISING

If you elect to conduct print advertising, you must use our design templates and only in the manner we prescribe. We will provide design and images for your print advertisements to you either paid for out of the Marketing Fund or at our cost. If you desire to develop your own advertising material, you must follow the System Standards and you must submit all material to us for approval prior to your use.

INSURANCE

You must maintain E&O insurance coverage and general liability insurance. We may prescribe the minimum amount of coverage required and may periodically increase or decrease the amounts of coverage required and require different or additional types of insurance at any time to reflect inflation, identification of new risks, changes in law or standards of liability, higher damage awards or other relevant changes and circumstances. All required insurance policies must be issued by an insurance company meeting our minimum rating requirement and must contain the terms and conditions we require. You are required to furnish proof of insurance satisfactory to us. If you fail to furnish such proof of insurance, we may obtain (at our option) insurance on your behalf and you must pay us, on demand, any costs and premiums we incur in obtaining such insurance. Alternatively, you may self-insure your travel agent errors and omissions insurance, as long as you demonstrate to our satisfaction that you have set aside and maintain an adequate reserve for claims that would be covered under a typical errors and omissions insurance policy.

REQUIRED COMPUTER SYSTEM

You must use a computer system that meets our specifications. See “Computer System” in Item 11 for more information. We license CruiseDesk® software and obtain software maintenance services from our affiliate, CII. You will sublicense the CII CruiseDesk® system software from us.

We have a Management Services Agreement (the “MSA”) and a Software and Technology License Agreement (the “Software Agreement”) with CII. Pursuant to the Software Agreement, CII licenses to us the use of CruiseDesk® (which we in turn sublicense to you under the Franchise Agreement) and CII hosts, manages and maintains CruiseDesk®.

Through the MSA, we have outsourced to CII various services associated with CruiseDesk®, including:

- (a) Developing, supporting and hosting CruiseDesk®.
- (b) Monitoring, updating and improving CruiseDesk® as new developments and improvements are established or implemented.
- (c) Enabling direct bookings, either within a particular Consultant Website or through travel supplier sites accessible through the Consultant Website or via telephone access to the travel supplier provided by CII. CII will provide e-mail support and facilitate and respond to inquiries relative to direct bookings and other related customer services. CII will also provide technical support to us and our Franchisees with respect to functionality of CruiseDesk®.
- (d) Providing e-marketing support to Franchisees and their consultants in the form of permission-based personalized, Internet-driven marketing programs; consumer accessible product research tools; and on-line booking capabilities.
- (e) Extending to us and our Franchisees commission arrangements no less available than those that CII has arranged for its Franchisees.
- (f) Providing commission management and bookkeeping tools to our Franchisees and their consultants, including invoicing capabilities, cash flow analysis and commission reporting.
- (g) Conducting training programs on our behalf for our Franchisees, including the online cruise consultant certification program we refer to as International Cruise Academy® and the in-person franchise owner training program we refer to as Cruise Management Academy.

We pay CII for training and technology fees on a per-Franchisee and per-Consultant basis. We also pay CII for the support and other services it provides, and an annual royalty for the licensing of CruiseDesk® and CruiseShipCenters® trademarks.

MISCELLANEOUS

Except as described above, neither we nor our affiliates currently derive revenue or other material consideration as a result of your purchases. There are currently no purchasing or distribution cooperatives. In the future, we and/or our affiliates may negotiate agreements with Approved Travel Suppliers and we and/or our affiliates may receive consideration from such Approved Travel Suppliers. Our corporate officers may own shares of one or more of the publicly traded Approved Travel Suppliers available to you through CruiseDesk®, however, none of our officers own controlling interests in any Approved Travel Suppliers. We do not provide material benefits (for example, renewal or granting additional franchises) to you based on your

purchase of particular products or services or use of particular suppliers.

ITEM 9. FRANCHISEE’S OBLIGATIONS

This table lists your principal obligations under the franchise agreement and other agreements. It will help you find more detailed information about your obligations in these agreements and in other items of this disclosure document.

Obligation	Section in Franchise Agreement	Items in Disclosure Document
a. Site selection and acquisition/lease	5.03; 5.04	Item 11
b. Pre-opening purchases/leases	5	Items 5, 6, 7 and 11
c. Pre-opening requirements	5	Items 5, 6, 7 and 11
d. Initial and ongoing training	8	Items 6, 7 and 11
e. Opening	5	Items 7 and 11
f. Fees	7	Items 5, 6 and 7
g. Compliance with standards and policies/Operating Manual	12	Item 11
h. Trademarks and proprietary information	9; 10	Items 11, 13 and 14
i. Restrictions on products/services offered	4	Items 8, 11 and 16
j. Warranty and customer service requirements	5.06	None
k. Territorial development and sales quotas	3.03	Items 6 and 12
l. On-going product/service purchases	5	Item 8
m. Maintenance, appearance and remodeling requirements	5.06	None
n. Insurance	21	Items 7, 8 and 11
o. Advertising	7.05; 14	Item 11
p. Indemnification	12.05; 20.04	Exhibit D
q. Owner’s participation/management/staffing	12.03; 12.04	Items 11 and 15
r. Records and reports	15	Item 17
s. Inspections and audits	16	Item 6

Obligation	Section in Franchise Agreement	Items in Disclosure Document
t. Transfer	17	Items 6 and 17
u. Renewal	3	Items 6 and 17
v. Post-termination obligations	19	Item 17
w. Non-competition covenants	11; 19.05	Item 17
x. Dispute resolution	23	Item 17
y. CruiseDesk® and Email Terms of Use	14.06	Item 11; TOU

ITEM 10. FINANCING

We do not offer direct or indirect financing. We do not guaranty your notes, leases or obligations.

Franchisees of the Expedia® CruiseShipCenters® System may be eligible for Small Business Administration (SBA) loan guarantees through your lender. If you are eligible for an SBA loan guaranty, we and you will be required to sign a mandatory, non-negotiable two-page "Addendum to Franchise Agreement." (SBA Form 2462).

ITEM 11. FRANCHISOR'S ASSISTANCE, ADVERTISING, COMPUTER SYSTEM AND TRAINING

Except as listed below, we need not provide any assistance to you.

PRE-OPENING OBLIGATIONS

Before you open your Travel Business, we will:

- (a) advise you on obtaining a license or registration to sell Approved Travel Products and Services with any applicable regulatory authority if you do not already have the necessary license or registration, although we do not guaranty that you will be able to obtain any required licenses or registrations (Franchise Agreement, Section 5.05(a));
- (b) assign a designated Market Area within which your Center will be located and in which you will operate your Franchise based on demographic criteria and advise you on selecting a suitable location for your Center in the Market Area based on visibility, traffic count, demographics and local competition (Section 2.04 of the Franchise Agreement);
- (c) provide you with graphic standards, including prototypical design plans for the layout of a Center, showing furniture placement and facilities with required color coordination scheme and advise as to the particulars and specifications of office furniture, equipment and supplies to be used in the operation of the Center. We will provide such further guidance as we determine to be necessary to assist you in working with your contractors and their suppliers to complete the development and build out of the Center. (Section 5.03(b) of the Franchise Agreement);

- (d) provide assistance in securing a lease for your Center. (Franchise Agreement Section 5.03).
- (e) provide you with certain Center design elements, marketing items and signage, including two portable Merchandising Roll-up displays, one to display as a recruitment message and the other to display generic advertising messaging and imagery; up to two Specials Boards windows displays to attract walk-by clients and promote the most current core promotions and pricing strategies; a signature “porthole,” which is a custom-made design element required as part of the décor in every Center; and an Expedia® CruiseShipCenters® polished aluminum logo interior sign that is displayed above the signature porthole; four interior brushed aluminum poster (snap) frames to display and promote current promotions and brand messaging; and a logoed table cloth and skirt to be used at recruitment and tradeshow events. (Section 5.05(b) of the Franchise Agreement);
- (f) provide you with an initial supply of promotional materials as part of the New Center Marketing Kit (Franchise Agreement, Section 5.05(c));
- (g) provide two licenses to access CruiseDesk®, three email accounts, a Center Website and any other related proprietary software for operating your Travel Business (Franchise Agreement Sections 5.05(d) and 13.01);
- (h) provide you with training as described in detail in this Item 11 under “Training”. (Franchise Agreement Sections 5.05(e); 8.01); and
- (i) provide you access to our Franchise Operations Manual described below under “The Manual” (Franchise Agreement Sections 5.05(f); 12.01).

POST-OPENING OBLIGATIONS

During the operation of your Travel Business, we will furnish assistance to you with respect to:

- (a) standards, specifications and operating procedures and methods utilized by Travel Businesses (Franchise Agreement Section 6.01(a));
- (b) use of CruiseDesk® (Franchise Agreement Section 6.01(b));
- (c) current lists of Approved Travel Suppliers, Approved Travel Products and Services, and those suppliers and Travel Products and Services that are not approved (Franchise Agreement Section 6.01(c));
- (d) advertising and marketing programs and related materials (Franchise Agreement Section 6.01(d));
- (e) improvements to the System, if any (Franchise Agreement Section 6.01(e)); and
- (f) administrative, bookkeeping and accounting procedures (Franchise Agreement Section 6.01(f)).

We will furnish guidance to you through the Manual, in bulletins or other written materials and/or during telephone or field consultations. We will provide training programs for your Consultants at your (or your Consultants’) expense.

MARKETING FUND

We administer a system-wide marketing fund (the “Marketing Fund”) for such advertising, marketing and public relations programs and materials we deem necessary or appropriate in our sole discretion. You and

every other franchisee must contribute to the Marketing Fund on a monthly basis. We may increase the Marketing Fee annually on July 1st by a percentage of up to the percentage increase in the U.S. Consumer Price Index ("CPI") between January 1st and December 31st of the immediately prior year. If we increase the Marketing Fee by less than the full CPI percentage increase in a given year, we may carry the difference forward and add it to the allowable percentage increase for the following year. If the Marketing Fund is terminated, all unspent monies on the date of termination will be distributed to our Franchisees in proportion to their respective contributions to the Marketing Fund during the preceding 12-month period. We will contribute to the Marketing Fund on the same basis as Franchisees for any Travel Businesses owned and operated by us (Franchise Agreement Section 14.01).

We will direct all programs financed by the Marketing Fund, with sole discretion over the creative concepts, materials and endorsements, and the geographic, market and media placement and allocation. The Marketing Fund may be used to pay the costs of preparing and producing video, audio, email, internet-based and written advertising materials; administering regional and multi-regional advertising programs, including, without limitation, purchasing direct mail and other media advertising and employing advertising, promotion and marketing activities. We may develop these materials in-house, including through CII, or utilize national or regional advertising agencies. The Marketing Fund may periodically furnish you with samples of advertising, marketing and promotional formats and materials at no cost (Franchise Agreement Section 14.02).

The Marketing Fund will not be held separately but will be accounted for separately from our other funds and will not be used to defray any of our general operating expenses, except for such reasonable salaries, administrative costs, travel expenses and overhead as we may incur in activities related to the administration of the Marketing Fund and its programs. Any unspent surplus amount in the Marketing Fund remaining at the end of a fiscal year in which it was collected or accrued will remain in the Marketing Fund for future use. We will prepare a periodic statement of monies collected and costs incurred by the Marketing Fund and furnish the statement to you upon written request (Franchise Agreement Section 14.03.) The Marketing Fund is not audited.

Although we will endeavor to utilize the Marketing Fund to develop advertising and marketing materials and programs and to place advertising that will benefit all Travel Businesses, we have no obligation to ensure that expenditures by the Marketing Fund in or affecting any geographic area are proportionate or equivalent to the contributions to the Marketing Fund by Travel Businesses operating in that geographic area or that any Travel Business will benefit directly or in proportion to its contribution to the Marketing Fund from the development of advertising and marketing materials or the placement of advertising (Franchise Agreement Section 14.04).

Marketing Fund monies will not be used to directly advertise or otherwise promote the sale of Travel Businesses, although Marketing Fund advertising and marketing materials may include incidental advertising for the opportunity to join Expedia® CruiseShipCenters® as a franchisee or as a travel consultant.

During our fiscal year, from January 1, ~~2017~~~~2016~~ through December 31, ~~2017~~~~2016~~, approximately \$1,~~030~~~~005~~,000 was spent on advertising for the benefit of all our franchisees, allocated as follows: Personnel, including web development, creative for E-marketing and print media and associated overhead (~~34~~~~42~~%); print materials and media (~~47~~~~28~~%); E-marketing and online advertising (~~15~~~~29~~%); and promotions and events (~~41~~%). These expenditures do not include advertising for franchise opportunities.

ADVERTISING AND ADVERTISING COOPERATIVES

You may conduct advertising, promotion or marketing in any medium but it must meet our standards and be approved by us before use in all cases (Franchise Agreement Section 14.05). You must submit to us for prior

written approval, samples of all promotional and marketing materials, including, all internet advertising, promotions or listings, you wish to use that have not been supplied by us or Approved Travel Suppliers or have not been approved by us within the last 3 months. We will notify you of our approval or disapproval of the materials within 3 days from the date we receive them. Approval or disapproval will be at our sole discretion.

We may designate certain areas in which we believe a local advertising cooperative (an “Advertising Cooperative”) may be appropriate for all Travel Businesses located in those areas. If an Advertising Cooperative is established in the geographic area where your Travel Business is located, you may join and actively participate in it. If you join an Advertising Cooperative, you must contribute to the Advertising Cooperative such amounts as are determined from time to time by the Advertising Cooperative. We will not set the amount of those contributions. Amounts contributed to the Advertising Cooperative are separate from, and in addition to, any Marketing Fees. The Advertising Cooperative will adopt its own rules, regulations and procedures which you must follow. However, the rules, regulations and procedures of the Advertising Cooperative must be approved by us.

INTERNET USE OF THE MARKS

You may not operate or arrange for the establishment of any Website that is in any way connected to the Travel Business, in either case, without our prior written approval, which we may give or withhold or revoke at our discretion. “Website” means an interactive electronic document, contained in a network of computers linked by communications software, that you operate or authorizes others to operate and that refers to the Travel Business, the Marks or any our or our affiliates’ other intellectual property, CruiseDesk®, and/or any of the Approved Travel Products and Services, and includes, but is not limited to, Internet and World Wide Web home pages. In addition to the prohibition on establishing a Website, you may not adopt, use or register the Marks or any word or symbol that may be similar to any of the Marks so as to cause any likelihood of consumer confusion generally and, in particular, in any Website, e-mail or Website address, domain name or search engine identifier, adword or key word, including, without limitation, use of the word “Cruise.” We have the right to designate and control your use of all URLs, domain names, website addresses, metatags, links, key words, e-mail addresses, social media profiles and pages and any other means of electronic identification or origin (“e-names”) used in connection with your Travel Business (Franchise Agreement Section 14.06).

COMPUTER SYSTEM

You must use a computer system (including both hardware and software) that meets our specifications. The personal computers you own or lease (and which may be obtained from any source) must be capable of running the currently commercially available Microsoft Windows® Operating System, Office® and Internet Explorer® software and you must have a relationship with an Internet service provider to gain high-speed access to CruiseDesk® and other websites.

Franchisees must have at least 5 to 8 computers and software that meet our specifications. The amount you must spend on computers and software will vary based on the type of computers and software you already have, if any. We estimate the cost of purchasing the required computer system, including wireless internet router, switch and cables, at ~~\$2,500~~ \$4,000 to \$67,000. The high range of these estimates assumes you purchase new computers and all required software, with specifications greater than what we require at a minimum.

We reserve the right to require you to upgrade your computer system’s hardware or software components at any time during the term of the Franchise Agreement. You will be responsible for the costs for upgrades, technical support and ongoing maintenance for the computer system. We may modify the computer system specifications from time to time and you must comply with such modifications at your expense within 60 days

after you receive notice from us. Your computer system must be capable of connecting with CruiseDesk®. You must also use high-speed (broadband) Internet access and Internet Explorer as your Internet browser. We will have unrestricted independent access to your computer system so we may review the operation of your Travel Business (Franchise Agreement Section 15.06). In addition, we may require you to submit marketing and related data to allow us to compile consumer trends, costs, and other information on a frequency and detail we deem appropriate (Franchise Agreement Section 15.01). We cannot estimate the costs of maintaining your computer system or any required upgrades because it will depend on your usage, service fees in your market and improvements in technology which we cannot predict at this time.

Your payment of the Initial Franchise Fee, the ongoing Service Fee and the MIS Fee constitute payment to us for your use of CruiseDesk® (a proprietary online software application and marketing system developed specifically for the cruise specialist travel agency or agent by our affiliate, CII). We may require you to license or sublicense from us any additional proprietary software or any third party software applications (collectively, the “Additional Software”) and we may charge you an additional fee for Additional Software (Franchise Agreement Section 13.02). We will provide assistance to you through email and in some instances, by telephone, in connection with the use of CruiseDesk® and any proprietary software we require you to use.

We have outsourced to CII the maintenance and improvement requirements for CruiseDesk® and email services, for which you will be required to agree to the Terms of Use (the “TOU”). A copy of the current form of TOU is attached as **Exhibit D**. You will be bound by the TOU and any privacy policy, copyright notice and takedown policies that we establish from time to time regarding CruiseDesk® and email services.

We may designate, approve, control or limit all aspects of your use of CruiseDesk® and any aspect of your Travel Business that you conduct over the Internet (“e-commerce”). You must follow all of our policies and procedures for the use and regulation of e-commerce and for its use with CruiseDesk®. We may require that you provide graphical, photographic, written or other forms of artistic or literary content to us for use in e-commerce activities associated with the Marks or the System that we may designate. You must provide information to us via CruiseDesk®. You must coordinate your e-commerce activities with us, other Travel Businesses, suppliers and affiliates, and participate in any intranet networks we develop (Franchise Agreement, Section 14.06).

THE MANUAL

Our Franchise Operations Manual (the “Manual”) is in the form of an online resource center that contains the current System Standards and information relating to your obligations as a Franchisee. The content of the Manual belongs to us and you will have no ownership interest in the Manual. The Manual may be modified, updated and revised periodically to reflect changes in System Standards and other policies affecting Franchisees. The table of contents of the Manual is attached as **Exhibit C**.

OPENING YOUR TRAVEL BUSINESS

We estimate the typical length of time between the signing of the Franchise Agreement and opening your Center for business to be between 6 and 9 months. Factors affecting the timing include site selection and availability, lease negotiation, build-out/construction implementation and any delays, landlord approvals, and licensing and permitting. Other factors may include the ability to secure financing arrangements, completing training, and fulfilling other pre-opening requirements. Failure to open your Center within 9 months of signing the Franchise Agreement is cause for termination of the Franchise Agreement.

You may not open your Center or begin operating your Travel Business until: (a) we have approved your site selection and construction to our current standards; (b) you (or if you are a business entity, one of your Owners)

have completed training (Online Training and In-person Training) to our satisfaction; (c) the Initial Franchise Fee and all other amounts then due to us have been paid; (d) you have furnished to us copies of all insurance policies we require, or other evidence of insurance coverage and payment of premiums as we request or accept; (e) you have demonstrated to our reasonable satisfaction that you have secured the financing necessary to establish the Center and operate your Travel Business; and (f) we have given you written Certification of Operational Readiness of your Travel Business and the Center, which may be conditioned on your compliance with all applicable laws, System Standards and the terms of the Franchise Agreement.

You must open the Center and you must begin operating your Travel Business within two days after we have delivered our written Certification of Operational Readiness. Once open and operating, you must continuously staff the Center with qualified trained employees or Consultants in accordance with the Manual and the terms of your Lease.

SITE REQUIREMENTS

You must propose a site within the Market Area that is acceptable to us where you intend to establish the Center to operate your Travel Business. The criteria we use to determine if a site is acceptable may include visibility, traffic count, demographics and local competition. Our acceptance of a particular site for the location of your Center is not a guaranty or warranty of the success of the site. The new site must have at least 800 square feet of retail space although we recommend up to 1,000 square feet. Because the Travel Business is a destination site rather than being driven by walk-by traffic, retail store fronts and strip-mall locations are preferred.

You will have up to four months after signing the Franchise Agreement to negotiate a lease for the site designated in the Franchise Agreement for the Center and, subject to our review and approval, sign the lease. A condition to our approving the lease is the execution of the Addendum to Lease Agreement (attached as Schedule C to the Franchise Agreement) by you and the landlord or the inclusion of certain required language in the lease. If we cannot agree on an acceptable site or if you are unable to enter into a lease within the required time, at our discretion, we may terminate the Franchise Agreement.

TRAINING PROGRAM

Before you begin operating your Travel Business, we will furnish training for up to two persons on the operation of a Travel business to you (or if you are a business entity, to up to two of your owners). The person or persons who participate in the training program are called the “Trainees”. The Trainees must complete the online training and in-person classroom training to our satisfaction and before commencing operations of the Travel Business. This means the training program must be completed within 9 months after signing the Franchise Agreement. The training program consists of the following components:

- (1) **Online Training:** The Trainees will receive one week of training through a correspondence course referred to as International Cruise Academy (“Online Training”). There is no additional charge for Online Training. Our Online Training consists of online course modules, recorded webinars and student activity / practice exercises in the areas of Preferred Suppliers and Products, Prospecting, Selling, Servicing and Operations.
- (2) **In-Person Training:** The Trainees will receive 5 days of classroom training (Cruise Management Academy) at one of our (or CII’s) training facilities, currently located in Vancouver, British Columbia, Canada. We will provide lunch meals while on site. Hotel and transportation are at your cost. You are required to book your own transport and accommodation.

Cruise Management Academy is offered several times a year in Vancouver. If you do not hold a valid passport, you must obtain one at your expense. The current fees to obtain a U.S. passport are a \$140 application fee and a \$25 execution fee. You will also need to supply passport photographs, the cost of which will vary depending on the vendor. You may bring a third trainee to In-person Training for an additional \$495 fee, but hotel accommodations and transportation costs for the additional trainee will be at your/their expense. Additional trainees will be required to sign a confidentiality agreement with us prior to attending the In-person Training.

Currently, the training program consists of the following:

ONLINE TRAINING PROGRAM

Subject	Hours of Self-Study	Hours of On The Job Training	Location
Preferred Suppliers and Product	5	0	Your Location
Prospecting	5	0	Your Location
Selling	5	0	Your Location
Operations	5	0	Your Location
TOTAL HOURS OF ONLINE TRAINING	20	0	

FRANCHISE PARTNER TRAINING GUIDE (Online)

Subject	Hours of Self-Study	Hours of On The Job Training	Location
Resource Center	6	0	Your Location
Cruise Functions in CruiseDesk®	7.5	0	Your Location
Recruitment Tools and Resources	6	0	Your Location
Onboarding Tools and Resources	6	0	Your Location
Marketing and Promotion Tools and Resources	4.5	0	Your Location
Basic Back Office Tools and Resources	3	0	Your Location
Additional Office Tasks	3	0	Your Location
TOTAL HOURS OF GUIDED TRAINING	36	0	

IN-PERSON TRAINING PROGRAM

Subject	Hours of Classroom Training¹	Location
Planning	2.5	Vancouver
Public Relations	1	Vancouver
Recruitment and Onboarding	2.5	Vancouver
Sales Team -Leadership	3.5	Vancouver
Product	6.5	Vancouver
Marketing and Promotions	5.5	Vancouver
Operations	8.5	Vancouver
TOTAL HOURS OF CLASSROOM TRAINING	30	

Subject	Hours of On The Job Training¹	Location
Planning	8	Your Location
Operations	6	Your Location
Recruitment and Onboarding	8	Your Location
Leadership and Recognition	6	Your Location
Marketing and Promotions	8	Your Location
TOTAL HOURS OF ON THE JOB TRAINING	36	
TOTAL HOURS OF IN-PERSON TRAINING	66	

NOTES

- (1) All aspects of our training are integrated throughout each component of the Cruise Management Academy program. There are not definite starting and stopping times for training on these subjects.
- (2) Currently, training is managed by Debrah Coll, our Director, Franchise Programs and Mike Barron, our Director, Franchise Performance Coaching. Debrah is responsible for the Online Training Program and Mike Barron is responsible for both the New Franchise Partner Training Guide and the In-Person Training Program. Mr. Barron's business experience is described in Item 2 of this Disclosure

Document. Debrah has led teams and projects for multiple organizations in media, travel and retail. She has worked for organizations such as Corus Entertainment, 1-800-GOTJUNK? and Intrawest. She was responsible for development and implementation of new programs, as well as the training and branding both for internal and external customers.

ADDITIONAL TRAINING

We may offer additional training, including periodic and refresher training courses, at such times and locations that we designate. You are not required to participate in additional training but if you choose to do so, you will pay our charges for furnishing it and you will be responsible for any travel expenses you or your representatives incur. We may make some additional training available through Internet-based training programs. If we furnish Internet-based training programs, we will furnish them at no additional cost to you.

FRANCHISEE MEETINGS

All franchisees are required to attend our annual National Conference and Regional Franchisee meetings. The Regional Franchisee meetings typically take place in Vancouver, Toronto, Florida or Las Vegas. The National Conference typically takes place onboard a one-week Caribbean or Mexican cruise. You will be responsible for travel, lodging and other expenses related to your and your representatives' attendance at these meetings. If you are purchasing your first Travel Business we will provide you with a credit of up to \$1,500 towards your cabin for your first National Conference and a credit of up to \$600 towards accommodations for your first Regional Franchisee meetings.

PAYMENT OF FEES

On the 1st or the 15th day of each month, we will draft by EFT from your designated bank account all Service Fees, the Marketing Fee, MIS Fee and any other monies you owe us for the current month's accounting period.

ITEM 12. TERRITORY

You will receive a designated territory described in Schedule A to your Franchise Agreement (your "Market Area") in which you may establish and operate one Center at one location. There is no minimum territory size that comprises a Market Area, however, we estimate a typical Market Area will have between 15,000 and 35,000 "Targeted Households" based upon data provided by a third-party company specializing in geographic-based information. A "Targeted Household" is one with an annual income of approximately greater than \$75,000 (although we may adjust the dollar threshold to reflect differences in regional CPI, or for other reasons). The number of Targeted Households in a particular Market Area is based on a number of factors including local cost of living, shopping patterns, geographic aspects, market conditions and demographic criteria, including population density, average and median income and local competition. As long as you are not in default under your franchise agreement, we will not open a Travel Business or allow any future franchisee the right to establish and operate an Expedia® CruiseShipCenters® franchise within your Market Area. It is possible that one of our 4 pre-existing non-commercial storefront sales center format franchisees is located within your Market Area, operating either as home-based or through a commercial location. We will disclose to you the existence of any of these pre-existing franchisees and will not allow any other existing franchisees the right to relocate their Travel Business to be within your Market Area. You are not restricted from doing business with customers residing outside your Market Area. These same restrictions apply to our other franchisees. Prior to granting you an Additional Term Franchise, we may assess your Market Area to determine if it is being sufficiently serviced. Your Market Area may be determined to be insufficiently serviced if your average Gross Revenue for the final three years of your Term and for the final year of your Term is less than \$5.00 per Targeted Household in your Market Area at the time of your first Additional Term and less

than \$7.00 per Targeted Household in your Market Area for subsequent Additional Terms. If your Market Area is determined to be insufficiently serviced, or if you fail to correct deficiencies of your Travel Business or in your operation of your Travel Business during an extension of the Term of your Franchise Agreement, before granting an Additional Term Franchise we may make adjustments to your Market Area, which may include a reduction in the number of Targeted Households.

You still will face competition from our other franchisees, from outlets we own, or from other channels of distribution or competitive brands that we control. Except for your right to the exclusive operation of an Expedia® CruiseShipCenters® franchise within your Market Area, there are no restrictions on us, our affiliates, Approved Travel Suppliers, or anyone else from offering Approved Travel Products and Services to customers located anywhere unless otherwise prohibited by law and you are not compensated for any orders we may solicit or accept from consumers inside your Market Area. Unless we agree in writing, you have no option, right of first refusal or similar right to acquire additional franchises.

We and our affiliates retain all rights not specifically granted to you in the Franchise Agreement including, without limitation, the absolute right to:

- (a) Operate, establish and grant other Travel Businesses anywhere on such terms and conditions as we deem appropriate;
- (b) Operate, and grant others the right to operate, businesses selling travel-related products or services, including a competitive business, using the Marks or other trademarks or service marks under terms and conditions as we deem appropriate;
- (c) Operate, and grant others the right to operate, businesses that do not use any of the Marks; and
- (d) Market, provide, offer and sell Travel Products and Services (including through online access) using the Marks or other trade names or service marks.

If you need or decide to relocate the Center because of condemnation, destruction, or expiration or cancellation of your Lease for reasons other than your breach of your Lease, you may do so to another site that is reasonably comparable to your original location, that is acceptable to us and is within your Market Area, as long as you have obtained our written approval for the selection and construction of the new Center consistent with our then-current standards and the new Center is ready to open and operate in conjunction with the move from the original location. You also must keep your Travel Business open and operating during any relocation. You do not have the right to relocate the Center in the event you lose the right to occupy your existing Center premises because of the cancellation of your Lease as a result of your breach (as a Lease cancellation would be grounds for immediate termination under Section 18.02(f) of your Franchise Agreement).

ITEM 13. TRADEMARKS

The Marks are owned by CII (with the exception of the “EXPEDIA” mark), which, in turn, licenses the rights to use and license others to use the Marks in the United States. The trademark “EXPEDIA” is owned by Expedia and licensed to us for our own use and for our sublicensing to others to use in the United States as part of the “Combination Mark” (defined below). For as long as you remain a Franchisee, we will license the Marks to you to use on a non-exclusive, non-transferable, non-assignable, royalty-free basis solely in connection with your operation of your Travel Business, as well as any future trademarks we develop or license from third-parties for use as part of the System. You must comply with our trademark usage guidelines and other requirements for use of the Marks as prescribed in our System Standards, which we may modify from time to time. The following Marks are currently registered on the Principal Register or Supplemental Register

(as indicated) of the United States Patent and Trademark Office (“USPTO”):

Trademark, Service Mark or Design	U.S. Application or Registration No.	Principal/ Supplemental Register	Date of Application or Registration	Comment
CRUISESHIPCENTERS	2,420,453	Principal	January 16, 2001	Registered 10-year renewal granted
CRUISESHIPCENTERS (and Design)	3,387,898	Principal	February 26, 2008	Registered
SHIP AND COMPASS Design (Rose of Winds)	3,394,242	Principal	March 11, 2008	Registered
CRUISEDESK	3,347,912	Principal	December 4, 2007	Registered
CENTRODECRUCEROS	4,523,534	Principal	April 29, 2014	Registered
CENTRODECRUCEROS (and Design)	4,518,512	Principal	April 22, 2014	Registered
EXPEDIA	2,612,384	Principal	August 27, 2002	Registered 10-year renewal granted

The Marks licensed to you also include the combined mark “Expedia® CruiseShipCenters®” and “Expedia® Centrodecrueros®” (the “Combination Marks”), which are also our brand.

There are no currently effective material determinations of the USPTO, the Trademark Trial and Appeal Board, the trademark administrator of any state or any court in the United States related to the Marks. There are no pending infringements, opposition or cancellation proceedings, or material litigation involving the Marks in the United States. We are not aware of any superior prior rights or infringing uses that could materially affect your use of the Marks in the United States. All requisite affidavits of use related to the Marks have been filed with the USPTO.

Your right to use the Marks (including any additional Marks we authorize you to use) is derived solely from the Franchise Agreement and is limited to your use in connection with the operation of your Travel Business. You may not use any Mark as part of any corporate or legal business name or with any prefix, suffix or other modifying words, terms, designs or symbols (other than logos we license to you), or in any modified form, including whereby any characters or symbols within the Marks are reversed, replaced, removed or inserted, nor may you use any Mark in connection with the performance or sale of any unauthorized services or products or in any other manner we have not expressly authorized in writing. You may use the Combination Mark as a fictitious (d/b/a) name as prescribed in the Manual. No Mark may be used in any advertising concerning the transfer, sale or other disposition of your Travel Business or an ownership interest in you, without our prior written consent.

You must notify us immediately of any apparent infringement or challenge to your use of any Mark, or of any claim by any person of any superior rights in any Mark. We have the exclusive right to take any action

(including taking no action) as we determine appropriate and to control any litigation, USPTO proceeding or any other proceeding relating to the Marks. We will indemnify you against all claims, liabilities, obligations and damages directly arising out of any infringement, or alleged infringement of a third party's rights by virtue of the programs, software, systems, trade names and other intellectual property we provide or license to you. You have the right to defend any such claim against you.

We may notify you at any time of our intent to modify or discontinue the use of any of the Marks. If we modify or discontinue the use of any Mark and/or use one or more additional or substitute Marks, you must comply with such changes within a reasonable time (but not longer than 30 days) after receiving notice. We will reimburse you for your reasonable direct expenses of replacing necessary supplies and marketing materials containing the discontinued Mark. However, we will not be obligated to reimburse you for any loss of revenue attributable to any modified or discontinued Mark or for any expenditure you make to promote a modified or substitute trademark or service mark.

We license the Marks (other than the "EXPEDIA" mark) from CII pursuant to a License Agreement with CII (the "CII License Agreement"). We license the "EXPEDIA" mark from Expedia pursuant to a License Agreement with Expedia (the "Expedia License Agreement"). We have the right to sublicense these Marks to our franchisees for use in connection with their franchised Travel Businesses within the United States and to use them for certain other travel products and services. The term of the CII License Agreement runs until there are no longer any Travel Businesses operating under the Marks. The term of the Expedia License Agreement is terminable by either Expedia or CII upon 30 days' notice.

ITEM 14. PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

There are no patents that are material to a Travel Business.

We claim copyrights in: (a) the Manual, advertising materials and related items used in operating a Travel Business; (b) CruiseDesk®; and (c) the CruiseShipCenters® websites (collectively, the "Copyrights"). These Copyrights have not been registered with the United States Registrar of Copyrights.

CONFIDENTIAL INFORMATION

We possess (and will continue to develop and acquire) certain confidential information (the "Confidential Information") relating to: (i) the development and operation of Travel Businesses; (ii) the development of Approved Travel Suppliers and Travel Products and Services used by and in connection with the operation of Travel Businesses; and (iii) those suppliers and Travel Products and Services that are not approved.

We will disclose Confidential Information to you and personnel of your Travel Business by furnishing the Manual and access to CruiseDesk® to you and by providing training, guidance and assistance to you. In addition, if in the course of operating a Travel Business, you or your employees or consultants develop any ideas, concepts, methods, techniques or improvements ("Improvements") relating to your Travel Business, you must disclose these Improvements to us. We will be deemed to own the Improvements and may use them and authorize others to use the Improvements in the operation of Travel Businesses. Improvements will then also be Confidential Information.

CONFIDENTIALITY OBLIGATIONS

As a Franchisee, your relationship with us does not give you any interest in the Confidential Information other than the right to use it in the development and operation of your Travel Business in accordance with the terms of the Franchise Agreement. The Confidential Information is proprietary, includes trade secrets belonging to

us and will be disclosed to you or authorized for your use solely on the condition that you:

- (a) Will not use the Confidential Information in any other business or capacity;
- (b) Will maintain the absolute confidentiality of the Confidential Information during and after the term of this Agreement;
- (c) Will not make unauthorized copies of any portion of the Confidential Information disclosed via electronic medium, in written form or in other tangible form, including, for example, the Manual; and
- (d) Will adopt and implement all procedures we may prescribe from time to time to prevent unauthorized use or disclosure of the Confidential Information, including, restrictions on disclosure to your employees and the use of nondisclosure and non-competition agreements we may prescribe for employees or others who have access to the Confidential Information.

EXCEPTIONS TO CONFIDENTIALITY

The restrictions on your disclosure and use of the Confidential Information will not apply to the disclosure of the Confidential Information in judicial or administrative proceedings when and only to the extent you are legally compelled to disclose it, provided that you have first given us the opportunity to obtain an appropriate protective order or other assurance satisfactory to us that the information required to be disclosed will be treated confidentially.

CUSTOMER DATA

You will collect customer data and enter it into CruiseDesk® in the manner and format we specify. Both we and you must comply with all applicable laws pertaining to privacy and data protection relative to customer data. We will maintain all information you and individual consumers enter into CruiseDesk® and any information generated by CruiseDesk®. We will compile sales data, consumer trends, costs, and other such financial and marketing information as we may determine. As between you and us, we own all this data, except for customer data that you owned prior to entering into your franchise agreement with us, which franchisee-owned data we will be entitled to use for economic and marketing analysis.

ITEM 15. OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS

You must at all times faithfully, honestly and diligently perform your obligations under the Franchise Agreement, continuously exert your best efforts to promote and enhance your Travel Business and, not engage in any other business or activity that conflicts with your obligations to operate your Travel Business in compliance with the Franchise Agreement (Franchise Agreement Section 2.03). You must operate your Travel Business in accordance with our standards of service, advertising, promotion and management. You must comply with all our business policies, practices and procedures, as we prescribe in the Manual or otherwise in writing from time to time.

You (or one of your controlling owners if you are a business entity) must assume responsibility for the day-to-day management and operation of your Travel Business and the supervision of your Travel Business personnel. During all hours of operations, your Travel Business must be under your direct on-premises supervision (or if you are a business entity, under the direct on-premises supervision of one of your controlling owners who has satisfactorily completed training and who we have approved to supervise your Travel Business) or by one of your employees or consultants who has completed training and whom we have approved

to manage your Center or, if that employee or consultant is absent from the Center due to illness, vacation or other similar cause, another employee or consultant whom we have approved to manage the Center. You will at all times keep us informed of the person(s) managing the day-to-day operation of the Center and require such person(s) to sign a written agreement to maintain confidentiality and to observe covenants not to compete described in Items 14 and 17. Your supervising managers or employees are not required to own equity in your Travel Business.

ITEM 16. If you are a business entity (corporation, limited liability company or general partnership), your owners must sign a “Franchisee Owner’s Guaranty” requiring your owners and their spouses to guaranty your obligations under the Franchise Agreement. Our current form of Franchisee Owner’s Guaranty is attached to the Franchise Agreement as Schedule F. **RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL**

You must offer and sell only the Travel Products and Services provided by suppliers that we have approved. You may not offer any products or services that are not approved Travel Products and Services or are provided by suppliers that we have specifically identified as not approved.

We may change the types of approved Travel Products and Services from time to time without limitation.

ITEM 17. RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

THE FRANCHISE RELATIONSHIP

This table lists important provisions of the franchise and related agreements. You should read these provisions in the agreements attached to this disclosure document.

PROVISION	SECTION IN THE FRANCHISE AGREEMENT	SUMMARY
(a) Length of the Franchise Term	3.01	5 years beginning on the Effective Date of the Franchise Agreement.
(b) Renewal or extension of the Term	3.02	If you are in good standing and meet other requirements, you may obtain an additional 5-year Term.
(c) Requirements for franchisee to renew or extend	3.03	Our approval, sign new Franchise documents, which may contain terms materially different from the original agreements, general releases, complete required training, bring Center into compliance with then-current System Standards and pay the Additional Term Franchise Fee.
(d) Termination by franchisee	18.01	We materially fail to comply with the Franchise Agreement and do not commence correction of such failure within 60 days after written notice of such material failure is delivered to us.

PROVISION	SECTION IN THE FRANCHISE AGREEMENT	SUMMARY
(e) Termination by franchisor without cause	None	Not Applicable
(f) Termination by franchisor with cause	18.02	We can terminate only if you commit one of several violations
(g) “Cause” defined – curable defaults	18.02	Non-payment of amounts owed to us and/or affiliates, vendors or suppliers, failure to comply with advertising policies; violation of any law, ordinance or regulation; failure to comply with any other provision of this Agreement or any System Standard.
(h) “Cause” defined – non-curable defaults	18.02	Misrepresentations; failure to: complete training, actively operate your Travel Business, pay taxes, submit timely reports, maintain licenses, certificates, registrations, approvals and/or exemptions; improper transfers; certain criminal, dishonest or unethical conduct; excessive late payments; interfere with our relationship with Approved Travel -Suppliers; or insolvency.
(i) Franchisee’s obligations on termination/non-renewal	19	Pay all amounts owed to us and/or our affiliates; stop using the Marks; not disclose any confidential information and you must comply with other requirements in Section 19 of the Franchise Agreement.
(j) Assignment of contract by franchisor	17.01	No restriction on our right to assign.
(k) “Transfer” by franchisee - definition	17.02; 17.03	Requires approval by us, includes voluntarily, involuntary, direct or indirect assignment, sale, gift or other disposition of any interest in: you or your Travel Business. If we approve, in most cases, the transferee must sign a new Franchise Agreement.
(l) Franchisor’s approval of transfer by franchisee	17.04	We have the right to approve all transfers

PROVISION	SECTION IN THE FRANCHISE AGREEMENT	SUMMARY
(m) Conditions for franchisor's approval of transfer	17.04	Transferee qualifies; you or transferee pays Transfer Fee or Document Administration Fee, as applicable; you pay us all amounts due; all defaults and non-compliance cured; new owners and/or managerial employees agree to be trained; transferee and its owners agree to be bound by terms and conditions of the Franchise Agreement and sign owner's guaranty (and to sign our then-current form of Franchise Agreement if the transfer results in a change of control or shared control in you or the Travel Business and the transferee is not a current Owner); we approve material terms of the purchase and sale agreement; you subordinate amounts due to you; and you sign other documents we require – including general releases (see (r) below)
(n) Franchisor's right of first refusal to acquire franchisee's business	None	Not Applicable
(o) Franchisor's option to purchase franchisee's business	19.13	We have an option to purchase at fair market value all or some of the assets of your Travel Business on termination of the Franchise Agreement. This option is subordinate to the rights of your creditors (if any). We also have the right to assume your Lease on termination.
(p) Franchisee's death or disability	17.07; 17.08	Travel Business must be properly assigned within 6 months and must be run by a trained manager. We may appoint qualified manager.
(q) Non-competition covenants during the term of the franchise	11	No interest in a competitive business, no direct or indirect controlling ownership interest in, or performance of services for, any business promoting, offering or selling cruise packages or any cruise-related services or products anywhere, no recruiting or hiring of any person who is our employee or an employee of any Travel Business without permission of employer.

PROVISION	SECTION IN THE FRANCHISE AGREEMENT	SUMMARY
(r) Non-competition covenants after the franchise is terminated or expires	19.05; 19.08	For 2 years after termination or expiration, no interest in a competitive business, no direct or indirect controlling ownership interest in, or performance of services for, any business promoting, offering or selling cruise packages or any cruise-related services or products that is located within 10 miles of any of our franchised locations, no recruiting or hiring of any person who is our employee or an employee of any Travel Business without permission of employer. Regardless of location, you may not use any data pertaining to customers or Authorized Independent Contractors, either actual or prospective, acquired during the operation of the Travel Business as such data is and remains our property.
(s) Modification of the agreement	24.13	No modifications except by written agreement, but Manual and System Standards are subject to change.
(t) Integration/merger clause	24.13	Only the terms of this franchise disclosure document and the Franchise Agreement (including System standards in the Manual) are binding (subject to state law). Any other promises outside of this franchise disclosure document and the Franchise Agreement may not be enforceable.
(u) Dispute resolution by arbitration or mediation	23	Except for certain claims, all disputes first must be mediated (non-binding) at our offices in Bellevue, WA. Arbitration proceedings also will be held at our headquarters. Any dispute and any arbitration proceeding will be conducted on an individual and not a class-wide, multi-plaintiff or similar basis. No arbitration will be consolidated with any other arbitration involving another person, except for affiliates of the parties in the arbitration. Further restrictions are stated in Article 24.
(v) Choice of forum	24.08	King County, Washington (subject to state law).
(w) Choice of law	24.07	Washington law (subject to state law).

See any state specific riders or addenda attached as **Exhibit A**.

ITEM 18. PUBLIC FIGURES

We do not use any public figure to promote our franchises at this time.

ITEM 19. FINANCIAL PERFORMANCE REPRESENTATIONS

The FTC's Franchise Rule permits a franchisor to provide information about the actual or potential financial performance of its franchised and/or franchisor-owned Travel Businesses, if there is a reasonable basis for the information, and if the information is included in the disclosure document. Financial performance information that differs from that included in Item 19 may be given only if: (1) a franchisor provides the actual records of an existing Travel Business you are considering buying; or (2) a franchisor supplements the information provided in this Item 19, for example, by providing information about possible performance at a particular location or under particular circumstances.

The following table illustrates historical data for annual bookings, departed revenue and gross revenues as well as projected cost of revenues (selling expenses payable to us and to your consultants). The columns of numbers represent potential amounts at the various sales levels attained based upon the year of operation.

These figures are only estimates of the sales and revenues levels we think you may achieve. Your individual results may differ. There is no assurance that you'll achieve these levels of sales and revenues. Reaching these levels of sales and revenues depends entirely on your ability to implement our marketing and operational systems, to develop a cruise-focused sales team, and to make connections in your community.

These projection levels are based on the operations of Travel Business franchises as entered into CruiseDesk® by franchisees. Written substantiation for the financial performance representation will be made available to the prospective franchisee upon reasonable request. All amounts are in United States dollars.

The assumptions as to the average booking value and, consequently, the number of bookings needed to achieve these revenue levels are based on historical data. **Some franchises have achieved these revenue levels but your individual results may differ and there is no assurance you will do as well.** Expenses payable to us are as disclosed.

Annual Sales and Net Revenue

The following tables present amounts at various levels of performance for Mature Stores and stores in the each of their first three years of operations. Net revenue is the amount of revenue, after deducting directly associated costs, that is available to fund operating expenses, service financing if applicable, or for other uses as you determine. Operating expenses are presented following these tables and associated notes.

	1st Year of OperationsMature Stores ⁽¹⁾				2nd Year of Operations ⁽⁴⁾				U S A	USA high perform er
	USA Low	USA Medium	USA High	USA Upper	North America Low	USANorth America Medium	USA high perform erNorth America High	North America Upper		
Number of franchises	88	32		32		63	18	18		
Number of franchises attaining each Total										
Departed Revenue level	4431	1640	849	51	31	814	522	33	33	
Consultants During the year										
Number of franchises attaining each Gross Revenue level	42	17		9		32	10	4		
Number of franchises attaining each Net Revenue level	44	17		9		32	9	5		
Total Bookings ⁽²⁴⁾	\$7602,482,000	\$7554,245,000	\$1,1355,140,000	\$7,310,000		\$1,3152,160,000	\$1,2853,425,000	\$1,6504,350,000	\$6,260,000	
Total Departed Revenue ⁽⁴⁵⁾	\$3902,270,000	\$4003,975,000	\$4954,435,000	\$9306,850,000	\$927,400	\$1,165835,000	\$3,015,000	\$3,700,000		\$5,560,000
Commission Rate ⁽⁴⁶⁾	11.813.3%	11.813.3%	13.5%	13.9%		12.71%	12.23%	12.45%	12.89%	
Gross Revenue ⁽⁶²⁾	\$46,020301,910	\$47,200528,675	\$62,865598,725	\$952,150	\$113,460	\$114,998222,035	\$149,120370,845	\$462,500	\$717,240	
Commissions Rate Paid to your Consultants ⁽⁷⁾	44.9%	45.2%	48.2%	45.9%		36.07%	38.0%	3840.0%	3740.0%	38%
Less Commissions Paid to your Consultants ⁽⁸⁾	\$13,381127,496	\$14,573230,845	\$20,269285,332	\$433,847	\$35,209	\$36,63174,826	\$50,669129,236	\$166,250	\$262,386	39.0%
Less Franchisor Service Fees ⁽⁹⁾	\$4,14227,172	\$4,24847,581	\$5,65853,885	\$85,694	\$10,244	\$10,35019,983	\$13,42133,376	\$41,625	\$64,552	
Net Revenue ⁽¹¹⁾	\$28,497147,242	\$28,379250,249	\$36,938259,508	\$432,610	\$68,039	\$68,017127,226	\$85,030208,233	\$254,625	\$390,302	
Number of franchises	-6	-6	-6	6	-	134	134	134	134	
Number of franchises attaining each Net Revenue level	5	2	2	1		100	55	33	13	
3rd1st Year of Operations ⁽⁴²⁾					Mature Stores2nd Year of Operations ⁽²⁾					

	<u>North America USA Low</u>	<u>USA Medium</u>	<u>USA high performer High</u>	<u>USA Upper</u>	<u>North America USA Low</u>	<u>North America high performer USA Low</u>	<u>USA Medium</u>	<u>USA high performer High</u>	<u>USA Upper</u>	
Number of franchises	45	5		5			125	125	4	4
Number of franchises attaining each Total										
Departed Revenue	2310	313	216	14	62	3412	221	421	24	
Level										
Consultants During the year ⁽³⁾										
Number of franchises attaining each Gross Revenue Level	25	2		2			61	31	2	1
Number of franchises attaining each Net Revenue Level	22	2		2			64	31	2	1
Total Bookings ⁽³⁴⁾	\$1,630,535,000	\$2,110,710,000	\$2,950,865,000	\$2,985,106,000	\$4,610,000	\$3,475,850,000	\$4,660,122,000	\$1,535,000	\$1,975,000	
Total Departed Revenue ⁽⁴⁵⁾	\$1,270,240,000	\$1,775,375,000	\$2,275,480,000	\$625,000	\$2,565,000	\$3,660,630,000	\$3,095,955,000	\$3,915,100,000	\$1,600,000	
Commission Rate ⁽⁵⁶⁾	11.5%	12.30%	12.5%	12.613.0%		12.411.5%	12.61%	12.9%	13.0%	
Gross Revenue ⁽⁶⁷⁾	\$156,210,276,600	\$221,875,455,000	\$286,650,600,000	\$81,250	\$318,060	\$461,160,2,450	\$399,255,115,555	\$508,950,141,900	\$208,000	
Commissions Rate Paid to your Consultants ⁽⁷⁸⁾	39.0%	4439.0%	39.5%	4441.0%		3839.0%	40.0%	4843.0%	4844.0%	
Less Commissions Paid to your Consultants ⁽⁸⁹⁾	\$51,328,7625	\$89,375,13,338	\$117,810,17,528	\$25,318	\$106,727	\$169,344,4,892	\$182,354,36,542	\$234,936,47,704	\$75,790	
Less Franchisor Service Fees ⁽⁹¹⁰⁾	\$14,059,2484	\$19,969,4,050	\$25,798,5,400	\$7,313	\$28,625	\$41,504,6,521	\$35,933,1,400	\$45,806,12,771	\$18,720	
Net Revenue ⁽¹¹⁾	<u>\$90,823,17,491</u>	<u>\$112,531,27,612</u>	<u>\$143,042,37,072</u>	<u>\$48,619</u>	<u>\$182,708</u>	<u>\$250,312,41,037</u>	<u>\$180,968,613</u>	<u>\$228,209,81,425</u>	<u>\$113,490</u>	
Number of franchises	49	49	49	49		33	33		33	33
Number of franchises attaining each Net Revenue level	37	19	12	5		26	15		8	3

	<u>3rd Year of Operations ⁽²⁾</u>			
	<u>USA Low</u>	<u>USA Medium</u>	<u>USA High</u>	<u>USA Upper</u>
<u>Number of Consultants During the year</u>	<u>19</u>	<u>28</u>	<u>25</u>	<u>31</u>
<u>Total Bookings ⁽⁴⁾</u>	<u>\$1,075,000</u>	<u>\$1,710,000</u>	<u>\$2,335,000</u>	<u>\$3,015,000</u>
<u>Total Departed Revenue ⁽⁵⁾</u>	<u>\$925,000</u>	<u>\$1,415,000</u>	<u>\$1,900,000</u>	<u>\$2,350,000</u>
<u>Commission Rate ⁽⁶⁾</u>	<u>12.0%</u>	<u>12.4%</u>	<u>12.9%</u>	<u>13.0%</u>
<u>Gross Revenue ⁽⁷⁾</u>	<u>\$111,000</u>	<u>\$175,460</u>	<u>\$245,100</u>	<u>\$305,500</u>
<u>Commissions Rate Paid to your Consultants ⁽⁸⁾</u>	<u>41.0%</u>	<u>42.5%</u>	<u>47.0%</u>	<u>48.0%</u>
<u>Less Commissions Paid to your Consultants ⁽⁹⁾</u>	<u>\$39,360</u>	<u>\$62,450</u>	<u>\$100,040</u>	<u>\$124,800</u>
<u>Less Franchisor Service Fees ⁽¹⁰⁾</u>	<u>\$9,990</u>	<u>\$15,791</u>	<u>\$22,059</u>	<u>\$27,495</u>
<u>Net Revenue ⁽¹¹⁾</u>	<u>\$61,650</u>	<u>\$97,219</u>	<u>\$123,001</u>	<u>\$153,205</u>
<u>Number of franchises</u>	<u>18</u>	<u>18</u>	<u>18</u>	<u>18</u>
<u>Number of franchises attaining each Net Revenue level</u>	<u>13</u>	<u>7</u>	<u>4</u>	<u>2</u>

NOTES AND ASSUMPTIONS – ANNUAL SALES AND GROSS PROFIT

- (1) ~~Amounts presented for the first, second and third years of a franchise's operations are projected based upon the historical performance of Expedia CruiseShipCenters franchises that have opened since January 1, 2010. “North America” includes franchises opened in the USA and Canada. “USA” and “USA high performer” include only franchises opened in the USA. New franchises opened by existing franchisees are not included, as these franchises typically perform to a higher level than experienced by a new franchisee. Franchises that were operated as a Competing Travel Business prior to becoming an Expedia CruiseShipCenters franchise, Franchises not operated from a commercial storefront and Travel Businesses owned by the Franchisor and CII are also excluded, as is one franchisee that was operated with an atypically high cost base, as their results are not typical of the type of Travel Business that you will operate.~~
- (2)(1) ~~Amounts presented for a “Mature Store” franchise operations are projected based upon the historical performance for the year of 20172016 of Expedia® CruiseShipCenters® franchises that had been open for at least 3 full years prior to 20172016, being franchises opened in 20122013 and earlier. For purposes of these projections, performance of Canadian franchises has been converted to United States dollars at the average foreign exchange rate for the period 2011 to 2017. “USA” includes franchises opened in the USA, and “North America” includes franchises opened in the USA and Canada. 2016. Franchises that were operated as a Competing Travel Business prior to becoming an Expedia® CruiseShipCenters® franchise, Franchises not operated from a commercial storefront and Travel Businesses owned by the Franchisor and CII are also excluded, as is one franchisee that was operated with an atypically high cost base, as their results are not typical of the type of Travel Business that you will operate.~~
- (2) Amounts presented for the first, second and third years of a franchise's operations are projected based upon the historical performance of Expedia® CruiseShipCenters® franchises that have opened since January 1, 2010. New franchises opened by existing franchisees are not included, as these franchises typically perform to a higher level than experienced by a new franchisee. Franchises that were operated as a Competing Travel Business prior to becoming an Expedia® CruiseShipCenters®

franchise, Franchises not operated from a commercial storefront and Travel Businesses owned by the Franchisor and CII are also excluded, as is one franchisee that was operated with an atypically high cost base, as their results are not typical of the type of Travel Business that you will operate.

(3) Number of Consultants During the Year is the average number of Consultants retained throughout the year. “Low” results are projected based upon the 25th percentile, being the performance of the individual franchise that is higher than 25% of the other franchises. “Medium” results are based on the average performance of franchises. “High” results are projected based upon the 75th percentile, being the performance of the individual franchise that is higher than 75% of the other franchises. “Upper” results are projected based upon the 90th percentile while for the USA Mature Stores, where there are six franchises in this group, results are projected based on the average of the highest two franchises.

(3)(4) Total Bookings is the commissionable fare from travel booked with Approved Travel Suppliers during the period, and excludes taxes and other non-commissionable items. ~~Total Bookings~~ “Low” results are projected based upon the ~~median (“middle”) result~~ 25th percentile, being the performance of the individual franchise that is higher than ~~50~~25% of the other franchises, ~~with~~. “Medium” results are based on the ~~exception that the “North America high performer” and “USA high performer~~ average performance of franchises. “High” results are projected based upon the 75th percentile, being the performance of the individual franchise that is higher than 75% of the other franchises. ~~The “Upper” results are projected based upon the 90th percentile while for the USA Mature Stores, where there are six franchises in this group, results are projected based on the average of the highest two franchises. The 2017~~2016 average Total Bookings of all North America “Mature Store” franchises (excluding Travel Businesses owned by the Franchisor) was \$3,104,832173,748 (\$3,862,247943,440 including taxes and other non-commissionable items) with ~~50~~47 of the ~~433~~138 mature franchises attaining this volume.

Bookings

		North	North		USA	USA high performer
		h	h			
<u>ECSC Travel</u>						
Bookings, first year	\$			\$	70,000	\$ 55,000
Consultants retained	85%					80%
Bookings, second year	\$			\$	115,000	\$ 75,000
Consultants retained	60%					55%
Bookings, third year	\$			\$	145,000	\$ 95,000
Consultants retained	45%					40%
Bookings, Consultants	\$			\$	270,000	\$ 85,000
						\$ 95,000
<u>Average</u>				\$	2,245265	\$2,567

(i) ~~Amounts presented are by an ECSC Travel Consultant’s tenure and are based upon the historical performance of ECSC Travel Consultants that commenced activity since January 1, 2010. “North America” includes ECSC Travel Consultants located in both the USA and Canada. “USA” and “USA high performer” include only ECSC Travel Consultants located in the USA. For purposes of these projections, performance of Canadian Travel Consultants has been converted to United States dollars at the average foreign exchange rate for the period~~

~~2011 to 2016. These measures are based upon the average bookings performance, excluding the top and bottom 5% of agents in order to remove the impact of a small group of very high performers. "USA high performer" results are based upon the 75th percentile, being the bookings performance of the individual ECSC Travel Consultant that is higher than 75% of the other ECSC Travel Consultants.~~

~~Average bookings is the commissionable fare from travel booked with Approved Travel Suppliers during the period, and excludes taxes and other non-commissionable items.~~

~~Consultants retained and selling is the percentage of Consultants originally recruited who made a booking during that year of tenure. For example, 90% of Consultants recruited made a booking in their first year and 29% of Consultants recruited remained with ECSC and made a booking during their fourth year.~~

~~(ii)(i)~~ Average Booking Value is the commissionable fare per booking from travel booked with Approved Travel Suppliers, excluding taxes and other non-commissionable items. Average Booking Value is based upon the ~~2017~~~~2016~~ historical performance of franchises. Franchises that were operated as a Competing Travel Business prior to becoming an Expedia® CruiseShipCenters® franchise, Franchises not operated from a commercial storefront and Travel Businesses owned by the Franchisor and CII are excluded as their results are not typical of the type of Travel Business that you will operate. "USA high performer" results are based upon the 75th percentile, being the average booking value of the individual franchise that is higher than 75% of the franchises.

~~(4)(5)~~ Total Departed Revenue is the commissionable fare from travel bookings with Approved Travel Suppliers that departed during the period, and excludes taxes and other non-commissionable items. ~~Total Revenue is~~ "Low" results are projected based upon the ~~median ("middle") result~~ 25th percentile, being the performance of the individual franchise that is higher than ~~50~~25% of the other franchises; ~~with~~. "Medium" results are based on the ~~exception that the "North America high performer" and "USA high performer" average performance of franchises.~~ "High" results are projected based upon the 75th percentile, being the performance of the individual franchise that is higher than 75% of the other franchises. ~~In~~ "Upper" results for North America are projected based upon the 90th percentile while ~~for the USA Mature Stores, where there are three six franchises in this group, the 75th percentile is~~ results are projected based on the average of the highest two franchises.

~~(5)(6)~~ Commission Rate is projected based upon the average commission rate earned by all franchises in the ~~respective USA or North America or USA~~ "Low", "Medium", "High" or "Upper" population, as applicable, expressed as a percentage of Total Departed Revenue.

~~(6)(7)~~ Gross Revenue is the product of Total Departed Revenue multiplied by the Commission Rate.

~~(7)(8)~~ Commission Rate Paid to your Consultants is projected based upon the average percentage rate paid by all franchises on sales made by ECSC Travel Consultants in the ~~respective USA or North America or USA~~ "Low", "Medium", "High" or "Upper" population, as applicable, expressed as a percentage of Gross Revenue. You will retain 100% of Gross Revenues from sales you make as Franchise owner. The percentage rate of your Commissions Paid to your Consultants may vary significantly from the amounts presented depending upon the productivity of your Consultants. Consultants generating Gross Revenues of more than \$20,000 (approximately \$165,000 of Departed Revenue) will typically be paid at a higher percentage rate.

~~(8)~~(9) Commission Paid to your Consultants is the product of Gross Revenue multiplied by the Commission Rate. Gross Revenue from sales you make as Franchise owner are excluded from this calculation as you will retain 100% of these Gross Revenues. ~~Projected Total Departed Revenue generated from Franchise owner sales is set out in the following table.~~ Gross Revenue from sales you make as Franchise owner, which are excluded from the ~~calculation of~~ calculation of Commission Paid to your Consultants, is calculated as the product of Total Departed Revenue multiplied by the Commission Rate. The following table sets out the projected Franchise Owner Total Departed Revenue generated from Franchise owner sales:

Year 1 Franchise owner Total Departed Revenue	\$ 75,000
Year 2 Franchise owner Total Departed Revenue	\$150,000
Year 3 Franchise owner Total Departed Revenue, USA	\$150,000
Year 3 Franchise owner Total Departed Revenue, North America	\$200,000
Mature Store Franchise owner Total Departed Revenue, USA	\$150,000
Mature Store Franchise owner Total Departed Revenue, North America	\$300,000

	<u>Mature USA</u>	<u>Mature North America</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
<u>Low</u>	\$ 135,000	\$ 150,000	\$ 70,000	\$ 150,000	\$ 200,000
<u>Medium</u>	\$ 135,000	\$ 250,000	\$ 90,000	\$ 200,000	\$ 230,000
<u>High</u>	\$ 50,000	\$ 375,000	\$ 125,000	\$ 240,000	\$ 250,000
<u>Upper</u>	\$ 50,000	\$ 475,000	\$ 150,000	\$ 275,000	\$ 350,000

~~(9)~~(10) Service Fees are payable to us at a rate of 9% of Gross Revenue.

(11) The following table sets out the Net Revenues of the franchises in the respective populations that are the highest, lowest and median (“middle” result, being the performance of the individual franchise that is higher than 50% of the other franchises):

	<u>Mature USA</u>	<u>Mature North America</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
<u>Highest franchise</u>	\$ 635,000	\$ 685,000	\$ 72,500	\$ 146,000	\$ 182,000
<u>Lowest franchise</u>	\$ 105,000	\$ 58,000	\$ 2,500	\$ 23,500	\$ 45,000
<u>Median</u>	\$ 191,000	\$ 174,000	\$ 25,000	\$ 68,000	\$ 86,500

Annual Operating Costs

Projected operating costs presented in the following chart will vary depending on a number of factors including the economic conditions and costs of real estate and services in your community as well as your preferences

and abilities as an operator. The following information is intended to support your determination of possible financial performance as you pass the breakeven point of your business, which we don't expect you to reach during the first year or two of operation of the Travel Business. Expenses payable to us are as disclosed.

<u>Projected Annual Operating</u>	<u>Low-range</u>	<u>Mid</u>	<u>High</u>
<u>Rent and premises</u> ⁽²⁾			\$ 39,500
Marketing and promotion ⁽²³⁾		\$	\$
Marketing fee ⁽³⁴⁾		7,200	—7,200 —7,560
Rent ⁽⁴⁾	—24,000 —36,000		—48,000
Office supplies and courier	—4,000 —6,500		—13,000
Telephone, internet and utilities	—3,000 —7,000		12,000
MIS fee ⁽⁵⁾			—3,780
Office and courier ⁽⁶⁾			7,500
Insurance	—1,000		—3,500
Repairs and maintenance	—250 —750		—2,000
Business licenses, subscriptions and	—800 —1,500		—3,500
Professional fees (legal and	—1,000 —1,800		—4,500
Travel ⁽⁶⁾ Administration ⁽⁷⁾			—7,000
Education and training ⁽⁸⁾		500 800	1,500
Meals and entertainment	—500		—2,000
Client appreciation		400 1,200	1,500
Bank charges	100 400		2,000
Total projected annual operating costs		\$	\$

NOTES AND ASSUMPTIONS – ANNUAL OPERATING COSTS

(1) —Projected Operating Costs illustrate typical annual costs during the first 4 years of operations. Operating Costs will vary depending upon many factors including local economic conditions; the size, type and location of premises you occupy; and your preferences and abilities as an operator.

~~(2)(1) —Projected based upon our recommended participation in Marketing Fund core programs and local marketing and promotional activities. Total Annual Operating Costs typically range between \$87,500 and \$118,500, based on the experience of roughly half of the franchisees used in our representative sample. Of the other half of franchisees outside this range, roughly half of those were above and the other half were below the range.~~

~~(3)(1) This amount is based on our current requirement that you contribute \$600 per month to the Marketing Fund, subject to annual adjustment for CPI. The High range is based on a 5% CPI adjustment to this fee, being an estimate of the higher amount that this fee may be adjusted for CPI.~~

~~(4)(2) Rent is typically 1,000 square feet and will vary depending on your local economic and real estate conditions, site selected and size of premises. Amounts presented do not include any rent that may be payable prior to opening. Premises costs include telephone, internet and utilities. Rent and premises costs will typically range between \$32,000 and \$45,000.~~

- (3) Projected based upon our recommended participation in Marketing Fund core programs and local marketing and promotional activities. Marketing and promotion costs will typically range between \$20,000 and \$40,000.
- (4) This amount is based on our current requirement that you contribute \$600 per month to the Marketing Fund, subject to annual adjustment for CPI. This fee may be adjusted for CPI, and would be \$7,560 based on a 5% CPI adjustment.
- (5) This amount is based on our current Management Information Systems (MIS) fee of \$300 per month, subject to annual adjustment for CPI. ~~The High range is~~ This fee may be adjusted for CPI, and would be \$3,780 based on a 5% CPI adjustment to this fee, being an estimate of the higher amount that this fee may be adjusted for CPI.
- (6) Office and courier includes office supplies, repairs and maintenance and courier costs.
- (7) Administration includes professional fees (accounting and legal), business licenses, and bank charges.
- ~~(6)~~(8) Education and Travel includes costs to attend the annual National Conference and one regional Franchisee meeting, with low range being for one attendee and high range two attendees. –In your first year of operations, these costs will be reduced by the travel credit of up to \$1,500 that we provide you towards your cabin for your first National Conference and the travel credit of up to \$600 that we provide you towards your accommodations for your first Regional Franchisee (Anchor) Meeting. The value of these credits has not been applied to reduce the costs presented.

ADDITIONAL ASSUMPTIONS

- A. These projections assume you act as manager of your center and do not receive a separate salary. They assume you only use commissioned sales agents (consultants) who are independent contractors and you do not hire any other employees to help you. If you need other individuals to staff your Center at certain times, your expenses may increase significantly because you may have to pay salaries and benefits to employees.
- B. We did not include any corporate or personal income tax expense.
- C. Operating costs are not illustrated to include any expenses for the lease/purchase of your equipment, depreciation, amortization, interest, or the repayment of debt. We anticipate every franchisee will fund its initial investment differently and, as a result, we cannot project how you would account for these items.
- D. The projections are based on economic and market conditions that existed in March ~~2017~~2018 with no consideration in any category for inflation related adjustments or weaknesses in general economic conditions.

ITEM 20. OUTLETS AND FRANCHISEE INFORMATION

Systemwide Travel Business Summary
For Years ~~2014~~2015 to 2017~~2016~~
(Table No. 1)

Travel Business Type	Year	Travel Businesses at the Start of the Year	Travel Businesses at the End of the Year	Net Change
Franchised	2015 2014	1728	2834	116
	2016 2015	2834	3451	617
	2017 2016	3451	5167	1716
Company-Owned	2015 2014	1	10	9
	2016 2015	10	0	-10
	2017 2016	0	0	0
Total Travel Businesses	2015 2014	1829	2934	115
	2016 2015	2934	3451	517
	2016 2017	3451	5167	1716

NOTES

- (1) Our fiscal year ends December 31st.
- (2) The data for 2015 does not include a Travel Business for a franchise in Texas for which a franchise agreement was signed in 2015 but which was subsequently terminated by mutual agreement prior to the franchise being opened.
- (3) The data for 2016 does not include a Travel Business for a franchise in Washington for which a franchise agreement was signed in 2016 but which was subsequently terminated by mutual agreement prior to the franchise being opened.
- (4) A roster of franchisees currently under Franchise Agreements with us in the format discussed in this Disclosure Document is attached to this Disclosure Document as **Exhibit E**. Any franchisees who left the system during the last fiscal year or whom we have not heard from within 10 weeks from the date of this Disclosure Document are listed in Exhibit E.
- (5) If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system. There are no independent franchisee organizations that have asked to be included in this disclosure document. There is no trademark-specific franchisee organization associated with our franchise system. No franchisee has signed a confidentiality clause (a provision restricting a franchisee's ability to discuss his personal experience with us) within the last three fiscal years.

Transfers of Travel Businesses From Franchisees to New Owners
(Other than to Expedia® CruiseShipCenters®)
For Years ~~2014~~2015 to ~~2017~~2016
(Table No. 2)

State	Year/Period	Number of Transfers
N/A	2015 2014	0
	2016 2015	0
	2016 2017	0

Status of Franchised Travel Businesses
For Years ~~2014~~2015 to ~~2017~~2016
(Table No. 3)

State	Year	Travel Businesses at Start of Year/Period	Travel Businesses Opened	Terminations	Non- Renewals	Re- acquired by Franchisor	Ceased Operations - Other Reasons	Travel Businesses at End of Year/ Period
AL	2014 2015	0 1	1 0	0	0	0	0	1
	2016 2015	1	0	0	0	0	0	1
	2016 2017	1	0	0	0	0	0	1
AZ	2014 2015	0 1	1 0	0	0	0	0	1
	2015	1	0	0	0	0	0	1
	2016	1	0	0	0	0	0	1
	2014 2017	2 1	1 0	0	0	0	0	3 1
CA	2015	3	0	0	0	0	0	3
	2016	3	2	0	0	0	0	5
	<u>2017</u>	<u>5</u>	<u>3</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>8</u>

State	Year	Travel Businesses at Start of Year/Period	Travel Businesses Opened	Terminations	Non- Renewals	Re- acquired by Franchisor	Ceased Operations - Other Reasons	Travel Businesses at End of Year/ Period
<u>CO</u>	<u>2015</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>2016</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>2014-2017</u>	0	1	0	0	0	0	1
DE	2015	1	0	0	0	0	0	1
	2016	1	0	0	0	0	0	1
	<u>2017</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
<u>FL</u>	<u>2015</u>	<u>8</u>	<u>1</u>	<u>0</u>	<u>4</u>	<u>0</u>	<u>0</u>	<u>5</u>
	<u>2016</u>	<u>5</u>	<u>4</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>9</u>
	<u>2017</u>	<u>9</u>	<u>3</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>12</u>
<u>GA</u>	<u>2015</u>	<u>1</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>
	<u>2016</u>	<u>2</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4</u>
	<u>2017</u>	<u>4</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5</u>
<u>IL</u>	<u>2015</u>	<u>1</u>	<u>1</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>1</u>
	<u>2016</u>	<u>1</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>
	<u>2017</u>	<u>2</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3</u>
<u>IN</u>	<u>2015</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>2016</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
	<u>2017</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
<u>KY</u>	<u>2015</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
	<u>2016</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>

State	Year	Travel Businesses at Start of Year/Period	Travel Businesses Opened	Terminations	Non- Renewals	Re- acquired by Franchisor	Ceased Operations - Other Reasons	Travel Businesses at End of Year/ Period
	<u>2017</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
<u>LA</u>	<u>2015</u>	<u>1</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>
	<u>2016</u>	<u>2</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3</u>
	<u>2017</u>	<u>3</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3</u>
<u>MA</u>	<u>2015</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>2016</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
	<u>2017</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
<u>MI</u>	<u>2015</u>	<u>1</u>	<u>1</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>1</u>
	<u>2016</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>0</u>
	<u>2017</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>MO</u>	<u>2015</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
	<u>2016</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
	<u>2017</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
<u>NC</u>	<u>2015</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>
	<u>2016</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>1</u>
	<u>2017</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
<u>NJ</u>	<u>2015</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>2016</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>2017</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
<u>NY</u>	<u>2015</u>	<u>0</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>
	<u>2016</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>

State	Year	Travel Businesses at Start of Year/Period	Travel Businesses Opened	Terminations	Non- Renewals	Re- acquired by Franchisor	Ceased Operations - Other Reasons	Travel Businesses at End of Year/ Period
	<u>2017</u>	<u>2</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3</u>
<u>NV</u>	<u>2015</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>
	<u>2016</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>
	<u>2017</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>
<u>OH</u>	<u>2015</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
	<u>2016</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
	<u>2017</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
<u>OR</u>	<u>2015</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>0</u>
	<u>2016</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>2017</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
<u>PA</u>	<u>2015</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>2016</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>2017</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>PR</u>	<u>2015</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
	<u>2016</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
	<u>2017</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
<u>TN</u>	<u>2015</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
	<u>2016</u>	<u>1</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>
	<u>2017</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>
<u>TX</u>	<u>2015</u>	<u>1</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>
	<u>2016</u>	<u>2</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3</u>

State	Year	Travel Businesses at Start of Year/Period	Travel Businesses Opened	Terminations	Non- Renewals	Re- acquired by Franchisor	Ceased Operations - Other Reasons	Travel Businesses at End of Year/ Period
	<u>2017</u>	<u>3</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4</u>
<u>UT</u>	<u>2015</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>2016</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>2017</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
<u>VA</u>	<u>2015</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
	<u>2016</u>	<u>1</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3</u>
	<u>2017</u>	<u>3</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3</u>
<u>WA</u>	<u>2015</u>	<u>0</u>	<u>3</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3</u>
	<u>2016</u>	<u>3</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5</u>
	<u>2017</u>	<u>5</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>6</u>
<u>WI</u>	<u>2015</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>2016</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>2017</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
<u>Total</u>	<u>2015</u>	<u>17</u>	<u>11</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>28</u>
	<u>2016</u>	<u>28</u>	<u>14</u>	<u>0</u>	<u>7</u>	<u>0</u>	<u>1</u>	<u>34</u>
	<u>2017</u>	<u>34</u>	<u>18</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>1</u>	<u>50</u>

	FL	2014	6	2	0	0	0	0	8
		2015	8	1	0	4	0	0	5
		2016	5	4	0	0	0	0	9
	GA	2014	1	0	0	0	0	0	1
		2015	1	1	0	0	0	0	2
		2016	2	2	0	0	0	0	4
	IL	2014	1	0	0	0	0	0	1
		2015	1	1	0	1	0	0	1
		2016	1	1	0	0	0	0	2
	IN	2014	0	0	0	0	0	0	0
		2015	0	0	0	0	0	0	0
		2016	0	1	0	0	0	0	1
	KY	2014	0	1	0	0	0	0	1
		2015	1	0	0	0	0	0	1
		2016	1	0	0	0	0	0	1
	LA	2014	1	0	0	0	0	0	1
		2015	1	1	0	0	0	0	2
		2016	2	1	0	0	0	0	3
	MA	2014	0	0	0	0	0	0	0
		2015	0	0	0	0	0	0	0
		2016	0	1	0	0	0	0	1
	MI	2014	1	0	0	0	0	0	1
		2015	1	1	0	1	0	0	1

	2016	1	0	0	0	0	1	0
MO	2014	0	1	0	0	0	0	1
	2015	1	0	0	0	0	0	1
	2016	1	0	0	0	0	0	1
NC	2014	1	1	0	0	0	0	2
	2015	2	0	0	0	0	0	2
	2016	2	0	0	1	0	0	1
NY	2014	0	0	0	0	0	0	0
	2015	0	2	0	0	0	0	2
	2016	2	0	0	0	0	0	2
NV	2014	1	1	0	0	0	0	2
	2015	2	0	0	0	0	0	2
	2016	2	0	0	0	0	0	2
OH	2014	0	0	0	0	0	0	0
	2015	0	1	0	0	0	0	1
	2016	1	0	0	0	0	0	1
OR	2014	1	0	0	0	0	0	1
	2015	1	0	0	0	0	1	0
	2016	0	0	0	0	0	0	0
PA	2014	1	0	0	0	0	0	1
	2015	1	0	0	1	0	0	0
	2016	0	0	0	0	0	0	0
PR	2014	1	0	0	0	0	0	1

	2015	1	0	0	0	0	0	1
	2016	1	0	0	0	0	0	1
TN	2014	0	0	0	0	0	0	0
	2015	0	1	0	0	0	0	1
	2016	1	1	0	0	0	0	2
TX	2014	0	1	0	0	0	0	1
	2015	1	1	0	0	0	0	2
	2016	2	1	0	0	0	0	3
VA	2014	0	0	0	0	0	0	0
	2015	0	1	0	0	0	0	1
	2016	1	2	0	0	0	0	3
WA	2014	0	0	0	0	0	0	0
	2015	0	3	0	0	0	0	3
	2016	3	2	0	0	0	0	5
Total	2014	17	11	0	0	0	0	28
	2015	28	14	0	7	0	1	34
	2016	34	18	0	1	0	1	50

(1) See note 2 to Table No. 1 above.

Status of Company Owned Travel Businesses
For Years ~~2014~~2015 to ~~2016~~2017
(Table No. 4)

State	Year	Travel Businesses at Start of Year/Period	Travel Businesses Opened	Travel Businesses Reacquired from Franchisees	Travel Businesses Closed	Travel Businesses Sold to Franchisees	Travel Businesses at End of Year/Period
WA	2014 2015	1	0	0	0 1	0	1 0
	2016 2015	1 0	0	0	1 0	0	0
	2016 2017	0	0	0	0	0	0
Totals	2014 2015	1	0	0	0 1	0	1 0
	2016 2015	1 0	0	0	1 0	0	0
	2016 2017	0	0	0	0	0	0

PROJECTED OPENING OF TRAVEL BUSINESSES
FOR FISCAL YEAR ~~2017~~2018
(Table No. 5)

STATE	FRANCHISE AGREEMENTS SIGNED BUT FRANCHISED TRAVEL BUSINESSES NOT OPEN	PROJECTED NEW FRANCHISED TRAVEL BUSINESSES IN THE NEXT FISCAL YEAR	PROJECTED COMPANY OWNED TRAVEL BUSINESSES IN NEXT FISCAL YEAR
<u>Alabama</u>	<u>1</u>	<u>1</u>	<u>0</u>
California	2 3	2 4	0
<u>Colorado</u>	<u>1</u>	<u>1</u>	<u>0</u>
<u>Connecticut</u>	<u>1</u>	<u>1</u>	<u>0</u>
Florida	5 2	4 3	0
Georgia	0	1 2	0
<u>Illinois</u>	<u>1</u>	<u>1</u>	<u>0</u>
Indiana <u>Kentucky</u>	0	0 1	0

STATE	FRANCHISE AGREEMENTS SIGNED BUT FRANCHISED TRAVEL BUSINESSES NOT OPEN	PROJECTED NEW FRANCHISED TRAVEL BUSINESSES IN THE NEXT FISCAL YEAR	PROJECTED COMPANY OWNED TRAVEL BUSINESSES IN NEXT FISCAL YEAR
Louisiana	0	1	0
Massachusetts	0	0	0
Michigan	01	1	0
Missouri	0	0	0
Nevada	0	0	0
New Jersey	10	1	0
New Mexico	0	0	0
New York	1	1	0
North Carolina	0	0	0
Ohio	0	1	0
Oregon	1	1	0
Tennessee	0	1	0
Texas	28	28	0
Utah	1	1	0
Virginia	0	1	0
Washington	01	1	0
Wisconsin	0	1	0
Totals:	1420	2128	0

ITEM 21. FINANCIAL STATEMENTS

The audited financial statements of our affiliate, Expedia Group, Inc. (formerly Expedia, Inc.) are attached as **Exhibit G** to this Disclosure Document in lieu of our financial statements. Should we fail to fulfill our obligations to you or other franchisees, Expedia Group unconditionally guarantees to fulfill these obligations. A copy of Expedia's written guaranty is included with ~~Expedia's~~ Expedia Group's financial statements.

ITEM 22. CONTRACTS

Our current forms of the following agreements are attached as Exhibits to this Disclosure Document:

Franchise Agreement – Exhibit B

Lease Addendum – Schedule C to Franchise Agreement

Bank Authorization Agreement – Schedule D to Franchise Agreement

Franchisee Owner's Guaranty – Schedule E to Franchise Agreement

Franchisee Owner's Statement – Schedule F to Franchise Agreement

Consent To Release Data To Expedia® CruiseShipCenters® – Schedule G to Franchise Agreement

CruiseDesk® and Email Terms of Use – Exhibit D

Franchisee Compliance Certificate – Exhibit H

ITEM 23. RECEIPTS

The last 2 pages of this Disclosure Document are duplicate Receipts, which will serve as an acknowledgment by you that you have received a copy of this Disclosure Document. You should sign both copies of the Receipt, return one copy to us and retain one for your records. If the Receipt pages, or any other page or Exhibit is missing from your copy of the Disclosure Document, please contact us immediately.

DISCLOSURE DOCUMENT STATE ADDENDA

STATE DISCLOSURE ADDENDA

As to any state law described in this Addendum that declares void or unenforceable any provision contained in the Franchise Agreement, the franchisor reserves the right to challenge the enforceability of the state law by, among other things, bringing an appropriate legal action or by raising the claim in a legal action or arbitration that you have initiated.

The following states have statutes that may supersede the Franchise Agreement and other related agreements in your relationship with the Franchisor. These statutes may affect the enforceability of provisions in the agreements related to termination; transfer; renewal; covenants not to compete; choice of law; jurisdiction; venue selection; execution of waivers and releases of claims under the statute; injunctive relief; waiver of rights to jury trial; punitive and liquidated damage provisions, and other remedies; arbitration; and discrimination between franchisees: Ark. Code Ann. § 4-72-201 Michie 1993); Cal. Corp. code §§ 31000 - 31516 (West 1994); Cal. Bus. & Prof. Code §§ 20000 - 20043 (West 1994); Conn. Gen. Stat. § 42-133e (1994); Del. Code Ann. tit. 6 § 2552 (1993) Haw. Rev. Stat. § 482E-1 - 482E-12 (1993); 815 ILCS 705/1 - 44 (1994); Ind. Code §§ 1 - 51 (1994); Ind. Code Ann. § 23-2-2.7 (West. 1994); Iowa Code § 523H.1 - 523H.17 (1994); Md. Code Ann., Bus. Reg. §§ 14-201 - 14-233 (1998 Repl. Vol. & Supp. 2002); Mich. Comp. Laws §§ 445.1501 - 445.1545 (1994); Minn. Stat. §§ 80C.01 - 80C.22 (1994); Minn. Stat. §§ 80C.01 - 80C.14 (1994); Miss. Code Ann. § 75-24-51 (1993) Mo. Ann. Stat. § 407.400 (Vernon 1994); Neb. Rev. Stat. § 87-401 (1993); N.J. Stat. Ann. § 56:10-1 (West 1994); N.Y. Gen. Bus. Law §§ 680 - 695 (1994); N.D. Cent. Code § 51-19-01 (1993); Or. Rev. Stat. §§ 650.005 - 650.085; R.I. Gen. Laws §§ 19-28.1-1 - 19-28.1-34 (1993); S.D. Codified Laws Ann. §§ 37-5A-1 - 37-5A-87 (1994); Tex. Rev. Civ. Stat. Ann. art. 16.01 (1994); Va. Code Ann. §§ 13.1-557 - 13.1-574; Wa. Rev. Code §§ 19.100.010 - 19.100.940 (1994); Wis. Stat. §§ 553.01 - 553.78 (1994); Wis. Stat. §§ 135.01 - 135.07 (1984). These and other states may have fair practice laws and other civil statutes affecting contracts and state and federal court decisions that may also affect the enforcement of provisions in the Franchise Agreement and other related agreements.

A provision in the Franchise Agreement which terminates the agreement upon your bankruptcy may not be enforceable under 11 U.S.C. §101 et seq.

**ADDENDUM TO EXPEDIA® CRUISESHIPCENTERS®
DISCLOSURE DOCUMENT
FOR THE STATE OF CALIFORNIA**

1. Item 3 is amended to reflect that:

Neither the Franchisor nor any person identified in Item 2 of the disclosure document is subject to any current effective order of any national securities association or national securities exchange as defined in the Securities Exchange Act of 1934, U.S.C.A. 78a et seq., suspending or expelling such persons from membership in such association or exchange.

2. Item 17 is amended by the addition of the following language:

California Business and Professions Code Sections 20000 through 20043 provide you with rights concerning termination or nonrenewal of a franchise. If the Franchise Agreement contains a provision that is inconsistent with the law, the law will control.

The franchise agreement requires binding arbitration. The arbitration will occur at our headquarters in Bellevue, Washington, with the costs being borne equally by the Parties, although the arbitrator may award reimbursement of attorneys' fees and related costs to the prevailing party. Prospective franchisees are encouraged to consult private legal counsel to determine the applicability of California and federal laws (such as Business and Professions Code Section 20040.5, Code of Civil Procedure Section 1281, and the Federal Arbitration Act) to any provisions of a franchise agreement restricting venue to a forum outside the State of California.

The Franchise Agreement requires the application of the laws of Washington. This provision may be unenforceable under California Law.

You must sign a general release if you renew or transfer your franchise. California Corporations Code Sec. 31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code Sections 31000 through 31516). California Business and Professions Code Sec. 20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code Sections 20000 through 20043).

The Franchise Agreement provides for termination upon bankruptcy. This provision may not be enforceable under federal bankruptcy law (11 U.S.C.A. Sec. 101 et seq.).

The Franchise Agreement contains a covenant not to compete which extends beyond the termination of the franchise. This provision may not be enforceable under California law.

Section 31125 of the California Corporations Code requires us to give you a document approved by the Commissioner of Corporations before we ask you to consider a material modification of your existing business.

3. THE CALIFORNIA FRANCHISE INVESTMENT LAW REQUIRES THAT A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE BE DELIVERED TOGETHER WITH THE DISCLOSURE DOCUMENT.

4. As to any state law described in this Addendum that declares void or unenforceable any provision contained in the Franchise Agreement, we reserve the right to challenge the enforceability of the state law by, among other things, bringing an appropriate legal action or by raising the claim in a legal action or arbitration that you have initiated.

**ADDENDUM TO EXPEDIA® CRUISESHIPCENTERS®
DISCLOSURE DOCUMENT
FOR THE STATE OF NEW YORK**

1. 13 NYCRR 200.2 items 3 and 4 require the following disclosures in Items 3 and 4, respectively, in the Disclosure Document in lieu of the existing disclosures:

3. LITIGATION

Neither the Franchisor, its Predecessor nor any person listed under Item 2 offering franchises under Franchisor's principal trademark:

- (A) has an administrative, criminal or civil action pending against that person alleging: a felony, a violation of a franchise, antitrust or securities law; fraud, embezzlement, fraudulent conversion, misappropriation of property; unfair or deceptive practices or comparable civil or misdemeanor allegations.
- (B) has been convicted of a felony or pleaded nolo contendere to a felony charge or, within the ten year period immediately preceding the application for registration, has been convicted of or pleaded nolo contendere to a misdemeanor charge or has been the subject of a civil action alleging: violation of a franchise, anti-fraud or securities law; fraud, embezzlement, fraudulent conversion or misappropriation of property, or unfair or deceptive practices or comparable allegations.
- (C) is subject to a currently effective injunctive or restrictive order or decree relating to the franchise, or under a Federal, State or Canadian franchise, securities, antitrust, trade regulation or trade practice law, resulting from a concluded or pending action or proceeding brought by a public agency; or is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities and Exchange Act of 1934, suspending or expelling such person from membership in such association or exchange; or is subject to a currently effective injunctive or restrictive order relating to any other business activity as a result of an action brought by a public agency or department, including, without limitation, actions affecting a license as a real estate broker or sales agent.

4. BANKRUPTCY

Neither the Franchisor, its affiliate, its predecessor, officers, or general partner during the ten year period immediately before the date of the disclosure document: (a) filed as debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code (or any comparable foreign law); (b) obtained a discharge of its debts under the bankruptcy code; or (c) was a principal officer of a company or a general partner in a partnership that either filed as a debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code or that obtained a discharge of its debts under the U.S. Bankruptcy Code during or within one year after the officer or general partner of the Franchisor held this position in the company or partnership.

2. The following disclosure is added to Item 17(d):

The franchisee may terminate the agreement on any grounds available by law.

3. The following disclosure is added to Item 17(j):

However, no assignment will be made except to an assignee who in good faith and judgment of the franchisor, is willing and financially able to assume the franchisor's obligations under the franchise agreement.

4. The following disclosure is added to Item 17(w):

The foregoing choice of law should not be considered a waiver of any right conferred upon the franchisor or upon the franchisee by Article 33 of the General Business law of the State of New York.

**ADDENDUM TO CRUISESHIPCENTERS USA INC.
DISCLOSURE DOCUMENT
FOR THE STATE OF WASHINGTON**

The state of Washington has a statute, RCW 19.100.180 which may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise.

In any arbitration involving a franchise purchased in Washington, the arbitration site shall be either in the state of Washington, or in a place mutually agreed upon at the time of the arbitration, or as determined by the arbitrator.

In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW shall prevail.

A release or waiver of rights executed by a franchisee shall not include rights under the Washington Franchise Investment Protection Act except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, rights or remedies under the Act such as a right to a jury trial may not be enforceable.

Transfer fees are collectable to the extent that they reflect the franchisor's reasonable estimated or actual costs in effecting a transfer.

The undersigned does hereby acknowledge receipt of this addendum.

Dated this _____ day of _____, 20____.

FRANCHISE AGREEMENT



CRUISESHIPCENTERS USA INC.

d/b/a EXPEDIA® CRUISESHIPCENTERS®

FRANCHISE AGREEMENT

[Name of Franchisee]

[Date of Agreement]

CRUISESHIPCENTERS USA INC.
d/b/a EXPEDIA® CRUISESHIPCENTERS®
FRANCHISE AGREEMENT

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SCHEDULE F – FRANCHISEE OWNER'S GUARANTY

SCHEDULE G – CONSENT TO RELEASE DATA TO EXPEDIA CRUISESHIPCENTERS

**EXPEDIA® CRUISESHIPCENTERS®
FRANCHISE AGREEMENT**

THIS FRANCHISE AGREEMENT (this “**Agreement**”) is entered into as of this ____ day of _____, 20__ (the “**Effective Date**”), by and between **CruiseShipCenters USA Inc.**, a Nevada corporation, with its principal business address at 333 108th Avenue NE, Bellevue, Washington 98004 (referred to as “**we**,” “**us**,” “**our**” or in some cases as the “**Franchisor**”), and [Name of Franchisee], whose principal business address is _____ (referred to as “**you**,” “**your**” or in some cases as the “**Franchisee**”). We and you are collectively referred to hereinafter as the “**Parties**” or, individually, as a “**Party**”).

INTRODUCTION

A. As the result of significant expenditures of time, skill, effort and money, our affiliate, CruiseShipCenters International, Inc., a British Columbia corporation (“**CII**”), has developed a business format for operating a travel agency business (a “**Travel Business**”) that offers reservations services for cruise ships, airlines, car rentals and hotels, as well as other leisure products and related travel services (collectively, the “**Travel Products and Services**”) using the “**System**” and the “**Marks**” (each as defined below).

B. Pursuant to license agreements by and between CII and us and Expedia, Inc., a Washington corporation (“**Expedia**”) and us, respectively, we have the right to use the System and the Marks in the United States in connection with the right to franchise Travel Businesses to third parties, pursuant to and in accordance with this Agreement. Specifically, we have the right to use and promote the trademarks “**Expedia® CruiseShipCenters® (word mark)**” and “**Expedia® CruiseShipCenters® (design mark)**” (together, the “**Combination Marks**”) and other trademarks, service marks, trade names, slogans and other commercial symbols owned by CII, including but not limited to the trademarks set forth on Schedule B to this Agreement (collectively, including the Combination Marks, the “**Marks**”), in the operation of Travel Businesses.

C. All Travel Businesses operate under and in accordance with the “**System**”, as modified from time to time. The System includes distinctive proprietary business formats, methods, procedures, techniques, designs, layouts, standards, specifications and the CruiseDesk® system (“**CruiseDesk®**”), a proprietary internet-based software application, which includes an ‘agents-only’ application and a consumer-oriented website customized for your Travel Business (“**Center Website**”).

D. We grant to certain Persons who, in our determination, meet our qualifications and are willing to undertake the investment and effort, the right to operate a Travel Business using the System and Marks (a “**Franchise**”), pursuant to the terms, conditions and provisions of this Agreement. A person to whom we grant a Franchise is referred to as a “**Franchisee**.” The Travel Business you own and operate using the System and Marks as a Franchisee under this Agreement is referred to as “**your Travel Business**” or “**the Travel Business**”.

1. DEFINITIONS

Term and Section Cross-Reference	Definition
Account Section 7.06	The operating account of your Travel Business that we are authorized to debit and credit by way of EFTs for payments of amounts due under the Agreement.
Additional Term Franchise Section 3.02	An extension of the Term of your Franchise for an additional 5 years under our then-current franchise agreement.
Additional Term Franchise Fee Section 3.03(f)	A fee of \$5,000, subject to annual CPI Adjustment that you pay to us before we grant you an Additional Term Franchise.
Additional Software Section 13.02	Any Proprietary Software we may develop and require you to use, or third party software we may require you to use, in the future.
Additional Training Section 8.02	Periodic and refresher training courses.
Additional Training Fees Section 8.02	Any fees you pay to us for Additional Training.
Affiliate Section 24.17	Any Business Entity directly or indirectly owned or controlled by a Person, under common control with a Person or controlled by a Person.
Agreement Introductory Paragraph	This Franchise Agreement between CruiseShipCenters USA Inc. and you.
Approved Travel Suppliers Section 4.02	Suppliers of Travel Products and Services approved by us.
Approved Travel Products and Services Section 4.01	The Travel Products and Services that we approve and authorize for offer and sale by your Travel Business.
Approved Vendors Section 5.06(f)	Vendors approved by us for the Center's furniture, fixtures, equipment and tenant improvements.
Authorized Independent Contractor(s) Section 2.01	A travel agent who enters into an Independent Contractor Agreement with you, utilizing our form of Independent Contractor Agreement, who sells Approved Travel Products and Services through and on behalf of your Travel Business (also referred to as a "Consultant").
Business Entity Section 22.03	A business organization like a corporation, limited liability company or partnership (general or limited).
Center Section 2.04	Your Travel Business established at the Location, open to the public and operated as a retail storefront travel agency pursuant to the terms and conditions of this Agreement.

Center Website Introduction Paragraph C.	An internet website provided and customized for your Travel Business by CII on the cruishipcenters.com domain for the purpose of attracting Consultants and customers to your Travel Business.
Certification of Operational Readiness Section 5.01(f)	Written certification that we provide to you once you have completed all requirements to open your Center to the public and begin operating your Travel Business.
Claims Section 20.04	All obligations, damages (actual, consequential or otherwise) and costs reasonably incurred in the defense of any claim against any of the Indemnified Parties, including, without limitation, reasonable accountants', arbitrators', attorneys' and expert witness fees, costs of investigation and proof of facts, court costs, other expenses of litigation, arbitration or alternative dispute resolution, travel and living expenses.
Combination Marks Introduction Paragraph B.	The trademarks "Expedia® CruiseShipCenters® (word mark)" and "Expedia® CruiseShipCenters® (design mark)".
Competing Business Section 11.02	Any business (other than a Travel Business operated under a franchise agreement with us or one of our Affiliates) providing cruise-focused services or offering cruise-related products.
Conditional Approval Section 3.04(b)	Our grant of approval for an Additional Franchise Term on a temporary month-to-month basis, subject to certain conditions you must meet.
Confidential Information Section 10.01	Certain confidential information we possess (and will continue to develop and acquire) relating to:- (i) the development and operation of Travel Businesses; (ii) Approved Travel Suppliers; (iii) Approved Travel Products and Services; and those suppliers and Travel Products and Services that are not approved.
Consultant Website(s) Section 14.06	An internet website provided and customized by CII for each of our Authorized Independent Contractors for the purposes of attracting customers and enabling them to purchase Approved Travel Products and Services.
Control Section 24.17	The power (by contract or through voting rights) to direct or cause the direction of management and policies (and, for purposes of this Agreement, Control includes shared control, such that if all owners have an equal ownership interest, then each of them holds a controlling interest).
CPI Section 7.04	The U.S. Consumer Price Index maintained by Bureau of Labor Statistics, a division of the U.S. Department of Labor.
CPI Adjustment Section 7.07	The increase in any fixed fee we charge you which is tied to an increase, if any, in the CPI during the prior calendar year.
CruiseDesk® Introduction Paragraph C.	Our Internet-based application you must use in the operation of your Travel Business, and any improvements we make thereto from time to time.
Disability Section 17.07	A mental or physical disability, impairment or condition that is reasonably expected to prevent or actually does prevent you or an Owner of a controlling interest in you from managing and operating your Travel Business.

Dispute Section 23.01	Any litigation, claim, dispute, suit, action, controversy, proceeding or otherwise between or involving (i) the Parties or their respective partners, directors, partners, officers, employees, agents, attorneys, accountants, guarantors or otherwise; or (ii) you and any other Franchisee.
Document Administration Fee Section 17.04	A fee in the amount of the greater of \$295 or our out-of-pocket administrative and legal expenses we incur which you must pay us any time there is a Transfer of a non-controlling ownership interest in you or your Travel Business or your action otherwise requires us to change existing contracts or prepare additional documents (e.g., a change of your entity name).
e-commerce Section 14.06	All aspects of your use of CruiseDesk® and any aspect of your Travel Business that you conduct over the Internet, including, use of e-names, e-mail, home pages, bulletin boards, chat rooms, linking, framing, on-line purchasing cooperatives, marketplaces, barter exchanges, and related technologies, methods, techniques, registrations, networking, and any electronic communication, commerce, computations, or any means of interactive electronic documents contained in a network of computers or similar devices linked by communications software or hardware.
e-names Section 14.06	All URLs, domain names, website addresses, metatags, links, key words, e-mail addresses, social media profiles and pages and any other means of electronic identification or origin used in connection with your Travel Business.
Effective Date Introductory Paragraph	The date first written above in the introductory paragraph of this Agreement; provided that this Agreement is effective only after it is fully executed by the Franchisee and the Franchisor.
EFT Section 7.06	An electronic funds transfer pre-authorized by you to allow us to debit your Account
Election Notice Section 3.04(a)	Written notice to us of your election to acquire an Additional Term Franchise.
Family Member Section 24.17	Parents, spouses, offspring and siblings, and the parents and siblings of spouses.
Franchise Introduction Paragraph D.	The right to own and operate a Travel Business using the System and Marks on the terms and conditions of a franchise agreement with us.
Franchisee Introductory Paragraph; Section 24.17	You; one or more persons, or the Business Entity executing this Agreement, as the case may be, to whom we grant a Franchise.
Franchisee Owner's Guaranty Section 22.03(e); Schedule F	An undertaking by your Owners to be bound jointly and severally by all provisions of this Agreement and any other agreements between the Parties.
Franchisee Owners Statement Section 22.03(c); Schedule E	A complete and accurate list of all of your Owners and their interests in you.

Franchisor
Introductory Paragraph

CruiseShipCenters USA Inc.

Gross Revenues
Section 7.02

All pre-tax gross revenues paid by suppliers as a result of sales by or through your Travel Business of such suppliers' Travel Products and Services, and/or any booking fees you may charge your customers over and above these amounts.

Improvements
Section 10.02

Ideas, concepts, methods, techniques or improvements that you or your employees may develop in the course of the operation of your Travel Business, relating to your Travel Business.

Indemnified Parties
Section 20.04

Us, including all our partners, directors, officers, employees, agents, successors and assigns or You, including all your partners, directors, officers, employees, agents, successors and assigns

Initial Franchise Fee
Section 7.01; Schedule A

The non-recurring and non-refundable initial franchise fee in the amount stated in Section 7.01.

In-person Training
Section 8.01

The in-person training at one of our training facilities (also referred to as Cruise Management Academy or "CMA").

Insufficient Funds Fee
Section 7.09

A \$50 fee due upon failure of your bank to honor an EFT debit request.

Location
Section 2.04

The location of the Center approved by us within the Market Area.

Manual
Section 12.01

Our operations manual, comprising information and materials available to Franchisees in the online Resource Center in CruiseDesk® in various formats, including, audio and video recordings, magnetic or digital media, computer software and written materials, which sets out standard operating procedures, best practices, mandatory specifications and organizational protocols.

Market Area
Section 2.04

The geographic area defined in Schedule A under Market Area in which you are permitted to locate your Travel Business.

Marketing Fee
Section 7.05;
Schedule A

Your monthly payment to the Marketing Fund.

Marketing Fund
Section 14.01

The system-wide marketing fund for advertising, marketing and public relations programs and materials we deem necessary or appropriate.

Marks
Introduction
Paragraph B.

The trademarks, service marks, trade names, slogans, trade dress and other commercial symbols including the trademark "Expedia® CruiseShipCenters that we or our Affiliates own, use, promote and license in the operation of Travel Businesses or the System.

MIS Fee
Section 7.04;
Schedule A

Your monthly payment to us for use of CruiseDesk® and related management information services and support.

Online Training
Section 8.01(a)

An initial training program offered to Trainees through an online correspondence course (also referred to as "International Cruise Academy" training).

Opening Date Section 5.01(f); Schedule A	The date indicated on the Certification of Operational Readiness.
Owner Section 24.17	Any Person holding a direct or indirect, legal or beneficial ownership interest or voting rights in you (or a transferee of this Agreement or an interest in you), including any Person who has a direct or indirect interest in you or this Agreement and any Person who has any other legal or equitable interest, or the power to vest in himself any legal or equitable interest, in the revenue, profits, rights or assets.
Person Section 24.17	An individual or Business Entity.
Pre-authorized Payments Section 7.06	The monthly payment of recurring fees due under this Agreement, adjusted in accordance with Sections 7.07.
Proprietary Software Section 5.05(c)	Any proprietary software we have developed and included in or used in conjunction with CruiseDesk®, and any proprietary software we may develop or require you to use in the future.
Response Notice Section 3.04(b)	Written notice of our decision regarding your Election Notice.
Section Section 24.16	A section or subsection of the Agreement.
Service Fee Section 7.02	The amount you pay to us on a monthly basis as a percentage of your Gross Revenues.
Site Relocation Fee Section 5.07(d)	The greater of \$995 or our actual expenses incurred in reviewing a proposed site for relocation of your Center and any document preparation or modification if we approve the relocation.
System Introduction Paragraph C.	Our distinctive proprietary business formats, trademarks, trade dress, systems, methods, procedures, techniques, designs, layouts, standards, and specifications, all of which we may improve, further develop, or otherwise modify from time to time.
System Standards Section 12.01	The mandatory and suggested specifications, standards, operating procedures and rules that we prescribe from time to time for the operation of a Travel Business.
Targeted Household Section 3.02(j)	A household with an annual income of approximately \$75,000 (this threshold is subject to adjustment in our discretion to reflect changes in CPI, or for other reasons).
Term Section 3.01	Your right to operate a Travel Business and to use the System and the Marks in the operation of your Travel Business for a term of 5 years starting on the Effective Date, unless extended under Section 3.02.
Trade Accounts Section 15.03	Accounts you agree to maintain with all Approved Travel Suppliers.
Trainees Section 8.01	The person or persons who participate in Training.

Training Section 8.01	The Online Training and In-Person Training programs provided to Trainees on the operation of a Travel Business.
Transfer Section 17.03	Your (or your Owners') voluntary, involuntary, direct or indirect assignment, sale, gift or other disposition of any interest in: (a) this Agreement; (b) you; or (c) your Travel Business.
Transfer Fee Section 17.04(e)	A fee in the amount of Ten Thousand Dollars (\$10,000) payable to us in connection with a Transfer of a controlling interest in you or your Travel Business.
Travel Business(es); your Travel Business Introduction Paragraph A.	Businesses that offer Travel Products and Services using our System and Marks; the Travel Business you own and operate using the System and Marks as a Franchisee under this Agreement.
Travel Products and Services Introduction Paragraph A.	Reservation services for cruises and other authorized leisure products and related travel services.
we, us, our or Franchisor Introductory Paragraph	CruiseShipCenters USA Inc. , its successors and assigns.
you, your or Franchisee Introductory Paragraph	You, one or more persons, or any Business Entity, as the case may be.

2. GRANT OF FRANCHISE

2.01 Grant of Franchise

Subject to all of the terms, conditions and provisions of this Agreement, we grant you the right to establish one Center in the Market Area at and through which you will operate a Travel Business in accordance with this Agreement and our System Standards, and advertise, promote, market and provide “**Approved Travel Products and Services.**” Except with respect to your engaging “**Authorized Independent Contractors**” pursuant to our form of Independent Contractor Agreements, the foregoing grant and the consideration therefore does not confer on you any right to license any other Persons the right to use the System, the Marks, to operate a Travel Business or to otherwise offer or sell Approved Travel Products and Services to the public.

2.02 Rights We Reserve

Subject to the limitations otherwise set forth in this Agreement, we retain the absolute right to:

- (a) operate, establish or grant Franchises for other Travel Businesses anywhere on such terms and conditions as we deem appropriate;
- (b) operate, or grant others the right to operate, businesses selling travel-related products or services, including a Competing Business, using the Marks or other trademarks or service marks under terms and conditions as we deem appropriate;
- (c) operate, and grant others the right to operate, businesses that do not use any of the Marks; and

(d) market, provide, offer and sell Travel Products and Services (including through online access) using the Marks or other trade names or service marks.

2.03 Performance

You will at all times faithfully, honestly and diligently perform your obligations, continuously exert your best efforts to advertise, promote, market and sell the Approved Travel Products and Services at and through the Center, and promote and enhance the System and the Marks. You will not engage in any other business or activity that conflicts with your obligations as a Franchisee under this Agreement.

2.04 Location

You will establish a Center in the geographic market area (the “**Market Area**”) described in Schedule A to this Agreement from which you will operate your Travel Business. You are responsible for locating the site of the Center within the Market Area (the “**Location**”), provided, however, you must first submit the Location to us for our approval. We will either approve or reject the Location in writing in our reasonable discretion. We expressly disclaim making, and you acknowledge that you have not received any warranty, guarantee, expressed or implied, as to the potential volume, profits or success of the Center. You may not, without our prior written consent, operate your Travel Business from any location other than the Location approved by us. You may not sublet the Center or any portion of your Location without our prior written approval.

2.05 Limited Exclusivity

As long as you and your Affiliates are not in default, after any and all applicable grace, notice and/or cure periods, under this Agreement, we will not open a Travel Business or award any future Expedia® CruiseShipCenters® franchisee the right to open a Travel Business within the Market Area.

3. TERM; ADDITIONAL TERM

3.01 Term

The term of this Agreement is 5 years, commencing on the Effective Date (the “**Term**”).

3.02 Additional Term

If you (and each of your Owners) have complied with all of your obligations under this Agreement during the Term and, in addition, you meet the terms and conditions set forth below, upon expiration of the Term, we will grant you a Franchise for an additional 5-year period on the terms and conditions of our then-current franchise agreement (a “**Additional Term Franchise**”), which may or may not include the right to be granted subsequent terms thereafter.

3.03 Terms and Conditions for Additional Term

In order for us to consider granting you an Additional Term Franchise, you (or your Owners if you are a Business Entity) must meet all of the following terms and conditions to our satisfaction:

(a) you are current on all of your monetary obligations under this Agreement and are in compliance with all of your non-monetary obligations under this Agreement;

(b) you agree to execute our then-current franchise agreement and any ancillary agreements we are then customarily using in connection with the grant of Franchises (modified to be consistent with this Article 3);

(c) you agree to execute general release, in a form satisfactory to us, of any and all claims against us and our partners, officers, directors, employees, agents, successors, assigns and Affiliates. Failure by you or your Owners to sign such agreements and releases and deliver them to us for acceptance and execution within 60 days after their delivery to you will be deemed an election not to acquire an Additional Term Franchise;

(d) you make all changes we deem necessary to bring the Center into compliance with the then-current System Standards at your own cost, including updating all signage, décor, furnishings, computer software, hardware and other equipment, prior to the expiration of the Term of this Agreement;

(e) you complete to our satisfaction any new training and refresher programs as we may reasonably require. You are responsible for travel, living and compensation costs of attendees;

(f) you remit to us the Additional Term Franchise Fee;

(g) you continue to comply with all of the terms and conditions of this Agreement through the date of its expiration;

(h) you have not, in our opinion, adversely interfered with or prejudiced our relationships with our Approved Travel Suppliers;

(i) you have not taken any action that we deem to be materially adverse to the reputation of the System or the Marks; and

(j) your Market Area is sufficiently serviced. Your Market Area may be determined to be insufficiently serviced if your average Gross Revenue for the final three years of your Term and for the final year of your Term is less than \$5.00 per Targeted Household in your Market Area at the time of your first Additional Term and less than \$7.00 per Targeted Household in your Market Area for subsequent Additional Terms. If your Market Area is determined to be insufficiently serviced, before granting an Additional Term Franchise we may make adjustments to your Market Area, which may include a reduction in the number of Targeted Households.

3.04 Procedure for Additional Term Franchise

(a) Election Notice. You will give us written notice of your election (the “**Election Notice**”) to acquire an Additional Term Franchise at least ~~420~~180 days before the expiration of the Term.

(b) Response Notice. We agree to give you written notice of our decision (the “**Response Notice**”), within 60 days after we receive the Election Notice. The Response Notice will inform you of our decision to:

(i) grant you an Additional Term Franchise;

(ii) grant you conditional approval for an Additional Term Franchise (“**Conditional Approval**”), subject to Sections 3.04(c) and 3.05 below; or

(iii) not grant you an Additional Term Franchise based on our determination that you and your Owners have not substantially complied with this Agreement during the Term.

(c) Conditional Approval. If applicable, the Response Notice may contain certain conditions for an Additional Term Franchise that you are required to fulfill in order to bring your Travel Business in compliance with then-current System Standards, and the timeframe to comply with such conditions. Such conditions may include, but are not limited to adjustments to your Market Area in accordance with Section 3.03(j) above and correcting deficiencies of your Travel Business, or in your operation of your Travel Business.

3.05 Extension of Term Pending Award of Additional Term Franchise

In the event that we grant you a Conditional Approval, we may extend this Agreement on a month to month basis for such period of time as is necessary, but in no event more than twelve (12) months, in order to provide you with reasonable time to correct deficiencies or comply with the conditions of Section 3.04(c) above; provided, however, that we may alter the material terms of this Agreement as part of our Conditional Approval, including, among other things, reconfiguring the Market Area, rescinding modifications or amendments to this Agreement previously negotiated, or discontinuing allowances or privileges that are inconsistent with terms of our then-current Franchise Agreement. If we grant you an Additional Term Franchise after the Term of this Agreement has expired, but we have extended the Agreement on a month to month basis following that expiration date, then the Term of the Additional Term Franchise shall be deemed to have commenced on the day following the expiration of the prior Term and will run for a period of five (5) years from that date.

4. APPROVED TRAVEL PRODUCTS AND SERVICES; APPROVED TRAVEL SUPPLIERS

4.01 Approved Travel Products and Services

We will identify in the Manual or in CruiseDesk® the Travel Products and Services we have approved (collectively, the “**Approved Travel Products and Services**”). You will not offer, sell or otherwise use any products or services through your Travel Business other than the Approved Travel Products and Services. We will also identify Travel Products and Services that specifically are not approved and which you may only offer, sell or otherwise use with our express written consent. We, in our sole discretion, may change, add to or remove products, supplies or any other type of item or service included as Approved Travel Products and Services or as non-approved Travel Products and Services as we deem necessary, from time to time. You will immediately adopt all changes we make to the Approved Travel Products and Services and related services.

4.02 Approved Travel Suppliers

The Manual and/or CruiseDesk® will identify the suppliers that we have approved (“**Approved Travel Suppliers**”) and you will obtain all Approved Travel Products and Services solely from Approved Travel Suppliers. We will also identify travel suppliers that specifically are not approved and whose travel products and services you may only offer, sell or otherwise use with our express written consent. We may negotiate agreements with Approved Travel Suppliers and we may receive rebates or other consideration from such Approved Travel Suppliers.

4.03 Changes to Approved Travel Suppliers

Whether or not we designate a supplier as an Approved Travel Supplier and its Travel Products and Services approved will be based on meeting the quality standards that we establish from time to time, including quality of its products or services, delivery capabilities, financial terms and ability to service our franchise system as a whole. We may withhold approval of any Approved Travel Products and Services or any Approved Travel Supplier that does not meet our quality standards by giving you written notice (which

notice may be delivered via electronic mail). If we do so, you will stop purchasing, selling or otherwise using such products and services in your Travel Business immediately and from then on until we notify you that such supplier or such products and services meet our quality standards.

5. OPENING AND OPERATING YOUR TRAVEL BUSINESS

5.01 Requirements to Open Your Travel Business

You will not open your Center to the public or begin operating your Travel Business until:

- (a) you (or if you are a Business Entity, one of your Owners) have completed Training to our satisfaction;
- (b) the Initial Franchise Fee and all other amounts then due to us have been paid;
- (c) you have furnished to us copies of all insurance policies required under this Agreement, or such other evidence of insurance coverage and payment of premiums as we request or accept;
- (d) you have demonstrated to our reasonable satisfaction that you have secured the financing necessary to establish the Center and operate your Travel Business;
- (e) you have satisfied all the requirements under Sections 5.03 and 5.04 regarding the Lease and build-out of the Location; and
- (f) we have delivered to you our written certification of operational readiness of your Travel Business and the Center ("**Certification of Operational Readiness**"), which may be conditioned upon your compliance with all applicable laws, System Standards and the terms, provisions and conditions of this Agreement. You must open the Center and begin operating your Travel Business within two days after the date indicated on the Certification of Operational Readiness (such date referred to herein as the "**Opening Date**").

5.02 Operation From a Center

The Travel Business shall be operated from a single Center at a fixed Location open to the public and only at and from that Center. You must satisfy your requirements to open your Travel Business, obtain your Certification of Operational Readiness and open the Center within nine months of the Effective Date, and you must continuously staff the Center with qualified trained employees and Authorized Independent Contractors in accordance with the Manual and the terms of your Lease.

5.03 Center Location and Lease

Within four months after the Effective Date, you must locate a retail storefront site suitable for the Center Location (as we may reasonably determine) and negotiate the Lease for the Center, subject to our prior approval. You may not execute any lease, sublease or purchase contract or any modification thereof without our approval. The Lease must require that the premises be used only for the operation of a Center and must grant us the right (but not the obligation) to take possession of the Center, to assume the Lease, and to assign it to another Franchisee in the event of the expiration or termination of this Agreement or a threatened termination of the Lease as a result of your breach of the Lease. To effect the foregoing requirements, you and the Center landlord must include and incorporate into the Lease the form of Lease Addendum attached hereto as Schedule C or, in the alternative, include the terms and provisions of the

Lease Addendum in the Lease itself. Our approval of the Lease and our agreement as to the Location is merely an indication that we find the Location acceptable and is not, nor is it intended in any way to be, a guaranty or warranty of the success of your Travel Business or the Center. You must deliver to us a fully executed copy of the Lease and the Lease Addendum (unless we otherwise waive this requirement). In order to assist you with the foregoing Location requirements, we will:

(a) review and approve your proposed site for the location of the Center within the Market Area, based on criteria, including, without limitation, location of the customer base, population and any available traffic patterns in the area, transportation infrastructure, local licensing and permit requirements, applicable building by-laws and building codes, local government approvals, visibility, competition and size; provided, however, that by our approval of a proposed site (or any Lease related thereto), we make no guaranty or warranty of the feasibility of the terms of any Lease or the success of the Center or your Travel Business; and

(b) provide you with graphic standards, including prototypical design plans for the layout of a Center, showing furniture placement and facilities with color coordination scheme and advise as to the particulars and specifications of office furniture, equipment and supplies to be used in the operation of the Center.

5.04 Center Construction or Build-Out

You will purchase all furniture, fixtures, equipment and tenant improvements in accordance with the specifications, design and layout included in the System Standards and from certain Approved Vendors. Before commencing any construction of the Center or undertaking any leasehold improvements at the Location, you must comply, at your own expense, with all of the following requirements:

(a) you must employ a qualified general contractor or such other qualified person for the purposes of implementing the construction and build-out of the Center in accordance with our design plan and ensuring the completion of all leasehold improvements; and

(b) you must obtain all business licenses, permits and certifications required for the lawful construction and ongoing operation of the Center (including, without limitation, zoning, access, variances, health and safety, sign and fire requirements) and must certify in writing to us that all such licenses, permits and certifications have been obtained.

5.05 Additional Pre-Opening Assistance

Prior to opening your Travel Business, we will:

(a) advise you on obtaining a license or registration to sell Approved Travel Products and Services with any applicable regulatory authority; provided, however we make no representation that any required licenses or registrations will be obtained;

(b) provide you with certain Center design elements, marketing items and signage;

(c) provide you with an initial supply of stationery and promotional materials;

(d) provide to you access to CruiseDesk® and other Proprietary Software related thereto on the terms and conditions described in Article 13;

(e) provide you with Training as described in Section 8.01; and

(f) provide you access to the Manual subject to the terms and conditions in Section 12.01.

5.06 Operation of the Center

In operating the Center, you will:

(a) ensure that the operation of the Center is at all times under the direct, on-premises control by you or by one of your employees or consultants whom we have approved ~~to manage your Center~~ or, if that employee or consultant is absent from the Center due to illness, vacation or other similar cause, ~~another employee or consultant whom we have approved to manage the Center~~, in writing and who has successfully completed to the satisfaction of the Franchisor the training as specified in Section 8 of this agreement, to manage your Center. You will at all times keep us informed of the person(s) managing the day-to-day operation of the Center;

(b) operate the Travel Business and the Center in accordance with the System Standards (as further described in Section 12.02), use the Center only for the operation of a Travel Business and for no other purpose, and redecorate, repair and restore the Center when required to comply with System Standards;

(c) maintain the interior and exterior of the Center in a sound, clean and attractive condition;

(d) maintain the standards of the System in accordance with the specifications we provide;

(e) not alter, modify or otherwise change, add to or delete from any portion of the System, the Marks, or the Approved Travel Products and Services;

(f) purchase all furniture, fixtures, equipment and tenant improvements in accordance with the specifications, design and layout included in the System Standards and from certain Approved Vendors;

~~(f)(g)~~ ensure all email communications relating to the Travel Business will be sent through the CruiseDesk® System or through your CruiseShipCenters email account;

(h) hire, supervise and maintain at all times a sufficient number of trained employees or consultants to service the customers of the Center in accordance with the System Standards and ensure that all employees and consultants servicing customers of the Center are efficient, competent, sober and courteous and meet every requirement imposed by applicable laws with respect to the offer and sale of any products and services through the Center or your Travel Business;

(gi) cause all of your employees or consultants, while engaged in the operation of the Center, to present a neat and clean appearance and render competent and courteous service to the customers of the Center;

(hj) use, publish or display in connection with the Center only those signs, advertising or other materials we have approved -in accordance with System Standards;

(jk) if requested, use only containers, cartons, bags, branded marketing collateral, promotional items and other ~~paper goods and~~ like articles which comply with the specifications established under the System Standards;

(i) use only those methods of data processing we have designated;

(j) operate the Center only under the name “Expedia® CruiseShipCenters®” without any accompanying words or symbols of any nature unless written notice is delivered to you of an alternate operating name and, on receiving notice of such alternate name, you will cause all necessary changes in identification we have requested to be implemented within the time specified in the notice and at your expense;

(k) not permit any vending machines, entertainment devices and products not included in the System or consistent with the System Standards to be sold, displayed or used in the Center unless we have first consented in writing;

(l) make prompt payment in accordance with the terms of invoices rendered to you for the purchase of all furniture, fixtures, equipment, leasehold improvement and supplies;

(m) secure and maintain in force all required licenses, permits and certificates relating to the operation of the Center and operate the Center in full compliance with all applicable laws and regulations, including, without limitation, all governmental regulations relating to occupational hazards and health, safety, workers' compensation insurance, health and welfare plans, employment insurance, withholding and payment of federal state and local income taxes, goods and services taxes and sales taxes, and applicable consumer protection and travel industry regulations;

(n) not commence construction or build out of the Center until we have first reviewed and approved in writing the design for the Center;

(o) not negotiate directly with Approved Travel Suppliers of any Approved Travel Products and Services, unless we otherwise first consent to such negotiation in writing;

(p) purchase goods and services that are of a standard and of a quality consistent with the System Standards;

(q) advise Approved Travel Suppliers, contractors and all others with whom you deal that you are an independent contractor, that all debts you incur are for your own account only, and not on our account, and, if applicable, that your officers and directors are not our officers or directors;

(r) faithfully observe and perform in a timely fashion, all covenants required under the Lease for the Center premises;

(s) not, without the prior consent of the relevant contractor or employer, knowingly contract or employ or seek to contract or employ any person who is at the time employed by or under contract with us or one of our subsidiaries or Affiliates, or by any person who is at the time operating a Center or a Travel Business under our Marks, or otherwise directly or indirectly induce any person described above to leave his or her employment or not renew his or her contract;

(t) maintain an inventory of advertising materials and supplies sufficient to satisfy customer demand;

(u) pay the salary of any agent or employee of ours or our Affiliates or subsidiaries who works at the Center and performs services which would otherwise have to be performed by a regular employee or Authorized Independent Contractor of yours and, in addition, pay the out-of-pocket expenses including transportation, lodging and food of such agent or employee; and

(v) pay the salaries and related expenses of your employees or consultants who are temporarily engaged as part of an on-the-job training program at a Travel Business, which may be owned by CII or a Franchisee.

5.07 Relocation of the Center

If you need or decide to relocate the Center because of condemnation, destruction, or expiration or cancellation of your Lease for reasons other than a breach of your Lease, we will grant you authority to do so to a new site that is reasonably comparable to your existing Location, that is acceptable to us and is within your Market Area; provided that:

(a) the new Center is ready to open and operate in conjunction with the move from the original Location and is constructed in accordance with our then-current standards, including satisfaction of all the requirements and obtaining the necessary approvals under Sections 5.03 and 5.04 in particular our written approval of the Location, the Lease and the build-out of the Location and also that you may not execute any lease, sublease or purchase contract or any modification thereof without our prior written approval;

(b) you have received from us a Certification of Operational Readiness;

(c) your Travel Business is kept open and operating during any relocation. You do not have the right to relocate the Center in the event you lose the right to occupy the Center premises because of the cancellation of your Lease due to your breach, such Lease cancellation being grounds for immediate termination under Section 18.02(f); and

(d) you pay us the Site Relocation Fee.

6. ONGOING ASSISTANCE

6.01 General Assistance

As long as you are not in default of this Agreement or any other agreement with us, we will generally assist you with respect to:

(a) System Standards, specifications and operating procedures and methods utilized by Travel Businesses;

(b) use of CruiseDesk®;

(c) current lists of Approved Travel Suppliers, Approved Travel Products and Services, and those suppliers and Travel Products and Services that are not approved;

(d) advertising and marketing programs and related materials;

(e) Improvements to the System, if any; and

(f) administrative, bookkeeping and accounting procedures.

Such general assistance will be provided on CruiseDesk®, in the Manual, in bulletins and similar postings or communication, in other written materials or during telephone or field consultations.

6.02 Additional Assistance

At your request, we may furnish additional assistance as we deem appropriate. If we consider your requests for additional assistance to be excessive or unreasonable, we may refuse to provide such additional assistance or we may charge you a reasonable fee for such additional assistance, including per diem charges and travel and living expenses for our personnel.

7. FEES

7.01 Initial Franchise Fee

At the time you sign this Agreement, you must pay us a nonrecurring initial franchise fee in the amount set forth in Schedule A (the “**Initial Franchise Fee**”). The Initial Franchise Fee is non-refundable and is fully earned by us when you sign this Agreement.

7.02 Service Fee

During the term of this Agreement, you will pay us a Service Fee as a percentage of Gross Revenues as set forth in Schedule A and in the manner set forth in Section 7.03 below. We may change the amount debited each month periodically based on the expected Gross Revenue you will earn. We will notify you prior to any change.

7.03 Annual Reconciliation

At the end of each of your fiscal years during the term of this Agreement and at the end of the term of the Agreement, we will reconcile the actual Service Fees earned and payable hereunder for the prior fiscal year (or portion of the prior fiscal year in the case of the end of the term of this Agreement) based on your actual Gross Revenues for that year (or portion thereof) and we will draft (or refund) by EFT the difference between the total Service Fees paid and the actual Service Fees earned and due for the year (or portion thereof). We will issue you an invoice for that difference.

7.04 Management Information Systems Fee

During the term of this Agreement, you will pay us a Management Information Systems fee (“**MIS Fee**”) as set forth on Schedule A by EFT on a monthly basis commencing in the first month subsequent to the Opening Date. The MIS Fee will be subject to annual adjustment based on the Consumer Price Index (“**CPI**”).

7.05 Marketing Fee

During the term of this Agreement, you will pay us a Marketing Fee in the amount set forth on Schedule A (the “**Marketing Fee**”) by EFT on a monthly basis commencing in the first month subsequent to the Opening Date and as provided pursuant to Section 14.01 below. The Marketing Fee will be subject to annual CPI Adjustment.

7.06 Pre-Authorized Payments Through EFT

You will pay us all fees and any interest you owe us under the terms of this Agreement by way of electronic funds transfer (“**EFT**”) from a bank account you designate (the “**Account**”) pursuant to and in accordance with the terms of this Article 7. We retain the right to obtain payment for all Pre-authorized Payments and any other amounts you owe us by way of EFT. You will execute all bank documents and other instruments necessary to permit the EFT from your Account to us. You will comply with the

procedures we specify in the Manual and sign and deliver a Bank Authorization Agreement in the form attached hereto as Schedule D and such documents as may be necessary to accomplish EFT transactions. You will give us authorization, in a form that we designate, to initiate debit entries or credit entries to your Account. You will make funds available in the Account for withdrawal by EFT no later than the date the payments are due. If we determine at any time that you have under-reported or underpaid amounts due to us, we will be authorized to initiate a transfer from the Account the amount we reasonably believe is owed to us, plus applicable interest.

7.07 CPI Adjustment

Any of the recurring fixed fees you must pay under this Agreement are subject to a CPI Adjustment, based on the percentage increase, if any, in the CPI between January 1 of the then-current year and January 1 of the immediately prior year. Each adjustment will be made on July 1 based on the January index or adjustments may be made cumulatively on July 1 of any year in our absolute discretion. If we increase a given fee by less than the full CPI increase in a given year, we may carry the difference forward and add it to the allowable percentage increase for the following year. By way of example, if the CPI increases 5% and we implement only a 3% increase in the MIS Fee, we may carry the remaining 2% forward and add to the CPI increase in the following year, so that if the following year CPI is 2%, we may increase the MIS Fee by up to 4%.

7.08 Interest on Late Payments

All amounts you owe us will bear interest after their due date at the annual rate of 15% or the highest contract rate of interest permitted by law, whichever is less. You acknowledge that we are not required to accept any payments after the due date nor commit to extend credit to, or otherwise finance the operation of, your Travel Business. Your failure to pay all amounts when due constitutes grounds for termination of this Agreement.

7.09 Insufficient Funds Fee

We retain the right to charge you \$50 per occurrence of insufficient funds when we draft from your designated Account (an “**Insufficient Funds Fee**”).

7.10 Application of Payments

Notwithstanding any designation you might make, we have sole discretion to apply your payments to any amounts you owe us.

7.11 Payment Set-Offs

We may set-off from any amounts that we may owe you by any fees or amounts that you owe us, for any reason whatsoever, and any accrued interest thereon. Thus, payments that we make to you may be reduced, in our discretion, by amounts that you owe us from time to time. We will notify you monthly if we do so.

7.12 Discontinuance of Service

If you do not timely pay amounts due us under this Agreement, we may discontinue any services to you, without limiting any of our other rights in this Agreement.

8. TRAINING AND ASSISTANCE

8.01 Training

Before your Travel Business opens, we will furnish training on the operation of a Travel Business (the “**Training**”) as described in the Manual. You (or if you are a Business Entity, one of your Owners) must complete the Training to our satisfaction within nine months of the Effective Date. The person or persons who will participate in the Training are individually and collectively called the “**Trainees**.” The Training consists of the following components:

(a) Online Training: The Trainees will receive one week of Online Training through a correspondence course (“**Online Training**”). This Online Training is referred to as International Cruise Academy training. There is no additional charge for Online Training.

(b) In-Person Training: The Trainees will receive 5 days of classroom training at one of our training facilities (“**In-Person Training**”). This In-Person Training is referred to as Cruise Management Academy (“CMA”) training. We will provide lunch meals while on site. Hotel and transportation are at your cost. You are required to book your own transport and accommodation. You may bring up to two Trainees to In-Person Training for no charge and you may bring one additional trainee to In-Person Training for a \$495 fee but we will not provide private hotel accommodations or airfare for the additional trainee. Additional trainees may be required to sign a confidentiality agreement with us prior to attending the In-Person Training.

8.02 Additional Training

We may offer additional training, including periodic and refresher training courses at such times and locations that we designate (“**Additional Training**”). You are not required to participate in Additional Training but if you choose to do so, you will be responsible for any fees associated with the Additional Training (the “**Additional Training Fees**”) and any travel expenses you incur for the Additional Training. Some Additional Training may take place through Internet-based training initiatives, which we will provide to you at no additional cost.

9. MARKS

9.01 Grant of License

We hereby grant to you a non-exclusive, non-transferable, non-assignable, royalty-free license to use in the United States (i) the Marks (other than the trademark “EXPEDIA[®]”) and (ii) the Combination Marks, in each case, solely in connection with your operation of a Franchise and the provision of services and products in the Travel Business to your customers. We will license the Marks to you and other franchisees for use only in accordance with the System Standards, the terms of which we may change at any time at our discretion, without notice to you and the operating standards and quality control specifications attendant thereto which underlie the goodwill associated with and symbolized by the Marks. We do not grant you the right to sub-license the Marks or Combination Marks (except pursuant to the Independent Contractor Agreement in the form provided through CruiseDesk[®]).

9.02 Ownership and Goodwill of Marks

Your right to use the Marks is derived solely from this Agreement and is limited to the operation of your Travel Business under this Agreement and the System Standards. Your usage of the Marks and any goodwill established by such use will be exclusively for our benefit and that this Agreement does not confer any goodwill or other interests in the Marks upon you (other than the right to operate your Travel Business

in compliance with this Agreement and the System Standards). We may in the future develop, enhance or modify various aspects of the Marks as well as add new trademarks, trade names, service marks, trade dress, and other commercial symbols. All provisions of this Agreement applicable to the Marks will also apply to any additional proprietary trademarks, service marks, logos and commercial symbols we authorize you to use in your Travel Business. Any uses of the Marks (including the Combination Marks) as permitted herein must be in compliance with the Brand Standards, as may be amended from time to time, included as part of our Manual.

9.03 Limitations on Your Use of Marks

You will use the Marks as the sole identification of your Travel Business, except that you will identify yourself as an independent operator of the Travel Business in the manner we prescribe in the Manual or otherwise. You may not use any Mark: (i) as part of any corporate or legal business name (although you may use the Combination Mark as a fictitious (d/b/a) name in the manner we prescribe in the Manual or otherwise); or (ii) as part of any social media profiles or pages, e-mail addresses, URLs or website addresses; or (iii) with any prefix, suffix or other modifying words, terms, designs or symbols (other than logos we license to you); or (iv) in any modified form, including whereby any characters or symbols within the Marks are reversed, replaced, removed or inserted, nor may you use any Mark in connection with the performance or sale of any unauthorized services or products; or (v) in any other manner we have not expressly authorized in writing. No Mark may be used in any advertising concerning the transfer, sale or other disposition of your Travel Business or an ownership interest in you.

When using the Combination Mark, the EXPEDIA® mark must be of a prominence that is equal to or lesser than that of the CRUISESHIPCENTERS® mark, within the Combination Mark. You are not permitted to use the EXPEDIA® mark on its own or in combination with any other word except “CRUISESHIPCENTERS®” at any time in relation to your Travel Business.

You will not manufacture, or cause to have manufactured, any promotional items having the Marks affixed or otherwise associated with in any way whatsoever, without our prior written approval. You will display the Marks prominently in the manner we require in connection with forms and marketing materials. You will give such notices of trade and service mark registrations as we specify and you will obtain any fictitious or assumed name registrations required under applicable law. Your unauthorized use of the Marks is a breach of this Agreement and an infringing use of the Marks.

9.04 Notification of Infringements and Claims

You will notify us immediately of any apparent infringement or challenge to your use of any Mark, or of any claim by any Person of any rights in any Mark, and you will not communicate with any Person other than us, our attorneys and your attorneys in connection with any such infringement, challenge or claim. We have sole discretion to take such action as we deem appropriate and the right to control exclusively any litigation, U.S. Patent and Trademark Office proceeding or any other administrative proceeding arising out of any such infringement, challenge or claim or otherwise relating to any Mark. You will sign any and all instruments and documents, render such assistance and do such acts and things as, in our opinion, are deemed necessary or advisable to protect and maintain our interests in any litigation, regulatory action or other administrative proceeding or otherwise to protect and maintain our interests in the Marks.

9.05 Discontinuance of Use of Marks

If it becomes advisable at any time in our sole discretion for us or you to modify or discontinue the use of any Mark or use one or more additional or substitute trade or service marks, you will comply with

our directions within a reasonable time after receiving notice but in no event longer than thirty (30) days. We will not be obligated to reimburse you for any loss of revenue attributable to any modified or discontinued Mark or for any expenditure you make to promote a modified or substitute trademark or service mark.

10. CONFIDENTIAL INFORMATION

10.01 Types of Confidential Information

We possess (and will continue to develop and acquire) certain confidential information (the “**Confidential Information**”) relating to: (i) the development and operation of Travel Businesses; (ii) Approved Travel Suppliers; (iii) Approved Travel Products and Services; and (iv) those suppliers and Travel Products and Services that are not approved. The Confidential Information includes, without limitation:

- (a) the System and the know-how related to its use;
- (b) sources and design of marketing materials and supplies;
- (c) marketing, advertising and promotional programs for Travel Businesses;
- (d) the selection, testing and training of Franchisees and Travel Businesses personnel;
- (e) CruiseDesk® and other Proprietary Software we make available for Travel Businesses;
- (f) methods, techniques, formats, specifications, procedures, information and systems related to and knowledge of and experience in the development, operation and franchising of Travel Businesses;
- (g) knowledge of specifications for and suppliers of certain products, materials, supplies, furnishings and equipment;
- (h) know-how, techniques and expertise related to the sale, service and use of Approved Travel Products and Services;
- (i) knowledge of operating results and financial performance of Travel Businesses other than those operated by you; and
- (j) knowledge, know-how, operating results, methods, techniques, formats, specifications, procedures and information systems associated with our agreements with Approved Travel Suppliers, including commission rates, incentive programs, overrides and volume requirements.

10.02 Disclosure and Limitations on Use

We will disclose Confidential Information to you and personnel of your Travel Business by furnishing the Manual to you and by providing training, guidance and assistance to you. In addition, in the course of operating your Travel Business, you or your employees may develop ideas, concepts, methods, techniques or improvements (“**Improvements**”) relating to your Travel Business that you agree to disclose to us. We will be the deemed owner of the Improvements and may use them and authorize others to use the Improvements in the operation of Travel Businesses. Improvements will then also constitute Confidential Information.

10.03 Your Confidentiality Obligations

Your relationship with us does not vest in you any ownership or other interest in the Confidential Information other than the right to use it in the development and operation of your Travel Business, and that the unauthorized use or duplication of the Confidential Information would constitute an unfair method of competition. You acknowledge and agree that the Confidential Information is proprietary, includes trade secrets belonging to us and is disclosed to you or authorized for your use solely on the condition that you agree, and, therefore you:

- (a) will not use the Confidential Information in any business or capacity other than in a Travel Business pursuant to this Agreement;
- (b) will maintain the absolute confidentiality of the Confidential Information during and after the term of this Agreement;
- (c) will not make unauthorized copies of any portion of the Confidential Information in written form or in any other tangible or intangible form, including, for example, computer files or other electronic or digital format; and
- (d) will adopt and implement all reasonable procedures we may require from time to time to prevent unauthorized use or disclosure of the Confidential Information, including, restrictions on disclosure to your employees and the use of nondisclosure and non-competition agreements we may require for employees or others who have access to the Confidential Information.

10.04 Exception to Confidentiality

The restrictions on your disclosure and use of the Confidential Information will not apply to disclosure or use of the Confidential Information in judicial or administrative proceedings when and only to the extent you are legally compelled to disclose it, provided that you have first given us the opportunity to obtain an appropriate protective order or other assurance satisfactory to us that the information required to be disclosed will be treated confidentially.

10.05 Our Confidentiality Obligations

You acknowledge that we will acquire knowledge of the operating results, financial performance and financial plans or goals of your Travel Business in the course of our relationship with you under this Agreement. We will not disclose or discuss this information in a manner that identifies your Travel Business specifically, or enables such information to be directly associated with your Travel Business, with any person who is not an employee or agent of the Franchisor and its affiliates.

11. EXCLUSIVE RELATIONSHIP

11.01 Competing Business Restrictions

You acknowledge and agree that we have granted a Franchise to you in consideration of, and reliance upon, your agreement to deal exclusively with us. Further, during the Term of this Agreement and any Additional Term, you will receive valuable confidential and other information regarding the business, promotional, sales, marketing and operational methods and techniques of Franchisor's proprietary operating system and, therefore, during the Term of this Agreement and any Additional Term, and subject to the post termination provisions contained herein, and except as we otherwise approve in writing, neither you nor any of your Owners (nor any of your or your Owners' spouses or children), either directly or

indirectly, for yourself or through, on behalf of or in conjunction with any person, persons, partners or entity, will:

(a) have any direct or indirect interest as a disclosed or beneficial owner in a Competing Business (except that you may own up to 1% of the common stock of a Competing Business that is publicly traded on a national stock exchange);

(b) perform services as a director, officer, manager, employee, consultant, representative, agent or otherwise for a Competing Business, wherever located; or

(c) recruit or hire any person who is our employee or the employee of any other Travel Business or an Authorized Independent Contractor engaged by another Travel Business, without obtaining the prior written permission of that person's employer or the contracting Travel Business. If you violate this Section 11.01(c), you must pay that person's employer or contracting Travel Business compensation for training, recruitment and replacement in an amount equal to twice the annual compensation you have agreed to pay such employee (as reflected by your payroll records) or Authorized Independent Contractor.

11.02 Definition of a Competing Business

The term “**Competing Business**” as used in this Agreement means any business (other than a Travel Business operated under a franchise agreement with us or one of our Affiliates) providing cruise-focused services or offering cruise-related products.

12. OPERATION AND SYSTEM STANDARDS

12.01 Franchise Operations Manual; System Standards

During the term of this Agreement, we will provide you access to our franchise operations manual (the “**Manual**”). The content of the Manual is accessed on CruiseDesk®, in an electronic format. The Manual contains mandatory and suggested specifications, standards, operating procedures and rules (“**System Standards**”) that we require from time to time for the operation of a Travel Business and information relating to your obligations as a Franchisee. The content of the Manual belongs to us and you have no ownership interest in the Manual or any content therein. The Manual may be modified, updated and revised from time to time to reflect changes in System Standards. In the event of a dispute relating to its contents, the current electronic version of the Manual we maintain, in CruiseDesk, will be controlling. You are not permitted to download, transmit, reproduce, or save a local copy on your computer. Except as described above, you may not copy, duplicate, record or otherwise reproduce any part of the Manual without our permission. Upon our request, and immediately upon termination of this Agreement, you must destroy or surrender all copies of the Manual, regardless of form, in the manner specified by us. We may require you to provide evidence to our satisfaction of such destruction or otherwise certify your compliance with these requirements. If any portion of the Manual is in conflict with the terms and conditions of this Agreement, this Agreement prevails but the remaining provisions of the Manual will remain in full force and effect.

12.02 Compliance with System Standards

You acknowledge and agree that the operation and maintenance of your Travel Business in accordance with System Standards is essential to preserve the goodwill of the Marks and all Travel Businesses. Therefore, at all times during the Term, you will operate and maintain your Travel Business in accordance with all System Standards, as we periodically modify and supplement them during the term of this Agreement. Through System Standards, we may regulate any one or more of the following aspects, among others, of your Travel Business:

- (a) required or optional Approved Travel Products and Services;
- (b) terms and conditions of the sale, terms and methods of payment for Approved Travel Products and Services and other products, materials, supplies and services that you obtain from us, Approved Travel Suppliers or others;
- (c) sales, marketing, advertising and promotional programs and materials and media used in such programs;
- (d) use and display of the Marks;
- (e) qualifications, training and appearance of personnel;
- (f) participation in market research and testing and product and service development programs and customer satisfaction programs;
- (g) acceptance of credit cards, gift certificates, coupons, frequent purchaser programs, and payment systems and check verification services;
- (h) bookkeeping, accounting, data processing and record keeping systems, including software, and forms; methods, formats, content and frequency of reports to us of sales, revenue, financial performance and condition; and furnishing tax returns and other operating and financial information to us;
- (i) types, amounts, terms and conditions of insurance coverage required to be carried for your Travel Business and standards for underwriters of policies providing required insurance coverage; our protection and rights under such policies as an additional named insured; required or impermissible insurance contract provisions; assignment of policy rights to us; periodic verification of insurance coverage that must be furnished to us; our right to obtain insurance coverage for your Travel Business at your expense if you fail to obtain required coverage; our right to defend claims; and similar matters relating to insured and uninsured claims;
- (j) compliance with applicable laws; adherence to good business practices; observance of high standards of honesty, integrity, fair dealing and ethical business conduct in all dealings with customers, suppliers and us; and notifying us if any action, suit or proceeding is commenced against you or your Travel Business;
- (k) regulation of such other aspects of the operation and maintenance of your Travel Business that we determine from time to time to be useful to preserve or enhance the efficient operation, image or goodwill of the Marks and Travel Businesses;
- (l) your or your designee's performance of any and all necessary confirmations and follow-up services for all Approved Travel Products and Services;
- (m) types, amounts, terms and conditions of service agreements, use agreements, contracts and other agreements between the Parties, your customers and Approved Travel Suppliers; and
- (n) your required attendance at the franchisee meetings, including the regional "Anchor" meetings and annual National Conference, for which you are responsible for all travel, lodging and related expenses.

You agree and acknowledge that System Standards prescribed from time to time in the Manual, or otherwise communicated to you in writing or other tangible or intangible form, constitute provisions of this

Agreement as if fully set forth herein. We may in the future develop, enhance or modify various aspects of the System and System Standards and all references to this Agreement include the System and all System Standards as modified. We may from time to time develop or test prospective programs or aspects of the System in collaboration with individual Travel Businesses or a group of Travel Businesses, which may include Travel Businesses owned by us.

12.03 Management

You (or if you are a Business Entity, your controlling Owner(s)) will assume responsibility for the day-to-day management and operation of your Travel Business and the supervision of your personnel, if any. At all times of operation your Travel Business must be under the direct on-premises supervision of a controlling Owner or one of your employees or consultants whom we have approved and trained to manage your Center. We may require you to sign and deliver our then-current form of Confidentiality Agreement, or other form satisfactory to us. We may also require your personnel to sign and deliver our then-current form of Confidentiality Agreement, or other form satisfactory to us. You will at all times keep us informed of the person(s) managing the day-to-day on-premises operation of the Center and if there is a change in day-to-day on premises management, we may require that person to complete Training.

12.04 Personnel

As a condition of their employment, your personnel must meet every requirement imposed by applicable federal, state and local law.

12.05 Compliance with Laws; Indemnification

You will secure and maintain in full force all required licenses, permits, registrations and certificates relating to the operation of your Travel Business and the Center. You will operate your Center and Travel Business in full compliance with all applicable laws, rules, ordinances and regulations, including all government regulations relating to transfer of an interest in this Agreement, occupational hazards, consumer protection, trade regulation, workers' compensation, unemployment insurance and withholding, payment of federal and state income taxes and social security taxes and sales, use and property taxes. You will indemnify and hold us and our Affiliates (and all officers, directors, partners, and employees) harmless against any and all claims arising, and expenses incurred (including attorneys' fees), directly or indirectly from, as a result of, or in connection with, any alleged failure on your part to comply with any applicable laws, rules, ordinances or regulations.

12.06 No Disparagement

Neither you nor any of your Owners will publicly disparage us or our Affiliates or our officers, directors or employees except that this requirement will not apply to any statements or information required to be disclosed pursuant to any law or order of any court or government authority.

13. CRUISEDESK® SYSTEM LICENSE; ADDITIONAL SOFTWARE

13.01 CruiseDesk® System License

Your payment of the Initial Franchise Fee and the recurring Service Fee and MIS Fee constitutes payment to us for your use of CruiseDesk® and any improvements thereto on a non-exclusive basis. In developing and operating your Travel Business, you will use CruiseDesk® and any periodic improvements thereto. We may require you to obtain specified computer hardware or software and we may modify specifications for and components of CruiseDesk® from time to time. Our improvements to CruiseDesk®

may require you to incur costs and, if required, you will incur such costs, to purchase, lease or license new or modified computer hardware or software and to obtain service and support for CruiseDesk® during the Term or the Additional Term. You will obtain any such required hardware and software components relative to CruiseDesk® that we designate and require within 60 days after we notify you. Your computer hardware must be capable of running and connecting with CruiseDesk®. We will provide assistance to you through e-mail and in some instances, by telephone, in connection with the connectivity and use of CruiseDesk® and any Proprietary Software we require you to use.

13.02 Additional Software License

In addition to CruiseDesk®, we may require you to license or sublicense from us any additional Proprietary Software we may develop and require you to use in the future, and any third party software applications we may require you to use (such third party software together with the additional Proprietary Software, hereinafter referred to as “**Additional Software**”) and we may charge you an additional fee for such Additional Software. Subject to the terms and conditions of this Agreement, if we license, sublicense or otherwise provide any Additional Software to you, we grant to you a non-exclusive, non-transferable and non-sub-licensable license to use the Additional Software as follows:

(a) Use of the Additional Software. You and your personnel may use the Additional Software solely within the scope of your operation of your Travel Business under this Agreement.

(b) Additional Software Restrictions. You are responsible for all use of the Additional Software in compliance with this Agreement; any breach by you or any user or third party will be deemed to have been incurred by you. You must also comply with the terms of any licenses or sublicenses for any Additional Software.

13.03 No Reverse Engineering

You must not decompile or reverse engineer any executable code for CruiseDesk® or any Proprietary Software or Additional Software we provide (*e.g.*, to reveal the corresponding source code). You will not avoid, circumvent, or disable any security device, procedure, protocol, or mechanism that we may include, require or establish with respect to CruiseDesk®, Proprietary Software or Additional Software. You will not delete, alter, cover, or distort any copyright, trademark or other proprietary rights notice placed by us or any third-party licensor on or in CruiseDesk®, Proprietary Software or Additional Software, and will ensure that all such notices are reproduced on all copies of CruiseDesk®, Proprietary Software or Additional Software.

13.04 Reservation of Rights

CruiseDesk®, and any Proprietary Software or any Additional Software, may not be used except as expressly authorized in this Agreement. We reserve all rights not expressly granted.

13.05 Ownership

As between the Parties, we will retain all rights in and to CruiseDesk® (excluding hardware, but including disks, drives or other storage devices that carry our Proprietary Software) and any Proprietary Software and Additional Software (and all copies and derivatives), including all copyrights and other intellectual property rights in or to CruiseDesk® and any Proprietary Software and Additional Software, in accordance with our license agreement with CII. Except as otherwise expressly provided in this Agreement, you will not obtain, nor grant to any third party any express or implied rights in or to, any part of CruiseDesk®, any Proprietary Software or any Additional Software.

13.06 Protection from Unauthorized Use

You will take all reasonable steps to protect CruiseDesk®, and any Proprietary Software and Additional Software, from any use, reproduction, publication, disclosure or distribution that is not specifically authorized by this Agreement. You will ensure that you and your personnel not disclose their user IDs and passwords to any Person other than on a need-to-know basis. You will be responsible for the security of your user IDs and passwords, and will immediately notify us of any suspected or actual theft, loss or fraudulent use of them.

13.07 Support Services

During the term of this Agreement, we will provide limited support services with respect to CruiseDesk® and any Proprietary Software to the extent we deem practicable in the manner we designate from time to time in the Manual.

13.08 Updates

Any updates, patches, bug fixes, modifications, enhancements and new versions of CruiseDesk® and any Proprietary Software and all other deliverables and work product we develop for such CruiseDesk® system and any Proprietary Software we provide to you will be subject to the terms and conditions of this Agreement, unless otherwise expressly agreed in writing by us. Our technical support services for CruiseDesk® and other Proprietary Software, if any, extend only to CruiseDesk® system and any Proprietary Software, free of any additions or modifications that have not been made by us or our agents, or approved by us in writing. Our support services do not include the following and we have no responsibility or liability for:

- (a) addressing errors, defects, or damage in or to the Proprietary Software resulting from causes other than those arising in the ordinary permitted use of the Proprietary Software, or from the use of third party software, firmware or data, or from the use of hardware not meeting our minimum recommended configuration;
 - (b) providing hardware-related services;
 - (c) providing training to your personnel except as otherwise provided in this Agreement;
- or
- (d) developing or otherwise providing you with additional features, functionality, or customizations to the Proprietary Software.

13.09 Your Responsibility

You will cooperate fully with us in the performance of our technical support services, including by providing us with such timely, accurate and complete information and reasonable access to your personnel, if any, as we may require or request. You are responsible for using CruiseDesk® and any other Proprietary Software and Additional Software in compliance with this Agreement and for obtaining written agreements in the form we provide from each of your personnel and Authorized Independent Contractors who have access to or utilize any aspect of CruiseDesk® and any other Proprietary Software to the effect that such persons agree to be bound by the terms of this Agreement (and all other agreements) with respect to the use of CruiseDesk® and any other Proprietary Software and Additional Software. You will be in breach of this Agreement if any user to whom you have given access to CruiseDesk® or any Proprietary Software or Additional Software fails to comply with the requirements under this Agreement governing the use of CruiseDesk® or any Proprietary Software or Additional Software. To the extent you delay or fail to satisfy

your obligations to us, we will be relieved of our obligations under this Agreement and you will be deemed in breach of it.

13.10 Discontinuation of Use

We will have no responsibility for (a) the results of termination of your access to CruiseDesk® after we have notified you of such termination; (b) your use of the Proprietary Software with content, assets, technology or other materials not supplied by us; or (c) alteration of CruiseDesk® or any Proprietary Software or use of a version of CruiseDesk® or any Proprietary Software that has been superseded by a newer version.

13.11 Warranty Limitations

We and our Affiliates disclaim any warranties of any nature whatsoever, whether express, written, oral, implied or statutory, including any implied warranties of merchantability or fitness for a particular purpose, title or non-infringement, or any warranties arising under the uniform computer information transactions act, however enacted in any state or jurisdiction. Neither we nor our Affiliates are liable under any circumstances to you for any consequential, special, exemplary, indirect, incidental or collateral damages of any nature whatsoever in connection with any of the supplies or CruiseDesk®, Proprietary Software or Additional Software, or any other products, equipment or supplies you obtain from us or others and their design (including your right to use, delivery, installation and your use of them), the service and functions they perform (or fail to perform), their design and this agreement, whether by reason of imperfection or defect in them or in their performance, our (or any of our Affiliates) breach or otherwise, even if we (or our Affiliates) are advised of the possibility of such damages, regardless of whether they are based in tort or in contract.

14. MARKETING AND PROMOTION

14.01 Marketing Fund

In recognition of the value of advertising and marketing to the goodwill and public image of all Travel Businesses, we administer a system-wide marketing fund (the “**Marketing Fund**”) for such advertising, marketing and public relations programs and materials we deem necessary or appropriate in our sole discretion. We may consult with franchisees on a timely basis to obtain their input regarding the contents and type of advertising for which the Marketing Fund will be used. Franchisee input that is reasonable and in the best interest of all franchisees will be considered in the management of the Marketing Fund. You must contribute the Marketing Fee to the Marketing Fund on a monthly basis in the amount set forth on Schedule A. The Marketing Fee will be subject to an annual CPI Adjustment. We reserve the right to defer or reduce contributions of a Franchisee and, upon 30 days' prior written notice to you, to reduce or suspend contributions to and operations of the Marketing Fund for one or more periods of any length and to terminate (and, if terminated, to reinstate) the Marketing Fund. If the Marketing Fund is terminated, all unspent monies on the date of termination will be distributed to our Franchisees in proportion to their respective contributions to the Marketing Fund during the preceding 12-month period. We will contribute to the Marketing Fund on the same basis as Franchisees for any Travel Businesses owned and operated by us.

14.02 Management of Marketing Fund

We will direct all programs financed by the Marketing Fund, with sole discretion over the creative concepts, materials and endorsements, and the geographic, market and media placement and allocation. We may use the Marketing Fund to pay the costs of preparing and producing video, audio and written

advertising materials; administering regional and multi-regional advertising programs, including, without limitation, purchasing direct mail and other media advertising and employing advertising, promotion and marketing agencies; supporting public relations, market research and other advertising, promotion and marketing activities.

14.03 Accounting for the Marketing Fund

We are not required to hold funds in the Marketing Fund in a separate account, although we will account for the funds in the Marketing Fund separately. We will not use the Marketing Fund to defray any of our general operating expenses, except for such reasonable salaries, administrative costs, travel expenses and overhead as we may incur in activities related to the administration of the Marketing Fund and its programs. We may spend, on behalf of the Marketing Fund, in any fiscal year an amount greater or less than the aggregate contribution of all Travel Businesses to the Marketing Fund in that year, and the Marketing Fund may borrow from us or others to cover deficits or invest any surplus for future use. We will prepare a periodic statement of monies collected and costs incurred by the Marketing Fund and furnish the statement to you upon written request.

14.04 Marketing Fund Limitations

You acknowledge that the Marketing Fund is intended to maximize recognition of the Marks and patronage of Travel Businesses generally. Although we will endeavor to utilize the Marketing Fund to develop advertising and marketing materials and programs and to place advertising that will benefit all Travel Businesses, we undertake no obligation to ensure that expenditures by the Marketing Fund in or affecting any geographic area are proportionate or equivalent to the contributions to the Marketing Fund by Travel Businesses operating in that geographic area or that any Travel Business will benefit directly or in proportion to its contribution to the Marketing Fund. Except as expressly provided in this Section 14.04, we assume no direct or indirect liability or obligation to you with respect to collecting amounts due to the Marketing Fund and will not be held liable for any act or omission with respect to the Marketing Fund which is consistent with this agreement, the Manual or that which is done in good faith.

14.05 Local Marketing

You agree that any advertising, promotion and marketing you conduct will be completely clear and factual and not misleading and conform to the highest standards of ethical marketing and the promotion policies which we prescribe from time to time. You will submit to us samples of all advertising, promotional and marketing materials which we have not prepared or previously approved for approval before use. You must provide any non-approved advertising to us at least 5 days prior to the deadline for running the advertisement. Any advertising or promotional materials not approved by us within 3 days of receipt will be deemed disapproved. You may not use any advertising or promotional materials that we have disapproved. We will not approve any materials submitted to us with pricing that does not comply with Approved Travel Suppliers' policies.

14.06 Website and E-Commerce

We have the right to designate and control your use of all telephone and facsimile numbers for the Center, URLs, domain names, website addresses, metatags, links, key words, e-mail addresses, social media profiles and pages and any other means of electronic identification or origin ("**e-names**") used in connection with your Travel Business. We also have the right to designate, approve, control or limit all aspects of your use of CruiseDesk® and any aspect of your Travel Business that you conduct over the Internet ("**e-commerce**"), including, use of e-names, e-mail, home pages, bulletin boards, chat rooms, linking, framing, on-line purchasing cooperatives, marketplaces, barter exchanges, and related technologies, methods,

techniques, registrations, networking, and any electronic communication, commerce, computations, or any means of interactive electronic documents contained in a network of computers or similar devices linked by communications software or hardware. You must follow all of our policies and procedures for the use and regulation of e-commerce and for its use with CruiseDesk®. We may require that you provide graphical, photographic, written or other forms of artistic or literary content to us for use in e-commerce activities associated with the Marks or the System that we may designate. We may restrict your use of e-commerce to CruiseDesk®, Center Website, Consultant Websites or other form of e-commerce that we designate or operate. You will be bound by any terms of use, privacy policy and copyright notice and takedown policies and the like that we establish from time to time. You must coordinate your e-commerce activities with us, other Travel Businesses, suppliers and Affiliates, and participate in any intranet networks we develop. You acknowledge and agree that as between the Parties: (a) we hold all license rights in and to CruiseDesk® and any other websites and any e-names created or used in connection with the System or Travel Businesses; (b) we own all rights, title and interest in and to any and all data or other information collected via e-commerce related to the System or the Marks, including any customer data, click-stream data, cookies, user data, hits and the like; and (c) such data or other information also constitutes our Confidential Information.

15.ACCOUNTING; TRADE ACCOUNTS; REPORTS

15.01 Accounting System

You will establish and maintain at your own expense a bookkeeping, accounting and recordkeeping system conforming to the requirements and formats we prescribe from time to time. We may require you to use approved computer hardware and software in order to maintain certain sales data and other information including updating of the Manual and for communication purposes. You will provide us with access to such sales, marketing and related data and other information through CruiseDesk® at all times.

15.02 Accounting and Records

It is your responsibility to obtain accounting services and any required hardware or software related to them. At all times, you will maintain the records specified in the Manual, including, without limitation, sales and expense information. To the extent we require support for accounting software used by you, such support will only be provided with respect to the accounting software then used by us in the operation of Travel Businesses.

15.03 Trade Accounts and Taxes

You will maintain your accounts with all Approved Travel Suppliers (collectively, your “**Trade Accounts**”) in a current status, timely transfer on or before the due date all customer payments, deposits and other customer funds to the appropriate Approved Travel Suppliers, and seek to resolve any disputes involving your Trade Accounts promptly. You will pay all taxes incurred in connection with your Travel Business's operations in a timely manner. If you fail to maintain your Trade Accounts in a current status or fail to pay all taxes in a timely manner, you will be in default of this Agreement.

15.04 Reports

Within fifteen (15) days after the end of each month you will deliver to us a profit and loss statement and balance sheet covering the operations of your Center/Travel Business for the immediately preceding completed month, a statement of Gross Revenues in the form and containing the breakdown of the amounts comprising Gross Revenues as we may require, and any other evidence of operation of the Center during the immediately preceding month that we require. You will communicate electronically with us the

Center/Travel Business's daily sales activity and other reports as we request from time to time. You will allow us access to and advise us of all passwords and codes necessary to access your computer system. Our access will be limited to information prescribed in this agreement and the Manual as amended from time to time. You will furnish to us other periodic reports and financial statements as we may reasonably require in the Manual or otherwise.

15.05 Financial Statements

(a) You will submit to us within ninety (90) days after the end of each fiscal year complete financial statements in the format we prescribe, including a profit and loss statement covering the operations of the Center for that fiscal year and a balance sheet as at the end of the fiscal year, which balance sheet and profit and loss statement will be reviewed by the external accountants of the Franchisee if requested by Franchisor.

(b) You will submit to us within one month after the end of each fiscal quarter complete financial statements in the format we prescribe, including a profit and loss statement covering the operations of the Center for the fiscal year through to the end of the fiscal quarter and a balance sheet as at the end of the fiscal quarter.

(c) You will submit to us a statement of Gross Revenues containing a breakdown of the amounts comprising Gross Revenues, and other requested evidence of operation of the Center during the immediately preceding month or period.

15.06 Access and Disclosure of Information

You will verify and sign each report and financial statement in the manner we prescribe. We have the right to disclose data derived from such reports without identifying you or your Travel Business. We also have the right to review your records if we reasonably believe that the reports are incorrect. Moreover, we have the right as often as we deem appropriate (including on a daily basis) to access your CruiseDesk[®] system and to retrieve all information relating to the operation of your Travel Business.

16. INSPECTIONS AND AUDITS

16.01 Our Right to Inspect

To determine whether you and your Travel Business are complying with this Agreement and all System Standards, we and our designated agents have the right at any time during your regular business hours, to:

- (a) inspect your Center and Travel Business;
- (b) observe and make photographs/digital images and audio and/or video recordings of the operations of your Center and Travel Business for such consecutive or intermittent periods as we deem necessary;
- (c) interview personnel and customers of your Travel Business;
- (d) interview and review records from Approved Travel Suppliers;
- (e) inspect and copy any books, records and documents relating to your operation of your Travel Business;

(f) inspect and copy any promotional, advertising or other material that incorporates the Marks and that relates to the operation of your Travel Business;

(g) request information from government agencies that regulate your Travel Business for the purpose of confirming your status and standing to operate your Travel Business during the term of the Franchise Agreement (you must consent to allow state regulators to provide us such information by signing a consent, a form of which is attached as Schedule G); and

(h) pose as a customer or potential customer and to survey/observe your interactions with customers without notice to you.

You will cooperate with us fully in connection with any such inspections, observations, photographing, audio and video recording, product removal and interviews. You will present to your customers such evaluation forms that we periodically prescribe and to participate or request your customers to participate in any surveys performed by us or on our behalf. You will correct or repair any unsatisfactory conditions we specify within 5 days.

16.02 Our Right to Audit

We have the right at any time during your business hours, and without prior notice to you, to inspect and audit, or cause to be inspected and audited, the bookkeeping and accounting records, sales and income tax records and returns and other records of your Travel Business. You will cooperate fully with our representatives and independent accountants we hire to conduct any such inspection or audit. If our inspection or audit is made necessary by your failure to furnish reports, supporting records or other information we require, or to furnish such items on a timely basis, or if the information is not accurate (i.e., your payments to us were deficient by 2% or more), or if we incur expenses in obtaining required information from regulatory agencies or other governmental authorities, you will reimburse us for the cost of such inspection or audit, including, without limitation, the charges of attorneys and independent accountants and the travel expenses, room and board and compensation of our personnel within 10 days of billing. You also must pay us any shortfall in the amounts you owe us, including late fees and interest, within 10 days of our notice, and we have the right to debit your Account for these amounts by way of an EFT. The foregoing remedies are in addition to our other remedies and rights under this Agreement and applicable law. Our right to audit will survive the termination or expiration of this Agreement.

17. TRANSFER

17.01 By Us

This Agreement is fully transferable by us and inures to the benefit of any transferee or other legal successor to our interests, as long as such transferee or successor agrees to be bound by, and assumes all of our continuing obligations under this Agreement.

17.02 By You

You understand and acknowledge that the rights and duties created by this Agreement are personal to you (or, if you are a Business Entity, to your Owner(s)) and that we have granted the Franchise to you in reliance upon our perceptions of the individual or collective character, skill, aptitude, attitude, business ability and financial capacity of you or your Owner(s). Accordingly, you may not transfer or assign this Agreement (or any interest in it or any of the rights we grant you hereunder) nor any ownership or other interest in you or your Travel Business without our prior written approval. Any transfer without our prior approval constitutes a breach of this Agreement and is void and of no effect.

17.03 Definition of a Transfer

As used in this Agreement, the term “**Transfer**” means a voluntary, involuntary, direct or indirect assignment, sale, gift or other disposition of any interest in: (a) this Agreement; (b) you; or (c) your Travel Business, including:

- (a) a transfer of ownership of capital stock or a partnership interest;
- (b) a merger or consolidation or issuance of additional securities or interests representing an ownership interest in you;
- (c) any issuance or sale of your stock or any security convertible into your stock;
- (d) any transfer of an interest in you, this Agreement or your Travel Business in a divorce, insolvency or corporate or partnership dissolution proceeding or otherwise by operation of law;
- (e) any transfer of an interest in you, this Agreement or your Travel Business, in the event of your death or the death of one of your Owners, by will, declaration of or transfer in trust or under the laws of intestate succession; or
- (f) any pledge of this Agreement (to someone other than us) or of an ownership interest in you as security, foreclosure upon your Travel Business, or your transfer, surrender or loss of possession, control or management of your Travel Business.

17.04 Conditions for Approval of Transfer

In connection with any proposed Transfer of this Agreement, any of the rights hereunder, or a controlling interest in you (or any series of Transfers which in the aggregate constitute the Transfer of this Agreement or a controlling interest in you), we require the following as conditions to our approval:

- (a) the transferee (or its direct and indirect owners, if it is a Business Entity) is of good character and has/have sufficient business experience, aptitude, financial resources and all necessary licenses required to operate a Travel Business and otherwise meets our then applicable standards for Franchisees (which include, if the transferee is an existing franchisee operating a different Travel Business, that the transferee is fully compliant with System Standards);
- (b) you have paid all amounts owed to us and to third-party creditors, have submitted all required reports and statements, and otherwise are in full compliance with this Agreement;
- (c) the material terms and conditions of such proposed Transfer are acceptable to us, including any draft and final versions of the proposed purchase and sale agreement, and we determine that the price and terms of payment will not adversely affect the ongoing operation of the Travel Business;
- (d) the transferee (or, if the transferee is a Business Entity, one or more of its controlling Owners and any of its employees or consultants whom we have approved to manage the Travel Business) agree(s) to complete Training;
- (e) if the proposed Transfer is to a transferee who is not a current Owner, then such transferee has executed our then-current form of Franchise Agreement and related agreements and paid the Transfer Fee, as applicable (and each of such transferee’s owners has executed our Franchisee Owner’s

Guaranty if it is a Business Entity); provided, however, if such transferee is an existing franchisee operating a different Travel Business, the required Transfer Fee will be reduced by fifty percent (50%);

(f) if the proposed Transfer is to a transferee who is a current Owner and (i) the Transfer results in a change of control in you in favor of the transferee, then such transferee has paid the Transfer Fee; or (ii) the Transfer does not result in a change of control in you in favor of the transferee, then such transferee has paid the Document Administration Fee, and, in either case, has (or if such current Owner is a Business Entity, then its Owner(s) have/has) executed our Franchisee Owner's Guaranty;

(g) you make all changes we deem necessary to bring the Center into compliance with the then-current System Standards, including updating all signage, décor, furnishings, computer software, hardware and other equipment, prior to the Transfer; or, alternatively, the transferee agrees to make such changes as we deem necessary in accordance with a specified timeline, prior to the Transfer, pursuant to our current form of Franchise Agreement to be entered into by the transferee or otherwise;

(h) you (and your transferring Owners if you are a Business Entity) execute a mutual release, in a form satisfactory to us and our partners, officers, directors, employees and agents;

(i) if you (or your Owners if you are a Business Entity) finance any part of the sale price of the transferred interest, you (or your Owners if you are a Business Entity) agree that all of the transferee's obligations pursuant to any promissory notes, agreements or security interests that you (or your Owners) have reserved in your Travel Business are subordinate to the transferee's obligation to pay all fees and other amounts due to us and to operate the Travel Business in accordance with and otherwise in compliance with this Agreement, including without limitation, any violation of Section 14 of this Agreement, meaning, among other things: (x) that any payment by the transferee to you or your Owners is conditional upon the transferee first having paid in full when due all amounts then owed by the transferee to us or our Affiliates; and (y) in no event shall you take or be entitled to take any action to hinder or interfere with the operation of the Travel Business, enter the premises of the Center or attempt to retake or resume occupancy of the Travel Business or Location while a Dispute is threatened, pending or in the process of being resolved (although following the resolution of a Dispute in accordance with the procedures agreed upon for resolving Disputes, you may attempt to collect any money damages from the transferee awarded to you or to which you are entitled); and

(j) you (or your Owners if you are a Business Entity) agree to not directly or indirectly at any time or in any manner (except with respect to other Travel Businesses you are licensed to operate) identify yourself (or themselves) or any business as a current or former Travel Business, or as one of our Franchisees, use any Mark, any colorable imitation of a Mark, or other indicia of a Travel Business in any manner or for any purpose or utilize for any purpose any trade name, trade or service mark or other commercial symbol that suggests or indicates a connection or association with us.

In connection with any proposed Transfer of a non-controlling interest in you, we may require any or all of the foregoing as conditions to our approval, as applicable, except for the payment of a Transfer Fee pursuant to Section 17.04(e), in lieu of which, you must pay a Document Administration Fee. You also must pay the Documentation Administration Fee any time you take any other action that requires us to change existing contracts or prepare additional documents.

For the avoidance of doubt, in no case will we permit the Transfer of this Franchise Agreement as part of a sale of substantially all of the equity in or assets owned by you or your Travel Business. Instead, such acquirer of substantially all of the equity in or assets owned by you or your Travel Business will be required to sign our then-current form of Franchise Agreement to operate your Travel Business.

17.05 Effect of Consent to Transfer

Our consent to a Transfer does not constitute (i) a representation as to the fairness of the terms of any contract between you (or your Owners if you are a Business Entity) and the transferee; (ii) a guarantee that the transferee will be successful in operating the Travel Business; or (iii) a waiver of any claims we may have against you (or your Owners if you are a Business Entity) or of our right to demand the transferee's exact compliance with any of the terms or conditions of this Agreement.

17.06 Transfer to a Business Entity

Notwithstanding the conditions for approval of a Transfer described above, if you are in full compliance with this Agreement, you may transfer this Agreement to a Business Entity that conducts no business other than your Travel Business and, if applicable, other Travel Businesses so long as you own, control and have the right to vote 51% or more of its issued and outstanding ownership interests (like capital stock or partnership interests); provided, however, that: (a) any other owners of this sole-purpose Business Entity are subject to our approval; (b) you and any other Owners guarantee its performance under this Agreement by signing the Franchisee Owner's Guaranty; and (c) you and any other Owners agree not to engage in a Competing Business in violation of Section 11.01. The organizational or governing documents of the Business Entity must recite that the issuance and transfer of any ownership interests in the Business Entity are restricted by the terms of this Agreement, are subject to our approval, and all certificates or other documents representing ownership interests in the Business Entity must bear a legend referring to the restrictions of this Agreement. You must reimburse us for any administrative or legal expenses we incur in connection with a Transfer described in this Section 17.06.

17.07 Transfer Upon Death or Disability

Upon your death or disability or, if you are a Business Entity, the death or disability of the Owner of a controlling interest in you, your or such Owner's executor, administrator, conservator, guardian or other personal representative must transfer your interest in this Agreement or such Owner's interest in you to a third party. Such disposition of this Agreement or the interest in you (including, without limitation, transfer by bequest or inheritance) must be completed within a reasonable time, not to exceed 6 months from the date of death or disability, and will be subject to all of the terms and conditions applicable to transfers contained in this Article 17. A failure to transfer your interest in this Agreement or the ownership interest in you within this period of time constitutes a breach of this Agreement. For purposes of this Agreement, the term “**disability**” means a mental or physical disability, impairment or condition that is reasonably expected to prevent or actually does prevent you or an Owner of a controlling interest in you from managing and operating your Travel Business.

17.08 Operation Upon Death or Disability

If, upon your death or disability, or the death or disability of the Owner of a controlling interest in you, your Travel Business is not being managed by a manager we deem to be reasonably qualified, your or such Owner's executor, administrator, conservator, guardian or other personal representative must, within a reasonable time, not to exceed 30 days from the date of death or disability, appoint a qualified manager to operate your Travel Business. Such manager will be required to complete Training at your expense. Pending the appointment of a qualified manager, or if we believe your Travel Business is not being managed properly, we have the right to suspend operation of your Travel Business or appoint a Franchisee or other designee to operate your Travel Business.

18. TERMINATION OF AGREEMENT

18.01 By You

If you (and your Owners if you are a Business Entity) are in compliance with this Agreement and we materially fail to comply with this Agreement and we do not correct or commence correction of such failure within 60 days after written notice of such material failure is delivered to us, you may terminate this Agreement effective 60 days after delivery to us of written notice of termination. Your termination of this Agreement for any other reason or without such notice will be deemed a termination without cause.

18.02 By Us

We have the right to terminate this Agreement immediately upon delivery of written notice of termination to you, if:

(a) you (or any of your Owners) have made any material misrepresentation or omission in connection with your application to be granted a Franchise;

(b) you fail to successfully complete Training to our satisfaction or to open and commence operating your Center within nine months after the Effective Date;

(c) you abandon or fail to actively operate your Travel Business for 3 or more consecutive business days (excluding Sundays and statutory holidays), unless your Travel Business has been closed for a purpose we have approved or because of casualty or government order;

(d) If a threat or danger to public health or safety results from the construction, maintenance or operation of the Center;

(e) you (or any of your Owners) fail to attend without our prior written approval, any of our regional Franchisee meetings or the annual National Conference, the associated costs of which including for travel, lodging and meals are your responsibility;

(f) you breach or fail to comply with any material provision, covenant, warranty, undertaking or obligation in or under any agreement relating to the operation of your Travel Business to which you are a party, including making timely payments of all amounts due to your creditors, your landlord or any Approved Travel Suppliers, or an event of default occurs under any such agreement to which you are a party which is not cured after any required notice and/or cure period;

(g) you or your agents or your personnel fail to acquire and maintain all licenses, certificates, registrations, approvals or exemptions necessary for your Travel Business, your agents or personnel to fully comply with all federal, state and municipal laws, rules, regulations and ordinances;

(h) you take any action, or fail to act, in a manner which, in our opinion, interferes with our relationships with the Approved Travel Suppliers or interferes with the relationship between an Approved Travel Supplier and any other Franchisee;

(i) you fail on 2 or more separate occasions to obtain our prior approval of any and all advertising, marketing or promotional plans and materials in whatever form you use in connection with the promotion of the Travel Business;

(j) you fail on 2 or more separate occasions to comply with our policies and procedures with respect to advertising, marketing or promotion and do not correct such failure within 5 calendar days after written notice of delivered to you;

(k) you violate any law, ordinance or regulation and do not begin to cure the noncompliance or violation immediately, and such noncompliance or violation is not corrected within 5 calendar days after written notice is delivered to you;

(l) you fail to enforce the terms of the Independent Contractor Agreement between you and your Authorized Independent Contractors.

(m) you (or any of your Owners) have committed a felony or other crime or offense that is likely to adversely affect your reputation, our reputation or the reputation of any other Travel Business (probable cause includes, but is not limited to, a conviction by a trial court or a plea of guilty or no contest);

(n) you (or any of your Owners) engage in any dishonest or unethical conduct that may adversely affect the reputation of your Travel Business or other Travel Businesses or the goodwill associated with the Marks;

(o) you (or any of your Owners) make any unauthorized use or disclosure of any Confidential Information or use, duplicate or disclose any portion of the Manual or CruiseDesk® in violation of this Agreement;

(p) you fail to make payments of any amounts due to us and do not correct such failure within 5 calendar days after written notice of such failure is delivered to you;

(q) you incur 3 or more Insufficient EFT Fees within a 12 month period;

(r) you (or any of your Owners) knowingly maintain false books or records, fail to report any revenues generated by your Travel Business, or submit any false statements, applications or reports to us or any assignee of us;

(s) you fail on 2 or more separate occasions within any period of 12 consecutive months to submit when due reports or other data, information or supporting records, regardless of whether such failures were corrected after written notice of such failure was delivered to you;

(t) you (or any of your Owners) fail to pay when due any federal or state income, service, sales or other taxes due on the operations of your Travel Business, unless you are in good faith contesting your liability for such taxes;

(u) you surrender or transfer control of the operation of your Travel Business without our prior written consent;

(v) you (or any of your Owners) make an unauthorized Transfer of this Agreement or of an ownership interest in you or your Travel Business;

(w) in the event of your death or disability (or the death or disability of the Owner of a controlling interest in you), this Agreement (or such Owner's interest in you) is not assigned as required under this Agreement;

(x) you make an assignment for the benefit of creditors or admit in writing your insolvency or inability to pay your debts generally as they become due; you consent to the appointment of a receiver, trustee or liquidator of all or the substantial part of your property; your Travel Business is attached, seized, subjected to a writ or distress warrant or levied upon, unless such attachment, seizure, writ, warrant or levy is vacated within 30 days; or any order appointing a receiver, trustee or liquidator of you or your Travel Business is not vacated within 30 days following the entry of such order; or

(y) you (or any of your Owners) fail to comply with any other provision of this Agreement, including any policies and procedures established by Approved Travel Suppliers, and do not correct such failure within 30 days after written notice of such failure is delivered to you.

19. RIGHTS AND OBLIGATIONS UPON TERMINATION OR EXPIRATION

19.01 Payment of Amounts Owed to Us

Upon the termination or expiration of this Agreement, we may debit your Account through an EFT for all other fees, including interest due thereon and all other amounts owed to us which are then unpaid. If we elect not to debit your Account through an EFT, you will pay us the foregoing amounts within 15 days after the effective date of termination or expiration of this Agreement, or on such later date that the amounts due to us are determined.

19.02 Marks

Upon the termination or expiration of this Agreement:

(a) you may not, directly or indirectly, at any time or in any manner (except with respect to other Travel Businesses you own and operate) identify yourself or any business as a current or former Franchisee, use any Mark, any colorable imitation of a Mark or other indicia of a Travel Business in any manner or for any purpose or utilize for any purpose any trade name, trade or service mark or other commercial symbol that indicates or suggests a connection or association with us;

(b) you will deidentify your Center, as soon as reasonably possible but within seven (7) days or less of following the date of termination or expiration;

(c) you agree to not challenge the validity of any trademarks or trade names owned or used by us, Expedia, CII or their Affiliates;

(d) you will take such action as may be required to cancel all fictitious or assumed name or equivalent registrations relating to your use of any Mark;

(e) you agree to deliver to us within 30 days after, as applicable, the date of expiration of this Agreement or the Notification Date (defined below) all marketing materials, forms and other items and materials containing any Mark or otherwise identifying or relating to a Travel Business;

(f) you will notify the telephone company and all telephone directory publishers of the termination or expiration of your right to use any telephone, telecopy or other numbers and any regular, classified or other telephone directory listings associated with any Mark, authorize the transfer of such numbers and directory listings to us or at our direction or instruct the telephone company to forward all calls made to your telephone numbers to numbers we specify;

(g) you will remove all instances of the Marks and any information pertaining to your Travel Business on any websites owned, operated or created by you, including but not limited to co-branded and social media websites; and

(h) you will furnish to us, within 30 days after, as applicable, the date of termination or expiration of this Agreement, with evidence of your compliance with the foregoing obligations in a form satisfactory to us.

19.03 Confidential Information

Upon termination or expiration of this Agreement, you will immediately cease to use any of our Confidential Information in any business or otherwise and destroy or surrender all copies of the Manual and any other confidential materials that we have loaned to you, regardless of form, in the manner specified by us. We may require you to provide evidence to our satisfaction of such destruction or otherwise certify your compliance with these requirements.

19.04 No Disparagement

Neither party will publicly disparage the other party. This obligation excludes any statements or information required to be disclosed pursuant to any law or order of any court or government authority.

19.05 Competitive Restrictions

(a) Upon termination or expiration of this Agreement for any reason whatsoever (except where you have entered into an Additional Term Franchise), you and your Owners agree that, for a period of two (2) years commencing on the effective date of termination or expiration of this Agreement, neither you nor any of your Owners will engage in a Competing Business in violation of Section 11.01, except that the limitation on ownership of or service to a Competing Business shall be limited to Competing Businesses located within your Market Area and a radius of ten (10) miles of your Market Area or the market area of any one of our other franchisees in existence as at the date of the termination or expiration of this Agreement.

(b) If any person subject to the foregoing restrictions under Section 19.05(a) refuses to comply voluntarily with the foregoing obligations, the two-year period will be extended to include two (2) years from the entry of an order of an arbitrator, or court if necessary, enforcing this provision.

(c) You and your Owners expressly acknowledge that you possess skills and abilities of a general nature and have other opportunities for exploiting such skills. Consequently, enforcement of the covenants made in this Section 19.05 will not deprive you of your personal goodwill or ability to earn a living.

(d) You will promptly obtain and deliver to us agreements containing similar covenants as those contained in this Section 19.05 and in a form satisfactory to us, signed by all personnel performing managerial or supervisory functions and all personnel receiving training from you. Without limiting your obligations under this Section 19.05, persons required to sign such agreements will include your managerial personnel and all Owners, officers, directors and partners, if any, all of which agreements you will strictly enforce.

19.06 Payment of Service Fees

Upon termination of this Agreement for any reason whatsoever or upon expiration of this Agreement where you have not entered into an Additional Term Franchise, the Service Fee will apply to and be due on all Gross Revenues payable to you by suppliers for bookings where final payment has been

made or the customer's travel has departed at the time of termination or expiration of the Agreement. For all other bookings (where final payment has not been made or where the customer's travel has not departed at the time of expiration or termination of this Agreement), the Service Fee will apply to and be due on ninety percent (90%) of the Gross Revenues payable to you by suppliers.

We will generate a report from information that is stored in CruiseDesk® to determine the total amount of Service Fees that will be owing, subject to Section 19.08, and will invoice you for that amount.

19.07 Assumption of Center Leases

Upon termination of this Agreement pursuant to Section 18.02, you shall assign to us or a nominee upon our request, unless not otherwise assigned pursuant to the terms of the Lease Addendum, the Lease(s) for the Center, which assignment we may require to be made under your corporate seal and in a form and on terms and conditions satisfactory to us.

19.08 Continuity of Business Activity

Upon termination of this Agreement for any reason whatsoever or upon expiration of this Agreement where you have not entered into an Additional Term Franchise, Franchisor shall have the right to take such actions it deems reasonable and appropriate in order to maintain the customers' and the Authorized Independent Contractors' satisfaction and relationship with Expedia CruiseShipCenters, including the following:

(a) Where the customer's final payment has not been made or where the customer's travel has not departed at the time of expiration or termination of this Agreement, Franchisor shall retain the booking unless you continue to operate a Competing Business and the customer elects in writing to retain the booking with you.

(b) Any data pertaining to customers, prospective customers, Authorized Independent Contractors or prospective Authorized Independent Contractors acquired as a result of the operation of the Travel Business during the Term of this Agreement, during the term of any prior franchise agreement between you or any of your Affiliates and the Franchisor, or during any subsequent Additional Term Franchise(s) shall remain the property of Franchisor and Franchisor shall have the unrestricted right to contact and market to those parties.

(c) You will provide us with written consent or other such documentation as may be required by Approved Travel Suppliers in order to transfer to us all bookings and any commission payments for travel to occur after the date of termination or expiration of this Agreement.

(d) If you receive Gross Revenues subsequent to the expiration or termination of this Agreement, you must pay all consultant fees which you agreed to pay to the Authorized Independent Contractors associated with the underlying bookings generating such Gross Revenues.

19.09 Independence of Covenants

The parties agree that each of the covenants in this Article 19 shall be construed as independent of each other and of any other covenant or provision of this Agreement. If any or all portions of the covenants contained herein is held unreasonable or unenforceable by a court or agency having valid jurisdiction in an unappealed final decision to which we are a party, you expressly agree to be bound by any lesser covenant subsumed within the terms of such covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately stated in and made a part of this Agreement.

19.10 Modification of Covenants

You understand and acknowledge that we shall have the right, in our sole discretion, to reduce the scope of any covenant set forth in Section 19.05 or any portion thereof, without your consent, effective immediately upon receipt by you of written notice thereof, and you agree that it shall forthwith comply with any covenant as so modified.

19.11 Enforcement of Covenants

You expressly agree that the existence of any claims you may have against us shall not constitute a defense to our enforcement of the covenants contained in this Agreement. You agree to pay all costs and expenses (including reasonable attorneys' fees) we incur in connection with the enforcement of the covenants set forth in this Agreement.

19.12 Continuing Obligations

All of our and your (and your Owners') obligations which expressly or by their nature survive the expiration or termination of this Agreement will continue in full force and effect subsequent to and notwithstanding its expiration or termination and until they are satisfied in full or by their nature expire. Examples include indemnification, payment, de-identification and dispute resolution provisions.

19.13 Our Purchase of Certain Assets

(a) In the event of termination of this Agreement pursuant to Section 18.02 and subject to the rights of third party creditors, you and your Owners grant to us or our nominee the option to purchase from you at fair market value at the time of termination any portion or the entire inventory, supplies, furniture, fixtures and equipment situated in the Center, which option may be exercised by our written notice to you within thirty (30) days of the termination of this Agreement. The exercise notice will state our desire or our nominee's desire to purchase some or all of the aforementioned inventory, supplies, furniture, fixtures and equipment. We or our nominee will pay the purchase price to you on your delivery of the documents necessary, in the opinion of our counsel, or our nominee to transfer the inventory, supplies, furniture, fixtures and equipment and delivery and payment of the purchase price will take place on a date not more than twenty-one (21) days following the determination pursuant to Section 19.13(c) of the fair market value of the property to be transferred.

(b) In the event that we terminate this Agreement pursuant to Section 18.02 and we sublease the Center to you and the sublease or the lease of the Center is assigned to us pursuant to the provisions of Sections 5.03, 19.07 and/or the Lease Addendum, and subject to the rights of third parties pursuant to financing arrangements, we will purchase from you and you will sell to us, at the fair market value at the time of termination, the leasehold improvements at the Center.

(c) We and you will agree on the fair market value of all inventory, supplies, furniture, fixtures, equipment and leasehold improvements we or our nominee purchase under this Section 19.13 and, in the event of a failure to mutually agree within forty-five (45) days of the termination of this agreement, fair market value will be determined by a qualified appraiser mutually agreed on by you and us or our nominee. If we or our nominee and you cannot mutually agree on an appraiser within a further period of ten (10) days, the appraiser will be selected by our accountants, which selection will be binding on the parties.

20. RELATIONSHIP OF THE PARTIES/INDEMNIFICATION

20.01 Independent Contractors

You and we understand and agree that this Agreement does not create a fiduciary relationship between the Parties, that you and we are and will be independent contractors and that nothing in this Agreement is intended to make either you or us a general or special agent, joint venturer, partner or employee of the other for any purpose. You will identify yourself conspicuously in all dealings with customers, suppliers, public officials, personnel and others as the Owner of your Travel Business under a Franchise we have granted to you and place such notices of independent ownership on such forms, business cards, stationery and advertising and other materials as we may require from time to time. If you do not do so, we may place the notices and accomplish the foregoing as we see fit, and you must reimburse us for doing so.

20.02 No Liability for Acts of Other Party

You will not employ any of the Marks in signing any contract or applying for any license or permit, or in a manner that may result in our liability for any of your indebtedness or obligations. You will not use the Marks in any way we have not expressly authorized. Neither you nor we will make any express or implied agreements, warranties, guarantees or representations or incur any debt in the name of or on behalf of the other, represent that our respective relationship is other than franchisor and franchisee or be obligated by or have any liability under any agreements or representations made by the other that are not expressly authorized in writing. We will not be obligated for any damages to any Person or property directly or indirectly arising out of the operation of your Travel Business.

20.03 Taxes

We will have no liability for any taxes levied upon you or your Travel Business, including, without limitation and by way of example, sales, use, service, occupation, excise, gross receipts, income, payroll or property taxes (except any taxes we are required by law to collect from you with respect to purchases from us). Payment of all such taxes is your responsibility.

20.04 Indemnification

(a) **By You:** You will indemnify, defend and hold us and all our partners, directors, officers, employees, agents, successors and assigns (the “**Franchisor Indemnified Parties**”) harmless against and reimburse any one or more of the Franchisor Indemnified Parties for all claims, liabilities, obligations and damages including any and all taxes described in Section 20.03, directly or indirectly arising out of the operation of your Travel Business. We have the right to defend any such claim against us. This indemnity will continue in full force and effect subsequent to and notwithstanding the expiration or termination of this Agreement. Under no circumstances will we or any other Franchisor Indemnified Party be required to seek recovery from any insurer or other third party, or otherwise to mitigate our, their or your losses and expenses, in order to maintain and fully recover a claim against you. You agree that a failure to pursue such recovery or mitigate a loss will in no way reduce or alter the amounts we or another Franchisor Indemnified Party may recover from you.

(b) **By Us:** We will indemnify, defend and hold you and all your partners, directors, officers, employees, agents, successors and assigns (the “**Franchisee Indemnified Parties**”) harmless against and reimburse any one or more of the Franchisee Indemnified Parties for all claims, liabilities, obligations and damages directly arising out of any infringement, or alleged infringement of a third party’s rights by virtue of the programs, software, systems, trade names and other intellectual property we provide

or license to you. You have the right to defend any such claim against you. This indemnity will continue in full force and effect subsequent to and notwithstanding the expiration or termination of this Agreement. Under no circumstances will you or any other Franchisee Indemnified Party be required to seek recovery from any insurer or other third party, or otherwise to mitigate your, their or our losses and expenses, in order to maintain and fully recover a claim against us. We agree that a failure to pursue such recovery or mitigate a loss will in no way reduce or alter the amounts you or another Franchisee Indemnified Party may recover from us.

(c) For purposes of this Section 20.04, “**claims**” includes all obligations, liabilities, damages (actual, consequential or otherwise) and costs reasonably incurred in the defense of any claim against any of the Franchisor Indemnified Parties or Franchisee Indemnified Parties, including, without limitation, reasonable accountants', arbitrators', attorneys' and expert witness fees, costs of investigation and proof of facts, court costs, other expenses of litigation, arbitration or alternative dispute resolution, travel and living expenses.

21. INSURANCE

21.01 Mandatory Insurance

You must, at all times during the Term, maintain in full force and effect, a travel agent professional liability policy (travel agent error and omissions) in the minimum amounts we specify in the Manual, on a per occurrence basis, and other insurance coverages in the minimum amounts we prescribe from time to time in the Manual, including, without limitation, comprehensive general liability insurance, fire and extended coverage insurance on equipment, leasehold improvements and stock at the Center, and business interruption insurance coverage. We may periodically increase or decrease the amounts of coverage required under these insurance policies and require different or additional kinds of insurance at any time to reflect inflation, identification of new risks, changes in law or standards of liability, higher damage awards or other relevant changes and circumstances. Alternatively, you may self-insure your travel agent errors and omissions insurance, provided you demonstrate to our satisfaction that you have set aside and maintain an adequate reserve for claims that would be covered under a typical errors and omissions insurance policy.

21.02 Group Policies

You must obtain and participate in any group errors and omissions insurance policies we designate from time to time. We may recover from you the costs and premiums for such group policies as an EFT.

21.03 Policy Terms

All insurance policies must:

- (a) be issued by an insurance company meeting our minimum ratings as described in the Manual;
- (b) not contain a provision which in any way limits or reduces coverage for us in the event of any claim by us or our directors, officers or agents;
- (c) provide indemnity for all obligations assumed by you under this Agreement and all items for which you are required to indemnify us under the provisions of this Agreement or otherwise;
- (d) name us and our Affiliates as additional insureds;
- (e) contain a waiver of the insurance company's right of subrogation against us;

(f) provide that the insurance company will provide us with at least 15 days prior written notice of termination, expiration, cancellation or material modification of any policy; and

(g) provide that you cannot reduce the policy limits, restrict coverage, cancel or otherwise alter or amend the policies without our prior written consent.

21.04 Evidence of Coverage

Before the expiration of the term of each insurance policy, at our request, you must furnish us with a copy of each new, renewal or replacement policy (or at our option, a certificate evidencing such policy) you have obtained to extend your coverage, along with evidence of the premium payment. If you do not maintain the required insurance coverage, or do not furnish us with satisfactory evidence of insurance coverage and premium payments, we may obtain, at our option and in addition to our other rights and remedies under this Agreement, any required insurance coverage on your behalf. If we do so, you must fully cooperate with us in our effort to obtain the insurance policies and must promptly sign all forms required to obtain or maintain the insurance. You must also allow any inspections of your Travel Business required to obtain or maintain the insurance. Finally, you must pay us any costs and premiums we incur in obtaining insurance on your behalf, which we may draft from your Account as an EFT. Neither your obligation to maintain insurance coverage nor our maintenance of insurance on your behalf will reduce or absolve you of any obligations of indemnification described in this Agreement.

22. ACKNOWLEDGMENTS AND REPRESENTATIONS

22.01 Acknowledgments

By signing this Agreement, you acknowledge:

(a) the importance of operating your Travel Business in strict conformity with our standards;

(b) you have conducted an independent investigation of owning and operating a Travel Business as a Franchisee under this Agreement and recognize that the nature of being a Franchisee may evolve and change over time, that an investment in your Travel Business involves business risks and that your business abilities and efforts are vital to your success as a Franchisee;

(c) you recognize the benefits to be derived from being a Franchisee and being able to utilize the System and the Marks which we make available to you;

(d) you have read this Agreement and our Franchise Disclosure Document and understand and accept the terms, conditions, and covenants contained in this Agreement as being reasonably necessary to maintain our high standards of quality and service and the uniformity of those standards by each Travel Business to protect and preserve the goodwill of the System and the Marks;

(e) in all of their dealings with you, our officers, directors, employees and agents act only in a representative, and not in an individual, capacity and that all business dealings between you and such Persons as a result of this Agreement are solely between the Parties;

(f) we have advised you to have this Agreement reviewed and explained to you by a professional, such as an attorney and/or accountant;

(g) any statements regarding the potential or probable revenues, sales or profits of Franchisees are made solely in the Franchise Disclosure Document delivered to you prior to signing this Agreement;

(h) any statement regarding the potential or probable revenues, sales or profits of Franchisees or statistical information regarding any existing Franchisee that is not contained in our Franchise Disclosure Document is unauthorized, unwarranted and unreliable and should be reported to us immediately;

(i) any information you obtain from our Franchisees relating to sales, revenues, profits, cash flows or otherwise does not constitute information obtained from us and we do not warrant or guarantee the accuracy of any such information;

(j) you have not received nor relied upon any representations about being a Franchisee made by us, our officers, directors, employees or agents, that are contrary to the statements made in our Franchise Disclosure Document or to the terms of this Agreement; and

(k) we have approved your request to become a Franchisee in reliance on all of your representations and acknowledgments.

If there are any exceptions to any of the foregoing, you must: (i) immediately notify us; and (ii) note such exceptions by attaching a statement of exceptions to this Agreement prior to signing it (any such statement must be signed by each of the Parties).

22.02 Representations

You represent to us, as an inducement to our execution of this Agreement, that all statements you have made and all materials you have submitted to us in connection with your application for a Franchise are accurate and complete and that you have made no misrepresentations or material omissions in becoming a Franchisee.

22.03 Representations of your Business Entity

If you are at any time a business organization (“**Business Entity**”) (for example, a corporation, a limited liability company or a partnership) you represent and warrant to us that:

(a) you have the authority to execute, deliver and perform your obligations under this Agreement and you are duly organized or formed and validly existing in good standing under the laws of the state of your incorporation or formation;

(b) your organizational or governing documents will recite that the issuance and transfer of any ownership interests in you are restricted by the terms of this Agreement, and all certificates and other documents representing ownership interests in you will bear a legend referring to the restrictions of this Agreement;

(c) your Owners will execute and deliver to us our then-current form of “Franchisee Owners Statement” attached hereto as Schedule E, that completely and accurately describes all of your Owners and their interests in you;

(d) you and your Owners will revise the Franchisee Owners Statement as may be necessary to reflect any ownership changes and to furnish such other information about your organization

or formation as we may request within 30 days of any change. No ownership changes that reduce your ownership below 51% may be made without our prior approval;

(e) each of your Owners will sign and deliver to us our then-current form of “Franchisee Owner's Guaranty” attached hereto as Schedule F, undertaking to be bound jointly and severally by all provisions of this Agreement and any other agreements between the Parties;

(f) at our request, you will furnish true and correct copies of all documents and contracts governing the rights, obligations and powers of your owners and agents (like Articles of incorporation or organization and partnership, operating or shareholder agreements).

22.04 No Guarantees

We expressly disclaim the making of, and you acknowledge that you have not received or relied upon, any warranty or guarantee, expressed or implied, as to the revenues, sales, profits or success of the business venture contemplated by this Agreement or the extent to which we will continue to develop and expand the network of Franchisees.

23. DISPUTE RESOLUTION

23.01 Mediation

(a) Subject to the exceptions in the following sentence, the Parties will attempt in good faith to mediate and settle any and all disputes between us and you before pursuing legal action, either through: (x) a face-to-face meeting in accordance with the process set forth in clauses 23.01(b) and (c) below, or (y) mediation before an independent mediator in accordance with the process set forth in clauses 23.01(b) and 23.01(d) below. Such meeting shall be held at our offices or such other site in the State of Washington as we may designate.- The foregoing requirement to mediate disputes will not apply when (i) we seek injunctive relief pursuant to other provisions of this Agreement, or (ii) we are a party to litigation brought by third parties as a direct or indirect result of or in connection with the operation of the Travel Business, or (iii) this Agreement terminates immediately pursuant to the provisions of Article 18 above.

(b) If a Party alleges a dispute against the other Party for any reason (other than for matters described in clauses 23.01(a)(i) through (a)(iii) above), such Party shall submit a written statement of dispute, together with an explanation of its position and a request for either a face-to-face meeting or a telephone conference, to the opposing Party or non-binding mediation.

(c) If a face-to-face meeting or telephone conference is requested, the Parties shall then meet in person or telephonically within the next seven (7) days in an effort to negotiate a settlement to the dispute. Any face-to-face meeting shall be held at our offices unless the Parties mutually agree otherwise, in writing. In the case of a dispute over monies past due and owing or any other grounds for termination described in any default or termination notice issued by us for which a cure period is provided, you must submit your written statement of dispute and position within fourteen days of receipt of the default or termination notice. The submission of a statement of your dispute and position in response to such notice for monies past due and owing shall not toll any cure period set forth in such notice. Each Party is responsible for its own expenses incurred in connection with the foregoing procedures.

(d) If non-binding mediation is requested, such mediation shall be held at our offices or such other site in the State of Washington as we may designate for a minimum of eight hours before a ~~representative of a mediation organization approved by all such parties and/or entities or a mediator appointed by a court if the parties cannot agree on a mediation organization~~ an independent mediator

appointed (i) in accordance with the Commercial Mediation Rules and Regulations of the American Arbitration Association (“AAA”); or (ii) by the Parties if the Parties agree in writing on the appointment of a mediator within ten (10) days after either Party gives written notice of mediation. At least one principal of each Party, with authority to settle the dispute, shall attend the meeting or participate in the telephone conference or mediation. Each Party agrees that any legal proceedings subsequently commenced against the other Party shall be limited to claims raised in that Party’s written statement of dispute or response. All matters, allegations and documents will be confidential and will not be disclosed to any other person or entity by either Party. Each Party is responsible for its own expenses incurred in connection with mediation except that the Parties shall share equally the mediator’s and any related AAA fees and expenses.

(e) For purposes of this Agreement, a “**Dispute**” means any litigation, claim, dispute, suit, action, controversy, proceeding or otherwise between or involving: (i) you and us or our respective partners, officers, employees, agents, attorneys, accountants, guarantors; or (ii) you and any other Franchisee. In the case of a Dispute between you and any other Franchisee pursuant to Section 23.01(e)(ii), the term “Party” means each of you and the other Franchisee(s) involved in the Dispute for purposes of applying the terms of Article 23 and other relevant terms in this Agreement as necessary to give effect to the provisions herein.

23.02 Disputes Subject to Arbitration

(a) The following Disputes which are not resolved after mediation pursuant to Section 23.01 (or within 45 days of notice from you to another one of our Franchisees if you have a dispute with another Franchisee) are subject to resolution through arbitration:

- i. any Dispute between or involving you and us or our respective partners, officers, employees, agents, attorneys, accountants, guarantors or otherwise; and
- ii. any Dispute between or involving you and any other Franchisee.

(b) The following Disputes will not be subject to the foregoing arbitration requirements:

- i. actions for injunctive relief;
- ii. actions in which we are a party to a suit brought by third parties as a direct or indirect result of or in connection with the operation of your Travel Business; and
- iii. Disputes related to or based on the Marks (which at our sole option may be submitted to any court of competent jurisdiction).

23.03 Arbitration Rules

(a) The arbitration will be conducted by the American Arbitration Association pursuant to its commercial arbitration rules. All matters relating to arbitration will be governed by the Federal Arbitration Act (9 U.S.C. §§1 et seq.) and not by any state arbitration law. The parties to any arbitration will execute an appropriate confidentiality agreement, excepting only such disclosures and filings as are required by law.

(b) The arbitration proceedings will be conducted at our then-current headquarters. Any Dispute and any arbitration proceeding will be conducted and resolved on an individual basis only and not a class-wide, multiple plaintiff or similar basis. Any such arbitration proceeding will not be consolidated

with any other arbitration proceeding involving any other Person, except for Disputes involving Affiliates of the parties to such arbitration. The Parties agree that, in connection with any such arbitration proceeding, each must submit or file any claim that would constitute a compulsory counterclaim (as defined by Rule 13 of the Federal Rules of Civil Procedure (28 U.S.C. Appendix)) within the same proceeding as the dispute to which it relates. Any such Dispute not submitted or filed in such proceeding will be barred.

(c) The arbitration proceedings will be heard by one arbitrator appointed in accordance with AAA commercial arbitration rules within sixty days after a written demand for arbitration has been made unless the Parties mutually agree on an arbitrator before then. Subject to the limitations described below, the arbitrator will have the right to award any relief that he deems proper in the circumstances, including, for example, money damages, specific performance, temporary or permanent injunctive relief, and reimbursement of attorneys' fees and related costs to the prevailing party. The arbitrator will not have the authority to award exemplary or punitive damages except as otherwise permitted by this Agreement, nor the right to declare any mark generic or otherwise invalid. You and we agree to be bound by the provisions of any limitations on the time in which claims must be brought under applicable law or under this Agreement, whichever expires earlier. The award and decision of the arbitrator will be final, non-appealable, and binding and judgment on the award may be entered in any court of competent jurisdiction. The Parties acknowledge and agree that any arbitration award may be enforced against either or both of them in a court of competent jurisdiction and each waives any right to contest the validity or enforceability of such award. Without limiting the foregoing, each Party will be entitled in any such arbitration proceeding to the entry of an order by a court of competent jurisdiction pursuant to an opinion of the arbitrator for specific performance of any of the requirements of this agreement.

(d) In the case of a Dispute between you and any other Franchisee(s), you will keep us informed on a timely basis of all developments, proceedings, determinations, and settlement or resolution agreements with respect to such Dispute.

23.04 Limitations on Arbitration

(a) Money Damages. The arbitrator may not award money damages payable by us that exceeds the total amount you have paid to us for the Initial Franchise Fee.

(b) Injunctive Relief. We reserve the right to seek temporary or permanent injunctive relief solely in courts of competent jurisdiction. If the arbitrator awards temporary or permanent injunctive relief against us without our prior written consent, such award will not be binding against us.

(c) Time Barred Claims. The arbitrator is not authorized to award relief on claims that would be otherwise barred by an applicable statute of limitations or other agreement between the Parties.

(d) Limitations on the Arbitrator. The Arbitrator will be bound by all remedies and limitations in this Agreement, including those expressed in Article 24.

24. ENFORCEMENT

24.01 Severability; Substitution of Valid Provisions

Except as otherwise stated in this Agreement, each provision of this Agreement, and any portion of any provision, is severable. The remainder of this Agreement will continue in full force and effect. To the extent that any provision restricting your competitive activities is deemed unenforceable, you and we agree that such provisions will be enforced to the fullest extent permissible under governing law. This Agreement will be deemed automatically modified to comply with such governing law if any governing

law requires: (a) a greater prior notice of the termination of or refusal to renew this Agreement; or (b) the taking of some other action not described in this Agreement; or (c) if any of our System Standards are invalid or unenforceable. We may modify such invalid or unenforceable provision to the extent necessary to be valid and enforceable. In such event, you will be bound by the modified provisions.

24.02 Waivers

Our right to demand exact compliance with any of the provisions of this Agreement will not be waived if: (a) we do not exercise a right or power available to us under this Agreement; or (b) we do not insist on your strict compliance with the terms of this Agreement; or (c) if a custom or practice exists which varies from the provisions of this Agreement; or (d) if we accept payments which are otherwise due to us under this Agreement. Similarly, our waiver of any particular breach or series of breaches under this Agreement or of any similar provision in any other agreement between the Parties or between us and any other Franchisee, will not affect our rights with respect to any later breach by you or anyone else.

24.03 Limitation of Liability; Force Majeure

Neither of the Parties will be liable for loss or damage nor be in breach of this Agreement if failure to perform results from:

- (a) compliance with any law, ruling, order, regulation, requirement or instruction of any federal, state or municipal government or any department or agency thereof;
- (b) transportation shortages, inadequate supply of equipment, merchandise, supplies, labor, material, or energy;
- (c) war, strikes, terrorist attacks, natural disaster or acts of God; or
- (d) acts or omissions of a similar event or cause.

Any delay resulting from any of these causes extends performance accordingly or excuses performance as may be reasonable, except that these causes do not excuse payments of amounts owed to us for any reason.

24.04 Approval and Consents

Whenever this Agreement requires our advance approval, agreement or consent, you will make a timely written request for it. Our approval or consent will not be valid unless it is in writing. Except where expressly stated otherwise in this Agreement, we have the right to refuse any request by you or to withhold approval of any action or omission by you. We are not bound to (i) approve or consent to any action; (ii) exercise our judgment in any decision making process; or (iii) approve or disapprove or determine whether to consent to any action or request. If we (x) provide to you any waiver, approval, consent, or suggestion; or (y) neglect or delay our response; or (z) deny any request for any of those, we will not be deemed to have made any warranties or guarantees which you may rely on, and we will not assume any liability or obligation to you.

24.05 Waiver of Punitive Damages

Except for your obligations to indemnify us pursuant to Section 20.04 of this agreement and claims for unauthorized use of the Marks or Confidential Information, you and we each waive to the full extent permitted by law any right to, or claim for, any punitive or exemplary damages against the other. You and

we also agree that, in the event of a dispute between the Parties, the Party making a claim will be limited to equitable relief and recovery of any actual damages it sustains.

24.06 Limitations of Claims

Any and all claims arising out of this Agreement or the relationship between the Parties must be made by written notice from one Party to the other Party within one year from the occurrence of the facts giving rise to such claim (regardless of when it becomes known); except for claims arising from: (a) under-reporting of Gross Revenue; (b) under-payment of amounts owed to us; (c) claims for indemnification; or (d) unauthorized use of the Marks. However, this provision does not limit a Party's right to terminate this Agreement in any way.

24.07 Governing Law

Except to the extent this Agreement or any particular dispute is governed by the U.S. Trademark Act of 1946 (Lanham Act, 15.U.S.C. 1051, et seq.) or other federal law, this Agreement and the Franchise are governed by the laws of the State of Washington, excluding any law regulating the sale of franchises or governing the relationship between a franchisor and franchisee, unless the jurisdictional requirements of such laws are met independently without reference to this Section. All matters relating to arbitration are governed by the Federal Arbitration Act. References to any law or regulation also refer to any successor laws or regulations and any impending regulations for any statute, as in effect at the relevant time. References to a governmental agency also refer to any successor regulatory body that succeeds to the function of such agency.

24.08 Jurisdiction and Venue

The Parties: (i) consent and irrevocably submit to the jurisdiction and venue of any state court of competent jurisdiction located in the county where our headquarters are then located; (ii) consent and irrevocably agree to submit to the jurisdiction and venue of any federal or state court where our headquarters are then located; and (iii) consent and irrevocably waive any objection to the jurisdiction and venue of such courts. The exclusive choice of jurisdiction does not preclude the bringing of any action by a Party or the enforcement by a Party in any judgment obtained in any such jurisdiction, in any other appropriate jurisdiction or the right of the Parties to confirm or enforce any arbitration award in any appropriate jurisdiction.

24.09 Waiver of Jury Trial

Each Party irrevocably waives trial by jury in any action, proceeding or counterclaim, whether at law or in equity, brought by either Party.

24.10 Cumulative Remedies

The rights and remedies provided in this Agreement are cumulative and neither Party is prohibited from exercising any other right or remedy provided under this Agreement or permitted by law or equity.

24.11 Costs and Attorneys' Fees

If a claim for amounts owed by you to us is asserted in any legal or arbitration proceeding or if either Party is required to enforce this Agreement in a judicial or arbitration proceeding, the Party prevailing in such proceeding will be entitled to reimbursement of its costs and expenses, including reasonable accounting and attorneys' fees. Attorneys' fees will include, without limitation, reasonable legal fees

charged by attorneys, paralegals, and costs and disbursements, whether incurred prior to, in preparation for, or contemplation of, the filing of written demand or claim, action, hearing, or proceeding to enforce the obligations of the Parties under this Agreement.

24.12 Binding Effect

This Agreement is binding on and will inure to the benefit of our successors and assigns. Except as otherwise provided herein, this Agreement is binding on your successors, assigns, heirs, executors and administrators.

24.13 Entire Agreement; Modifications

This Agreement, including the introduction and attachments, constitutes the entire agreement between the Parties. There are no other oral or written understandings or agreements between the Parties concerning the subject matter of this Agreement. Except as expressly provided otherwise in this Agreement, this Agreement may be modified only by written agreement signed by each of the Parties. Nothing in this Agreement or any related agreement is intended to disclaim the representations we have made in our Franchise Disclosure Document.

24.14 No Liability to Others; No Other Beneficiaries

We will not, because of this Agreement or by virtue of any approvals, advice or services provided to you, be liable to any Person who is not a party to this Agreement. Except as specifically described in this Agreement, no other party has any rights because of this Agreement.

24.15 No Set-Off

You may not withhold payment of any amounts due to us or our Affiliates hereunder on grounds of alleged non-performance by us of any of our obligations, hereunder.

24.16 Construction

The headings of the sections are for convenience only. If 2 or more Persons are at any time Franchisees hereunder, whether or not as partners or joint venturers, their obligations and liabilities to us are joint and several. This Agreement may be signed in multiple copies and counterparts, each of which will be an original. The use of the word “or” shall be construed as “and/or” as appropriate unless specifically otherwise indicated (*i.e.*, “A or B” means: -“A” or “B” or both “A” and “B”).

24.17 Certain Definitions

~~The term “family member” refers to parents, spouses, offspring and siblings, and the parents and siblings of spouses.~~ The term “**Affiliate**” means any person directly or indirectly owned or controlled by a person, under common control with a person or controlled by a person. In the case of an individual, the term “Affiliate” includes ~~family members, parents, spouses, offspring and siblings, and the parents and siblings of spouses.~~ The terms “**franchisee, franchise owner, you and your**” are applicable to one or more persons, a Business Entity, as the case may be. The singular use of any pronoun also includes the plural and the masculine and neuter usages include the other and the feminine. The term “**person**” includes individuals or Business Entities. The term “**section**” refers to a section or subsection of this Agreement. The word “**control**” means the power to direct or cause the direction of management and policies. The word “**owner**” means any person holding a direct or indirect, legal or beneficial ownership interest or voting rights in another person (or a transferee of this Agreement or an interest in you), including any person who has a

direct or indirect interest in you or this Agreement and any person who has any other legal or equitable interest, or the power to vest in himself any legal or equitable interest, in the revenue, profits, rights or assets. The term “**Owner**” means any owner of an equity interest in you, the Franchisee.

24.18 Time is of the Essence

It will be a material breach of this Agreement to fail to perform any obligation within the time required or permitted by this Agreement. In computing time periods from one date to a later date, the words “from” and “commencing on” (and the like) mean “from and including”; and the words “to,” “until” and “ending on” (and the like) mean “to but excluding”. Indications of time of day mean the time of day where our headquarters are then located.

24.19 Notices and Payments

All written notices and reports permitted or required under this Agreement or by the Manual will be deemed delivered:

- (a) (i) one (1) business day after being directed by electronic mail to the address specified in this Agreement or upon acknowledgment of receipt by the recipient, whichever occurs first;
 - (ii) two (2) business days after being placed in the hands of a commercial airborne courier service for next business day delivery; or
 - (iii) three (3) business days after placement in the United States mail by certified mail, return receipt requested, postage prepaid.
- (b) All such notices must be addressed to the Parties as follows:

If to Us:	CruiseShipCenters USA Inc. 333 108th Avenue NE Bellevue, Washington 98004 franchising@cruiseshipcenters.com
If to You:	[Name of Franchisee] [Address of Franchisee] [Address of Franchisee] Attention: [Name of Owner] <u>[Email Address]</u>

Either Party may change the address for delivery by providing written notice to the other party. Such notice must be delivered within 10 business days of the change in address. Any required payment or report not actually received by us during regular business hours on the date due will be delinquent unless the deemed delivery date is on or before the due date.

INTENDING TO BE BOUND, the Parties sign and deliver this Agreement.

[NAME OF FRANCHISEE]

CRUISESHIPCENTERS USA INC.

By: _____

By: _____

Name: _____

Name: Matthew Eichhorst

Title: _____

Title: President

Date: _____

Date: _____

SCHEDULE A

NON-RECURRING FEES

Initial Franchise Fee: \$39,000

RECURRING FEES

1. **Service Fee:** 9% of Gross Revenues payable on the fifteenth (15th) day of each month.
2. **Location (Address):** [If not known - To be determined in accordance with the provisions of Section 2.04 of this Agreement.]
3. **Market Area** (includes the following U.S. zip codes):- *[If not known - To be determined by the Franchisor upon finalization of a Location and comprising of zip codes within _____.]*

In the event of changes to the zip codes by the United States Postal Service or another government agency out of our control, we reserve the right to adjust the Market Area accordingly, which may result in a Market Area that is defined for greater clarity by boundaries or landmarks instead of zip codes.

4. **Management Information Systems Fee:** \$300.00 per month payable on the fifteenth (15th) day of each month (subject to annual CPI Adjustment – See Section 7.07).

This monthly fee includes CruiseDesk® license fee for the owner(s) or administrative (non-selling) employees of the Franchisee, up to a maximum of 2 individuals.

5. **Marketing Fee:** \$600.00 per month payable on the first (1st) day of each month (subject to annual CPI Adjustment – See Section 7.07).

SCHEDULE B

TRADEMARKS

Trademark	U.S. Application or Registration No.
CruiseShipCenters	2,420,453
CruiseShipCenters & Design	3,387,898
Ship and Compass Icon (Rose of Winds)	3,394,242
CruiseShipCenters Design	3,423,002
CruiseDesk	3,301,779
CruiseDesk	3,347,912
Expedia® CruiseShipCenters®*	EXPEDIA is covered by Reg. No. 2,612,384
	EXPEDIA is covered by Reg. No. 2,612,384
CruiseShipNews	2,626,883
CruiseShipNews	3,638,392
CruiseShipFlash	3,356,152
CruiseShipWeekly	3,324,007
Top 100 Cruises	2,679,157
Cruise To Success	2,699,449
7 SEAS CLUB	4,781,623
Events At Sea	3,585,218
International Cruise Academy	3,362,322
Dream Voyages	3,621,381
Stronger.Together	3,533,014
Interplay	4,216,231
CentrodeCruceros & Design	4,518,512

Trademark	U.S. Application or Registration No.
CentrodeCruceros	4,523,534
Seas Today	4,232,164

*When using the Combination Mark, the Expedia® mark must be of a prominence that is equal to or lesser than that of the CruiseShipCenters® mark, within the Combination Mark.

SCHEDULE C

LEASE ADDENDUM

THIS ADDENDUM TO LEASE (“Addendum”) made and entered into this ____ day of _____, _____, by and among _____ (hereinafter referred to as the “Landlord”), with its principal offices at _____; and _____ (hereinafter referred to as the “Tenant”), with its principal offices at _____.

WITNESSETH:

WHEREAS, the Landlord and the Tenant have executed a lease agreement dated _____ (the “Lease”) for the premises described in Section _____ of the Lease (the “Leased Premises”) for use by the Tenant as an Expedia® CruiseShipCenters® travel agency to be operated pursuant to certain proprietary marks and in connection with a written Franchise Agreement by and among the Tenant and CruiseShipCenters USA, Inc. (the “Franchisor”) dated _____ (the “Franchise Agreement”);

WHEREAS, the Franchisor has a right to approve the Lease and a condition to such approval by the Franchisor is that the Lease for the Leased Premises designated for the operation of an Expedia® CruiseShipCenters® travel agency (hereinafter the “Franchised Business”) contain the agreements set forth herein;

WHEREAS, the Landlord acknowledges that the Franchisor requires the modifications to the Lease set forth herein as a condition to its approving the Lease for the Franchised Business, and that the Landlord agrees to modify and amend the Lease in accordance with the terms and conditions contained herein;

WHEREAS, under the Franchise Agreement, all right, title and interest in and to the Lease may be assigned to the Franchisor upon the termination of the Franchise Agreement; and

WHEREAS, it is the intent of the parties hereto to provide the Franchisor with the opportunity to preserve the Leased Premises as a Franchised Business in the event of any default or termination of said Lease or Franchise Agreement by the Tenant and to assure the Landlord that in the event the Franchisor exercises its rights herein contained, any defaults of the Tenant under the Lease will be cured by the Franchisor before it takes possession of the Leased Premises.

1. Use Clause. The Leased Premises shall be used for the operation of an Expedia® CruiseShipCenters® travel agency (“Franchised Business”) offering travel products and services and identified by the mark Expedia® CruiseShipCenters® (Stylized) or any other name designated by Franchisor. The Landlord acknowledges that such use shall not violate any then-existing exclusives granted to any existing tenant of the Landlord.

2. Copy of Notice of Default of Tenant to Franchisor; Franchisor’s Right to Cure Default and Assume Lease. The Landlord will provide a copy to Franchisor of any notice of default or termination it issues to the Tenant concurrently with issuing such notice to the Tenant, specifying all default(s) of Tenant under the Lease. If the Tenant fails to cure any default within the period provided in the Lease (if any), the Landlord will give the Franchisor immediate written notice of such failure to cure. The Franchisor then will be

afforded an opportunity to cure such default or to assume and accept an assignment of the Lease. If the Franchisor elects to continue the use of the Leased Premises under an assignment of the Lease, it will notify the Landlord in writing within fifteen (15) days following the failure to cure notice from the Landlord. Upon receipt of notice of the Franchisor's election to assume the Lease, the Landlord shall promptly execute and deliver to the Franchisor an assignment of the Lease and shall deliver to the Franchisor possession of the Leased Premises. The Franchisor, before taking possession of the Leased Premises, shall promptly cure the defaults specified by the Landlord in its notice to the Franchisor and shall execute and deliver to the Landlord its acceptance of the assignment of the Lease.

3. Termination of the Franchise Agreement. If the Franchise Agreement is terminated for any reason during the term of the Lease or any extension thereof, then the Tenant will assign to the Franchisor all of its right, title and interest in and to the Lease, if so requested by the Franchisor. The Landlord consents to the assignment of the Lease from the Tenant to the Franchisor hereunder, subject to the Tenant's and/or the Franchisor's curing any defaults of the Tenant under the Lease before the Franchisor takes possession of the Leased Premises. The Landlord and the Tenant must deliver possession of the Leased Premises to the Franchisor, free and clear of all rights of the Tenant or third parties, subject to the Franchisor's curing any defaults of the Tenant under the Lease, and executing an acceptance of the assignment of Lease.

4. The Tenant's Agreement to Vacate Leased Premises. The Tenant agrees to peaceably and promptly vacate the Leased Premises and (subject to the Franchisor's right to acquire any such property pursuant to its Franchise Agreement with the Tenant) to remove its personal property therefrom upon the termination of the Franchise Agreement or upon the Tenant's failure to timely cure all of its defaults under the Lease. Any property not removed or otherwise disposed of by the Tenant shall be deemed abandoned.

5. Delivery of Possession. If the Franchisor exercises its right to assume the Lease pursuant to Paragraph 2 or 3 above, then:

(a) Tenant will assign all of its right, title and interest in the Lease to Franchisor within 10 days after written demand and, if Tenant fails to do so, then Tenant appoints Franchisor as its agent to execute all documents that may be necessary for Franchisor to take assignment of the Lease and possession of the Premises; and

(b) Landlord agrees that Franchisor (i) may sublet the Premises or assign the Lease in either case to an approved franchisee of Franchisor, provided in either instance that Franchisor remains liable for the payment of rent and the performance of Tenant's duties under the Lease, (ii) will not be bound by the terms of any amendment to the Lease executed by Tenant without obtaining Franchisor's prior written approval, (iii) will not be subject to any provision of the Lease that requires Tenant to continuously operate a business in the Premises during any period that the Premises is closed for remodeling or while Franchisor is seeking to obtain and train a new franchisee, provided however, that such period of closure will not exceed 60 days in each instance; and (iv) may, if it subleases the Premises to a franchisee as provided above, retain all rent or other consideration payable under such sublease.

6. Amendment of Lease. The Tenant agrees not to enter into any amendment to the Lease in any respect, except with the prior written consent of the Franchisor.

7. The Franchisor Not a Guarantor. Notwithstanding any terms or conditions contained in this Addendum or any other agreement, the Franchisor shall in no way be construed as a guarantor or surety of the Tenant's obligations under the Lease. If the Franchisor assumes Lease in accordance with the terms

hereof, however, then the Franchisor will become liable for all of the obligations of the Tenant on its part to be performed or observed under the Lease.

8. Third-Part Beneficiary. The parties hereto agree and acknowledge that the Franchisor is and is intended to be a third-party beneficiary of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Addendum to Lease Agreement to be executed the day and year first above written.

WITNESS:

Landlord:

By: _____
Title: _____

By: _____
Title: _____

Tenant:

ATTEST:

By: _____
Title: _____

SCHEDULE D

BANK AUTHORIZATION AGREEMENT

AUTHORIZATION TO HONOR CHARGES DEBITED BY AND PAYABLE TO CRUISESHIPCENTERS USA INC.

As a convenience to me, I hereby authorize and request you to pay and charge to my bank checking account charges drawn by and payable to the order of CruiseShipCenters USA Inc. (d/b/a Expedia® CruiseShipCenters®); provided there are sufficient funds in said account to pay the charges upon presentation. It will not be necessary for any officer or employee of CruiseShipCenters USA Inc. to sign such charges.

I agree that your rights in respect to each such charge shall be the same as if it were a check drawn by you and signed by me. I further agree that if any such charge be dishonored, whether with or without cause and whether intentionally or inadvertently, you shall be under no liability whatsoever.

CruiseShipCenters USA Inc. is instructed to forward this authorization to you. It is to remain in effect until revoked by me in writing, and until you actually receive such notice.

Bank Account Number

ABA Routing Number

Depositor's Name as Shown on Bank Account

To: Bank _____

Branch (if any) _____

Street _____

City, State and Zip Code _____

Date Signed

Signature of Depositor, as Printed Above

Please submit a voided blank check, for purpose of setting up Bank and Transit Numbers

SCHEDULE E

FRANCHISEE OWNERS STATEMENT

The undersigned are all of the partners, shareholders or members of Franchisee, if Franchisee is a partnership, corporation or limited liability company, respectively, who beneficially own any interest in the Franchisee and each officer, manager and/or director (if any) of the Franchisee.

OWNERS:

Name, Address and Signature:

Percentage of Equity
in [-Enter Franchisee Entity Name]:

MANAGEMENT: (Name and Title)

I, the undersigned officer and/or owner of the Franchisee, certify that the foregoing information is true and correct as of the date hereof.

Name:

Title:

SCHEDULE F

FRANCHISEE OWNER'S GUARANTY

In consideration of, and as an inducement to, the execution of that certain Franchise Agreement, and any revisions, modifications and amendments thereto, (hereinafter collectively the "Agreement") dated _____, by and between CruiseShipCenters USA Inc., a Nevada corporation (hereinafter the "Franchisor") and _____ (hereinafter the "Franchisee"), each of the undersigned Guarantors agrees as follows:

1. The Guarantors do hereby jointly and severally unconditionally guaranty the full, prompt and complete performance of the Franchisee under the terms, covenants and conditions of the Agreement, and any other Franchise Agreement between the Franchisor and the Franchisee, and/or the Franchisee's directors, officers, agents, employees or other representatives (hereafter incorporated into and included in all references to the "Agreement"), including without limitation the complete and prompt payment of all indebtedness to the Franchisor under the Agreement. The word "indebtedness" is used herein in its most comprehensive sense and includes without limitation any and all advances, debts, obligations and liabilities of the Franchisee, now or hereafter incurred, either voluntarily or involuntarily, and whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined, or whether recovery thereof may be now or hereafter barred by any statute of limitation or is otherwise unenforceable. This Guaranty is effective as of the date first above written, regardless of the date this Guaranty is signed.

2. The obligations of the Guarantors are independent of the obligations of the Franchisee and a separate action or actions may be brought and prosecuted against any or all of the Guarantors, whether or not actions are brought against the Franchisee or whether the Franchisee is joined in any such action.

3. If the Franchisee is a corporation, partnership or limited liability company, the Franchisor shall not be obligated to inquire as to the power or authority of the Franchisee or its partners, officers, directors, agents, members or managers acting or purporting to act on the Franchisee's behalf, and any obligation or indebtedness made or created in reliance upon the exercise of such power and authority shall be guaranteed hereunder. ~~Where~~If the Guarantors are corporations, limited liability companies or partnerships it shall be conclusively presumed that the Guarantors and the partners, agents, officers, directors, members and/or managers acting on their behalf have the express authority to bind such entities and that such entities have the express power to act as the Guarantors pursuant to this Guaranty and that such action directly promotes the business and is in the interest of such entities. If the Franchisee or the Guarantor is a married individual (including marriage under common law), that individual's spouse shall guaranty the Franchisee's obligations by signing below as a co-Guarantor.

4. The Franchisor, its successors and assigns, may from time to time, without notice to the undersigned: (a) resort to the undersigned for payment of any of the indebtedness, whether or not it or its successors have resorted to any property securing any of the indebtedness or proceeded against any other of the undersigned or any party primarily or secondarily liable on any of the indebtedness; (b) release or compromise any indebtedness of any of the undersigned hereunder or any indebtedness of any party or parties primarily or secondarily liable on any of the indebtedness; (c) extend, renew or credit any of the indebtedness for any period (whether or not longer than the original period); (d) alter, amend or exchange any of the indebtedness; or (e) give any other form of indulgence, whether under the Agreement or otherwise.

5. The undersigned further waive presentment, demand, notice of dishonor, protest, nonpayment and all other notices whatsoever, including without limitation: notice of acceptance hereof; notice of all contracts and commitments; notice of the existence or creation of any liabilities under the Agreement and of the amount and terms thereof; and notice of all defaults, disputes or controversies between the Franchisee and the Franchisor resulting from the Agreement or otherwise, and the settlement, compromise or adjustment thereof.

6. This Guaranty shall be enforceable by and against the respective administrators, executors, successors and assigns of the Guarantors and the death of any Guarantor shall not terminate the liability of such Guarantor or limit the liability of the other Guarantors hereunder.

7. If more than one person has executed this Guaranty, the term "the undersigned," as used herein shall refer to each such person, and the liability of each of the undersigned hereunder shall be joint and several and primary as sureties.

8. Unless specifically stated otherwise, the terms used in this Guaranty shall have the same meaning as in the Agreement, and shall be interpreted and construed in accordance with the Agreement. This Guaranty shall be interpreted and construed under the laws of the State of Washington. In the event of any conflict of law, the laws of Washington shall prevail (without regard to, and without giving effect to, the application of Washington conflict of law rules). Any action brought by either party against the other shall be brought in the State of Washington in King County and the parties do hereby waive all questions of personal jurisdiction or venue for the purpose of carrying out this provision.

9. If the Franchisor is required to enforce this Guaranty in any judicial or arbitration proceeding, or any appeal thereof, the undersigned Guarantors shall reimburse the Franchisor for its enforcement costs, including, without limitation, reasonable accountants fees, attorneys' fees, arbitrators fees, expert witness fees, court costs, and other arbitration and/or litigation costs, related travel and living expenses, whether incurred prior to, during or in contemplation of the filing of any demand, claim, action, hearing, or proceeding to enforce this Guaranty.

IN WITNESS WHEREOF, each of the undersigned has executed this Guaranty

under seal effective as of the _____ day of _____, 20__.

[Name] _____ of Individual Guarantor] Signature of Spouse (if
married)

Home Address

Home Telephone

Business Telephone

Date

Date

SCHEDULE G

CONSENT TO RELEASE DATA TO EXPEDIA CRUISESHIPCENTERS

The undersigned, _____, an individual (or a corporation, limited liability company, or general partnership organized under the laws of the State of _____) ("Travel Agency"), hereby acknowledges:

1. That Travel Agency has entered into a Franchise Agreement ("Franchise Agreement") with CruiseShipCenters USA Inc. (a Nevada corporation) d/b/a Expedia CruiseShipCenters ("ECSC") in regard to the operation of a Travel Business located in the State or Commonwealth of _____ ("State"); and

2. Travel Agency hereby further acknowledges that in consideration for the grant of the right to license ECSC's brand and other intellectual property, Travel Agency it has granted ECSC a conditional right to review any information pertaining to Travel Agency ("Information") on file with or in the possession of any State governmental authority charged with licensing or regulating the operation of said Travel Agency.

NOW THEREFORE, Travel Agency hereby consents (the "Consent"):

1. To the State sharing any and all such Information with ECSC, upon ECSC's reasonable request and at ECSC's expense, for the purpose of demonstrating its status and standing to operate a travel agency business in the State during the term of the Franchise Agreement (the "Purpose");

2. To waive any objection it may otherwise have to the State disclosing Information to ECSC in furtherance of the Purpose; and

3. To waive and release any claim it might have had or may ever had against the State in connection with the disclosure of Information to ECSC for the Purpose pursuant to this Consent.

All authorizations in this Consent shall remain valid and binding until the expiration of the Franchise Agreement or the earlier of termination of the Franchise Agreement. You, your successors and assigns agree to indemnify and hold us, our affiliates, successors, assigns, officers, directors, employees, agents, and each of us, harmless from and against any and all claims, liabilities, damages, demands, obligations, costs (including reasonable attorney's fees), actions and causes of actions, whether known or unknown, vested or contingent, direct or indirect that in any way relates to ECSC's request for and receipt of the Information or any other claim, suit or proceeding initiated by or for a third party, now or in the future, that arises out of or relates to this Consent.

I have carefully reviewed this Consent and by executing this Consent, effective as of this _____ day of _____, 201 , I hereby acknowledge and agree to the terms of this Consent.

Witness:

_____ [Franchisee]

By: _____

Print Name of Witness:

Name:

Title:

Date: _____

**AMENDMENT TO CRUISESHIPCENTERS USA INC.
FRANCHISE AGREEMENT
FOR THE STATE OF CALIFORNIA**

The Franchise Agreement between _____ (“Franchisee” or “You”) and CruiseShipCenters USA Inc. (“Franchisor”) dated _____ (the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of the Agreement (the “Amendment”):

CALIFORNIA LAW MODIFICATIONS

1. The California Department of Corporations requires that certain provisions contained in franchise documents be amended to be consistent with California law, including the California Franchise Investment Law, CAL. CORPORATIONS CODE Section 31000 et seq., and the California Franchise Relations Act, CAL. BUS. & PROF. CODE Section 20000 et seq. To the extent that the Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

- a. California Business and Professions Code Sections 20000 through 20043 provide rights to You concerning nonrenewal and termination of the Agreement. The Federal Bankruptcy Code also provides rights to You concerning termination of the Agreement upon certain bankruptcy-related events. To the extent the Agreement contains a provision that is inconsistent with these laws, these laws will control.
- b. If the Franchisee is required in the Agreement to execute a release of claims, such release shall exclude claims arising under the California Franchise Investment Law and the California Franchise Relations Act.
- c. If the Agreement requires payment of liquidated damages that is inconsistent with California Civil Code Section 1671, the liquidated damage clause may be unenforceable.
- d. If the Agreement contains a covenant not to compete which extends beyond the expiration or termination of the Agreement, the covenant may be unenforceable under California law.
- e. If the Agreement requires litigation, arbitration or mediation to be conducted in a forum other than the State of California, the requirement may be unenforceable under California law.
- f. If the Agreement requires that it be governed by a state’s law, other than the State of California, such requirement may be unenforceable.

2. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of the California law applicable to the provision are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

3. As to any state law described in this Amendment that declares void or unenforceable any provision contained in the Agreement, the Franchisor reserves the right to challenge the enforceability of the state law by, among other things, bringing an appropriate legal action or by raising the claim in a legal action or arbitration that you have initiated.

IN WITNESS WHEREOF, the parties have fully executed, sealed and delivered this Amendment to the Franchise Agreement on the day and year first above written in the Franchise Agreement.

FRANCHISOR:

CruiseShipCenters USA Inc.
A Nevada corporation

By: _____

Name: _____

Title: _____

FRANCHISEE:

By: _____

Name: _____

Title: _____

**AMENDMENT TO CRUISESHIPCENTERS USA INC.
FRANCHISE AGREEMENT
FOR THE STATE OF ILLINOIS**

The Franchise Agreement between _____ (“Franchisee” or “You”) and CruiseShipCenters USA Inc. (“Franchisor”) dated _____ (the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of the Agreement (the “Amendment”):

ILLINOIS LAW MODIFICATIONS

1. The Illinois Attorney General's Office requires that certain provisions contained in franchise documents be amended to be consistent with Illinois law, including the Franchise Disclosure Act of 1987, 815 ILCS 705/1-44 (1994) (the “Act”). To the extent that the Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

- a. Paragraphs 705/19 and 705/20 of the Act provide rights to you concerning nonrenewal and termination of this Agreement. If this Agreement contains a provision that is inconsistent with the Act, the Act will control.
- b. The general release requirements under Sections 3.03 and 17.04 of the Agreement are not applicable to claims arising under the Act, and such acknowledgments shall be void with respect to claims under the Act.
- c. If this Agreement requires litigation to be conducted in a forum other than the State of Illinois, the requirement is void.
- d. If this Agreement requires that it be governed by a state's law, other than the State of Illinois, Illinois law will control.
- e. Any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of the Act or any other law of the State of Illinois is void.

2. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of the Illinois Franchise Disclosure Act, with respect to each such provision, are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

3. As to any state law described in this Amendment that declares void or unenforceable any provision contained in the Agreement, the Franchisor reserves the right to challenge the enforceability of the state law by, among other things, bringing an appropriate legal action or by raising the claim in a legal action or arbitration that you have initiated.

IN WITNESS WHEREOF, the parties have fully executed, sealed and delivered this Amendment to the Franchise Agreement on the day and year first above written in the Franchise Agreement.

FRANCHISOR:

CruiseShipCenters USA Inc.
A Nevada corporation

By: _____

Name: _____

Title: _____

FRANCHISEE:

By: _____

Name: _____

Title: _____

FRANCHISE OPERATIONS MANUAL

TABLE OF CONTENTS

FRANCHISE OPERATIONS MANUAL

The Franchise Operations Manual contains the Expedia® CruiseShipCenters® proprietary knowledge and procedures to start, manage and grow your business. The information contained in the manual sets the standard operating procedures across all Expedia® CruiseShipCenters® franchises to ensure brand and operational consistency. It also outlines best practices and mandatory specifications, standards, operating procedures, and organizational protocols. Content in the manual is revised and updated from time to time to reflect changes in the business and operating procedures.

Statement of Confidentiality

The Franchise Operations Manual, Resource Center content and other training and support materials contain proprietary information, comprising the Expedia® CruiseShipCenters® trade secrets. Please maintain the confidentiality of all information and refrain from using this proprietary information in any other manner.

The operations manual is published in the ECSC Resource Center (<https://help.mycruisedesk.com/hc/en-us>) and organized by topic for easy reference.

1. Growing Your Business: The Franchise Partner Compass

- Getting Started
- Performance
- Recognition
- Marketing
- Onboarding
- Planning
- Promotions
- Recruitment
- Leadership
- Meetings & Events

2. Managing Your Business: Center Operations

- Center Operations
- CruiseDesk
- ECSC Learning Center
- Email & Office 365

3. Preferred Supplier

- Suppliers

4. Sales & Customer Service: The Vacation Consultant Compass

- Prospecting
- Selling
- Servicing
- Training

5. Vacation Consultant Operations

- Consultant Operations

6. Miscellaneous

- Forms
- ~~Community~~
- EES Groups
- News
- Recorded Webinars
- Data Security

**CRUISESHIPCENTERS INTERNATIONAL INC.
TERMS OF USE**

CruiseShipCenters International Inc. ("CII") is pleased to provide you with an account for its CruiseDesk® system ("CruiseDesk®") and a business email account (collectively referred to as "the Services").

Please read the following Terms of Use before using the Services.

ACCEPTANCE OF TERMS THROUGH USE

By using or accessing the Services, you agree to be bound by all of the terms below. CII reserves the right to update the Terms of Use at any time without notice to you. Please check the Terms of Use periodically for changes. Your continued use of the Services following the posting of any changes to the Terms of Use constitutes acceptance of those changes.

CRUISEDESK® ACCOUNT, PASSWORD AND SECURITY

Upon receipt by CII of an Expedia® CruiseShipCenters® Registration Form and confirmation that your billing account has been setup, CII will create your CruiseDesk® account. The Registration Form you submit must include true, accurate, current and complete information about yourself. Your continued payment of the fees through your billing account is required to maintain your access to the Services. Your failure to pay the required fees may result in termination of your access to the Services. CII reserves the right to adjust the cost of the fees in its sole discretion. CII will provide notice to you prior to making any fee adjustments.

You will receive a user name and password upon creation of your CruiseDesk® account by CII. You are responsible for maintaining the confidentiality of the passwords and are fully responsible for all activities that occur under the username and password. You agree to (a) immediately notify CII of any unauthorized use of the user name or password or any other breach of security, and (b) ensure that you logout of CruiseDesk® at the end of each session. You will keep the password to access your CruiseDesk® account in a secure place under reasonable access and use restrictions designed to prevent access to CruiseDesk® by unauthorized persons, such restrictions to be no less than those applicable to CII's own trade secrets or confidential information.

EMAIL ACCOUNT, PASSWORD AND SECURITY

Your email account under this agreement (@cruishipcenters.com) will be assigned to you by CII. You understand and agree that the account is provided "AS-IS" and that CII assumes no responsibility for the timeliness, deletion, non-delivery or failure to store any user communications or personalization settings. You are responsible for maintaining the confidentiality of the password and are fully responsible for all activities that occur under the email address and password. You agree to (a) immediately notify CII of any unauthorized access to your email account or any other breach of security, and (b) ensure that you sign out of the account at the end of each session. You will keep the password to access your email account in a secure place under reasonable access and use restrictions designed to prevent access to your email account by unauthorized persons, such restrictions to be no less than those applicable to CII's own trade secrets or confidential information.

RIGHTS AND RESPONSIBILITIES

As a condition of your use of the Services, you are responsible for all information, data, text, software, music, sound, photographs, graphics, video, messages or other materials (“Content”), whether publicly posted or privately transmitted via the Services. You are entirely responsible for all Content that you upload, post, email or otherwise transmit via the Services. You understand that by using the Services you may be exposed to Content that is offensive, indecent or objectionable. You acknowledge that CII does not pre-screen Content, but that CII and its designees shall have the right (but not the obligation) in their sole discretion to refuse or move any Content that is available on or via the Services. Without limiting the foregoing, CII and its designees shall have the right to remove any Content that violates these Terms or is otherwise objectionable. You agree that you must evaluate, and bear all risks associated with, the use of any Content, including any reliance on the accuracy, completeness, or usefulness of such Content.

You acknowledge and agree that CII may preserve Content and may also disclose Content if required to do so by law or in the good faith belief that such preservation or disclosure is reasonably necessary to: (a) comply with legal process; (b) enforce these Terms; (c) respond to claims that any Content violates the rights of third-parties; or (d) protect the rights, property, or personal safety of CII, its users and the public.

You acknowledge that all data posted, published, uploaded on the Services is considered corporate data and is not intended for personal use and that CII and its authorized representatives may access the data for business purposes.

You acknowledge that you are not permitted to setup automatic forwarding from your CruiseShipCenters email account to an external email domain account at any time and that the ability to do so has been restricted by CII.

CII may add or remove functionalities or features of the Services or may suspend or stop a Service altogether.

NO UNLAWFUL OR PROHIBITED USE

As a condition of your use of the Services, you will not display any content or use the Services for any purpose that is unlawful or prohibited by these Terms. By way of example, without limitation, you will not:

- Defame, abuse, harass, stalk, threaten or otherwise violate the legal rights (such as the rights to privacy and publicity) of others;
- victimize, degrade or intimidate an individual or group of individuals on the basis of religion, gender, sexual orientation, race, ethnicity, age or disability;
- use the Services in connection with unsolicited advertising, junk or bulk email (also known as “spamming”), chain letters, any other form of unauthorized solicitation, or any form of lottery or gambling;
- engage in deceptive marketing or advertising practices;
- impersonate any person or entity, including, but not limited to, any employee or representative of CII or falsely state or otherwise misrepresent yourself or your affiliation with a person or entity;
- infringe on any patent, trademark, trade secret, copyright, right of publicity, or other proprietary right of any party;
- access the Services for the purpose of data mining or extracting content from the Services beyond your personal end use;
- knowingly upload or otherwise make available files which contain software viruses or any other computer code, files, or programs that are designed or intended to disrupt, damage, disable, or limit the functioning

of any software, hardware, or telecommunications equipment or to damage or obtain unauthorized access to any data or other information of any third party; or

- upload, post, email or otherwise transmit any Content that you do not have a right to transmit under any law or under contractual or fiduciary relationships (such as inside information, proprietary and confidential information learned or disclosed as part of employment relationships or under nondisclosure agreements).

SUSPENSION AND TERMINATION

You agree that CII, in its sole discretion, may suspend and/or terminate your access to the Services for any reason, including for non-payment of the fees or the belief that you have violated or acted inconsistently with the letter or spirit of the Terms of Use. In the event that the contract, i.e. the franchise agreement or independent contractor agreement, you entered into with CII, an affiliate of CII or an ~~Expedia-CruiseShipCenters®~~ CruiseShipCenters®, franchisee is not renewed or is terminated, CII will immediately terminate your access to the Services. You agree that any termination of your access to CruiseDesk® may be effected without prior notice, and acknowledge and agree that CII may immediately deactivate or delete your account and all related information and files in your account and/or bar any further access to such files or the Service(s). Further, you agree that CII shall not be liable to you or any third-party for any termination of your access to the Service(s).

STORAGE SPACE AND OTHER LIMITATIONS

You agree that CII may establish limits concerning use of the Services, including without limitation the maximum number of days that email messages will be retained, the maximum number of email messages that may be sent from or received by an account, the maximum size of an email message that may be sent from or received by an account or the maximum disk space that will be allotted on CII servers on your behalf. You acknowledge that CII reserves the right to log off accounts that are inactive for an extended period of time. CII makes no warranty that your access to the Services will be uninterrupted, timely, secure or error-free. CII shall have no obligation to maintain any content or forward any unread or unsent messages to you or any third party.

THIRD PARTY SITES

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FRANCHISEE ROSTER**Alabama**

JB JT Enterprise Inc.
Jon Harvill
270 Doug Baker Blvd., Suite 500
Birmingham, AL 35242
205-437-3354

Cruisin' Together LLC**

Audrey and Steven Nelson
160 Cotton Creek Dr. Suite 215
Gulf Shores, AL 36542
251-230-8080

Arizona

Travel Southwest Company LLC
Noam Meppen
15560 N. Frank Lloyd Wright Blvd., Suite B-3
Scottsdale, AZ 85260
480-378-3633

California

Seven Seas Voyages and Promotions, Inc.
Brian Murphy and James Murphy
357 South McDowell Boulevard
Petaluma CA 94954
707-766-7447

Orange County Cruise and Vacations Inc.
Chris Meyer
24321 Avenida de la Carlota, Suite H-3
Laguna Hills, CA 92653
949-201-4246

Navigate SD, Inc.
Michael and Mary Hart
3683 Midway Dr., Suite H
San Diego, CA 92110
619-357-4322

Grand Cru Ventures Corporation
Grace Lau
864 Laurel Street, Suite 200
San Carlos, CA 94070
650-275-7777

Clay & Guadalupe Platt **
358 East H Street, Suite 601
Chula Vista, CA 91910
619-387-9500

Rob Henderson
13011 Newport Ave., Suite 112
Tustin, CA 92780
714-505-0800

SquarePoint Four Incorporated **
Rene Matt
13289-6 Black Mountain Rd
San Diego, CA 92129
858-324-2410

Va Lu
4811 Hopyard Road, Unit G-6
Pleasanton, CA 94588
925-621-8822

CapitalJ Inc.**
George Francis James
26512 Bouquet Canyon Rd
Santa Clarita, CA 91350
661-568-6400

Harold and Johanna Kern**
2454 Notre Dame Blvd. Suite 170
Chico, CA 95928
530-413-7808

Doug Barnes**
Location to open in San Diego Corona, CA
~~858-344-5330~~

909-855-9940

Colorado
Coast2Coast Travel, Inc.
Eric and Brenda Skogen
440 4th St
Castle Rock, CO 80104
720-642-8777

Beaver Travel LLC**
William Beaver
Location to open in Estes Park, CO
970-480-1114

Connecticut
Jim and Mary Villamana**
Location to open in Newtown, CT
203-429-5589

Delaware
Great Escapes Inc.
Larry and Lois Mahan
126 Fox Hunt Drive
Bear, DE 19701
302-444-8447

Florida
Blue Waters Cruising, LLC

David and Mary Beth Casey
302 Indian Trace
Weston FL 33326
954-349-1330

Home Based Travel Experts, LLC
Ed Rudner
2307 W. Broward Boulevard
Fort Lauderdale, FL 33312
954-660-9000

University Park Travel Consultants, LLC
Richard Rogers
5215 University Parkway, Unit 102
Sarasota, FL 34201
941-254-6484

Blue Ocean Navigators LLC
Kevin and Jennifer White
5975 N. Federal Hwy, Unit 123
Fort Lauderdale, FL 33308
954-256-9061

VIP Cruise Services LLC
Michael Decker
9938 Universal Blvd, Unit 104
Orlando, FL 32819
407-383-2800

1st Street Holdings, LLC
Rob Steinfeld and Dean Hanson
2307 South Dale Mabry Highway, Suite G
Tampa, FL 33629
813-254-7447

TD Mad C's LLC
Tracey Codd
1284 Jacaranda Blvd, Suite 2
Venice, FL 34292
941-497-7888

Mal de Mer Travel Partners, LLC
Jonathan Gersh and Anthony Garofalo
6375 North Wickham Road, Suite 103
Melbourne, FL 32940
321-233-1400

Frank Teklitz
4600 Summerlin Road, A8
Fort Myers, FL 33919
239-984-3535

Luxury Travel Experts, LLC **
Jose Arosemena
1200 Yamato Road, Suite B-2
Boca Raton, FL 33431
561-948-3567

~~Kader Travel LLC **~~
~~Khal Kader~~
Location to open in Delray Beach, FL

~~905-848-6541~~

TD Mad C's LLC **
Tracey Codd
150 Laishlet Court, Suite 1112
Punta Gorda, FL 33950
941-270-4747

TD Mad C's LLC *****
Tracey Codd
Location to open in Naples, FL
941-270-4747

TD Mad C's LLC **
Tracey Codd
~~Location to open in~~ 313 Colony Boulevard
The Villages, FL
~~941-270-4747~~
800-834-5183

Joanna Paul**
1835 U.S. Hwy 1 South, Unit 119
St Augustine, FL 32084
904-671-7333

My Cruise, Inc. **
Princy and George Bucher
4424 Commons Drive East Suite B-2
Destin, FL 32541
850-604-0233

Georgia
New Atlanta Communications LLC
Vincent and Gerard P. Bonfanti
10945 State Bridge Road, Suite 105
Alpharetta, Georgia -30022
678-712-5059

Leisure Travel Unlimited, Inc.
Bryan Lindsey
5885 Cumming Hwy, Suite 109
Sugar Hill, GA 30518
470-427-2668

Edward and Laura Long
3157 Sugarloaf Parkway, 160
Lawrenceville, GA 30045
470-282-0227

Trego Trails, LLC
Reid and Julia Christine Trego
725 West Crossville Road, Suite 154
Roswell, GA 30075
770-415-1030

JICA Group LLC
Eric and Sharon Hickman
521 Lakeland Plaza
Cumming, GA 30040
470-588-0007

Illinois

Carefree Cruising LLC
Greg and Lenore Phillips
1520 College Ave R,
Normal, IL 61761
309-429-6280

Powell Sales and Services LLC
Katie and Mitchell Powell
2775 Showplace Drive, Suite 111
Naperville, IL 60564
331-702-9200

NorthShore Cruise Specialists Inc. **
Paul Coplan
~~Location to open in~~ 1434 Waukegan Road
Glenview, IL 60025
847-266-0151

Indiana

Harting Travel Inc.
Darwin Harting
4320 – 4328 Charlestown Rd.
New Albany, IN 47150
812-967-4806

Kentucky

Dettmer Marketing Inc.
Lawrence and Christine Dettmer
7561 Mall Rd.
Florence, KY 41042
859-208-0468

Louisiana

Southern Hospitality Resorts, LLC
Marty Gibson
2180 N. Causeway Blvd, Suite 2
Mandeville, LA 70471
985-231-0177

Time to Leave Inc.
Carol and Elton Richey
5725 Youree Drive,
Shreveport, LA 71105
318-317-2882

K & B Travel of Louisiana, LLC
Beverly and Keith Arceneaux
12654 Perkins Road
Baton Rouge, LA 70810
225-930-5400

Massachusetts

Boston Travel Associates Inc.
Jeff and Holly Barisano
18 Shipyard Drive, Suite 1H
Hingham, MA 02043
781-791-7729

Michigan

EC Travel LLC**
Eric and Connie Sattler
Location to open in Grand Rapids, MI
616-682-1662

Missouri

AB Sea Company
William, AmyKaye, and Michael O'Brien
5674 Telegraph Road
St. Louis, MO 63129
314-720-4697

Nevada

~~Rockin Moose, LLC~~
~~Brenna Maurer~~
Sola Gratia Ventures Inc.
Kim and Jacqueline Pedersen
1930 Village Center Circle, Suite 6
Las Vegas, NV 89134
702-431-7000

~~Rockin Moose, LLC~~

~~Brenna Maurer~~
Sola Gratia Ventures Inc.
Kim and Jacqueline Pedersen
10624 S. Eastern Avenue, Suite P
Henderson, NV 89052
702-720-1880

New Jersey

Best Price Cruises & Travel LLC ***
Brook Sara Smith
285 – 291 Rt 18 S, A1-C
East Brunswick, NJ 08816
732-226-0707

New Mexico

Jennifer and Jim Myers
6500 Holly Avenue NE, Suite A2
Albuquerque, NM 87113
505-900-3645

New York

Mariner Travels, Inc.
Joyce Mariner
29A Merrick Ave.
Merrick, NY 11566
516-900-5483

NMC Travels LLC
Harold and Nicole Verde
3285 Richmond Avenue
Staten Island, NY 10312
718-356-1120

Renowned Travel Corp. **
Ashraf Ibrahim and Karina Kocot
7618 3rd Ave.
Brooklyn, NY 11209
718-748-8687

NES Travel Inc.**
Ernest and Dilcia Gonzalez
Location to open in Baldwin Harbor, NY
516-268-2525

North Carolina

Worldwide Adventures Inc.
Paul Stone
5500 Chatt Court
Raleigh, NC
919-827-0190

Ohio

Sentertainment Travel, Inc.
James Senter
4024 W. Powell Rd.
Powell, OH 43065
614-808-0108

JC3 Events and Catering, LLC**
John and Carrie Frazier
8659 Sancus Blvd
Columbus, OH 43240
614-948-7447

Oregon

Inspired Life Travel, Inc. **
Barb Gossack
25700 SW Argyle Ave., Suite C
Wilsonville, OR 97070
503-783-8095

Tennessee

The Good Life Cruise & Vacations Inc.
Lynn and Carl Holcomb
2260 Gunbarrell Rd., Suite 204
Chattanooga, TN 37421
423-551-3770

Rodholm Marley Enterprises, LLC
Michael Holmes and Janine Shovein
7081 Hwy 70 S-B, Suite W
Nashville, TN 37221
629-202-8945

Texas

Vacationwala Ltd Company
Riyazali Momin
400 West Bay Area Blvd, Suite D
Webster, TX 77598
281-724-1449

Skypass Travel, Inc.
Victor Abraham
950 W. John Carpenter Frwy, Suite 100
Irving, TX 75039
972-792-8687

H&P Travel LLC
Heather Fahle and Patrick Walker
5570 FM 423, Suite 100
Frisco, TX 75034
469-294-8900

Pennant Services, LLC ***
Ram Venkat and Deepa Venkat
9720 Coit Road, Suite #200
Plano, TX 75025
469-225-4200

Theo Nobel *****
Location to open in Texas
+31 653592906

PL Place Inc.**
Patrick and Tammie Craig
6615 N. Grand Parkway West, Suite 307
Spring, TX 77389
832-529-1300

Elise & Jo Travel, Inc.**
Sarah and Scott Stouder
7820 Eldorado Parkway
McKinney, TX 75070

Howard and Kelly Reed**
Location to open in Dallas, TX
214-770-3316

EHA50 NTX Investments, Inc.**
Thomas Muench
1221 Flower Mound Rd. Suite 350
Flower Mound, TX 75028
972-449-0707

Brave Travel, LLC**
Jorge and Monica Velasco
Location to open in San Antonio, TX
210-698-9198

Utah

Nickell Beach **
~~Location to open in~~ 1825 W Traverse Parkway, Suite

B

Lehi, UT ~~84043~~
~~801-735-8644~~397-3342

Seascape Cruise and Travel, Inc.**

Eric and Peggy Schanz
6211 South Highland Drive
Salt Lake City, UT 84121
801-754-6484

Virginia

TRScott Inc.
 Rodney & Tanya Scott
 7949 Stonewall Shops Square,
 Gainesville, VA 20155
 571-316-2613

NLG USA LLC

Vilma Maria Dulanto Schenone
 1860 Laskin Road, Suite 112
 Virginia Beach, VA 23454
 757-550-1184

Francisco and Joyce Ramirez
 20808 Edds Lane
 Sterling, Virginia
 703-822-2477

Washington

Elbert Stockberger Travel, LLC
 Elbert Stockberger
 661 120th Ave NE, Suite B13
 Bellevue, WA 98005
 425-822-7327

Curry Ventures LLC
 Lyle and Renee Curry
 17171 Bothell Way NE, Suite A015
 Lake Forest Park, WA 98155
 206-347-8777

Rockin Moose, LLC
 Brenna Mauer
 3008 Issaquah Pine Lake Rd SE
 Sammamish, WA 98075
 425-369-7190

Ricardo Pruneda
 15415 Main Street, Suite 104
 Mill Creek, WA 98012
 425-318-3344

Trading Entreprises, LLC
 Ruzbeh Lalkaka
 2925 Newmarket Street, Suite 108
 Bellingham, WA 98226
 360-761-4320

Mark and Kim Hanson
23515 NE Novelty Hill Rd - Suite F-501
Redmond, WA 98053
425-616-3546

Wisconsin

Elbert Stockberger Travel, LLC
Elbert Stockberger
661 120th Ave NE, Suite B13
Bellevue, WA 98005
425-822-7327

Puerto Rico

Travel Planners, Inc.
 Jorge Ponsa
 Marginal Sein Road
 San Juan, Puerto Rico 0092
 787-751-5959

**Indicates franchisees who signed a franchise agreement in ~~2016~~2017 but opened or are opening in ~~2017~~2018.

*** Indicates franchisees who signed a franchise agreement in 2015 but opened or are opening in ~~2017~~2018.

***** Indicates franchisees who signed a franchise agreement in 2016 but opened or are opening in 2018.

FRANCHISEES WHO HAVE SIGNED AGREEMENTS IN ~~2017~~2018

Kevin Victoria and Sarah Niles	Erie Dmitry Reyder	Chad and Sharon
Hickman Ginger Jackson		
Location to open in Madison, Wisconsin	Pierce County, Washington	Location to open in Alpharetta,
Georgia McLennan County, Texas		
715-977-2793	770-639-7161	
818-457-6756	254-744-8501	
<u>Regina Murgatroyd</u>	<u>John and Sonja Darcangelo</u>	
Location to open in Austin, Texas	Location to open in Pima Country, Arizona	
<u>206-910-8584</u>	<u>520-241-9025</u>	

FRANCHISEES WHO HAVE LEFT THE SYSTEM DURING THE PRIOR FISCAL YEAR

~~The Cruise Agency, LLC~~
~~Mark Fletcher~~
~~Charlotte, NC~~
~~704-975-4357~~

~~Waypoint~~
~~Kader Travel Inc. LLC~~
~~Khal Kader~~
~~Location was to open in Delray Beach, FL~~
~~905-848-6541 Kimberly Wilson~~
~~Grand Rapids, MI~~
~~616-216-2007~~

STATE ADMINISTRATORS

CALIFORNIA

Commissioner of Business
Oversight
71 Stevenson Street, Suite 2100
San Francisco, CA 94105
(866) ASK-CORP
(866) 275-2677

HAWAII

Commissioner of Securities
Department of Commerce and
Consumer Affairs
Business Registration Division
335 Merchant Street
Post Office Box 40
Honolulu, HI 96813
(808) 586-2722

ILLINOIS

Franchise Examiner
Franchise Bureau
Office of the Attorney
Franchise Division
500 South Second Street
Springfield, IL 62706
(217) 782-4465

INDIANA

Franchise Clerk
Franchise Section
Indiana Securities Division
Secretary of State
302 West Washington
Room E-111
Indianapolis, IN 46204
(317) 232-6681

MARYLAND

Office of the Attorney General
Securities Division
200 Saint Paul Place
Baltimore, MD 21202-2020
(410) 576-6360

MICHIGAN

Franchise Administrator
Consumer Protection Division
Michigan Department of the
Attorney General
670 Law Building
Lansing, MI 48913
(517) 373-7117

MINNESOTA

Franchise Examiner
Minnesota Dept. of Commerce
85 7th Place East, Suite 500
St. Paul, MN 55101
(612) 296-6328

NEW YORK

Bureau of Investor Protection
and Securities
New York State Dept. of Law
120 Broadway, 23rd Floor
New York, NY 10271-0332
(212) 416-8211

NORTH DAKOTA

Franchise Examiner
North Dakota Securities Dept.
600 East Boulevard Avenue
State Capitol
Fifth Floor Dept 414
Bismarck, ND 58505
(701) 328-4712

RHODE ISLAND

Securities Examiner
Securities Division
1511 Pontiac Avenue
John O. Pastore Complex-
Building 69-1
Cranston, RI 02920
(401) 462-9527

SOUTH DAKOTA

Franchise Administrator
Division of Securities
445 East Capitol Avenue
Pierre, SD 57501
(605) 773-4013

VIRGINIA

State Corporation Commission
1300 East Main Street, 9th Floor
Richmond, VA 23219
(804) 371-9733

WASHINGTON

Dept. of Financial Securities
150 Israel Road, SW
Tumwater, WA 98504
(360) 902-8760

WISCONSIN

Franchise Administrator
Division of Securities
345 West Washington
Madison, WI 53703
(608) 266-8559

AGENTS FOR SERVICE OF PROCESS

Agents for service of process in the states described below are:

<u>STATE</u>	<u>AGENT</u>
California	Commissioner of Business Oversight 320 West 4 th Street, Suite 750 Los Angeles, CA 90013
Hawaii	Commissioner of Securities Hawaii Department of Commerce and Consumer Affairs 355 Merchant Street, Room 203 Honolulu, Hawaii 96813
Illinois	Office of the Attorney General Franchise Division 500 South Second Street Springfield, IL 62706 (217) 782-4465
Indiana	Indiana Secretary of State 201 State House Indianapolis, IN 46204
Maryland	Maryland Securities Commissioner 200 St. Paul Place Baltimore, MD 21202-2020 (410) 576-6360
Michigan	Michigan Department of Commerce Corporations and Securities Bureau 670 Law Building Lansing, MI 48913
Minnesota	Commissioner Minnesota Department of Commerce 85 7th Place East Suite 500 St. Paul, MN 55101
New York	Secretary of State of the State of New York 41 State Street Albany, NY 11231
North Dakota	North Dakota Securities Department Fifth Floor 600 East Boulevard Bismarck, ND 58505 Attn: Commissioner

Rhode Island	Director of the Department of Business Regulation 1511 Pontiac Avenue John O. Pastore Complex – Building 69-1 Cranston, RI 02920
South Dakota	Department of Revenue and Regulation Division of Securities 445 East Capitol Pierre, SD 57501 Attn: Commissioner
Virginia	Clerk of the State Corporation Commission 1300 East Main Street Richmond, VA 23219 (804) 371-9733
Washington	Director of Financial Institutions Securities Division 150 Israel Road, SW Tumwater, Washington 98504
Wisconsin	Commissioner of Securities 345 W. Washington Avenue, 4th Floor Madison, Wisconsin 53703

EXHIBIT G

FINANCIAL STATEMENTS

The financial statements of Expedia Group, Inc. (formerly Expedia, Inc.) are included with the Franchise Disclosure Document as Exhibit G. Expedia Group, Inc.'s (formerly Expedia, Inc.) fiscal year-end is December 31.



GUARANTEE OF PERFORMANCE

For value received, Expedia Group, Inc., a Delaware corporation (“Guarantor”), located at 333 108th Avenue NE, Bellevue, Washington, 98004, absolutely and unconditionally guarantees to assume the duties and obligations of CRUISESHIPCENTERS USA INC, d/b/a Expedia CruiseShipCenters (the “Franchisor”), located at 333 108th Avenue NE, Bellevue, Washington, 98004, under its franchise registration in each state where the franchise is registered, and under its Franchise Agreement identified in its 2018 Franchise Disclosure Document, as it may be amended, and as that Franchise Agreement may be entered into with franchisees and amended, modified or extended from time to time. This guarantee continues until all such obligations of the Franchisor under its franchise registrations and the Franchise Agreement are satisfied or until the liability of Franchisor to its franchisees under the Franchise Agreement has been completely discharged, whichever first occurs. The Guarantor is not discharged from liability if a claim by a franchisee against the Franchisor remains outstanding. Notice of acceptance is waived. The Guarantor does not waive receipt of notice of default on the part of the Franchisor. This guarantee is binding on the Guarantor and on its successors and assignees.

The Guarantor signs this guarantee at 333 108th Avenue NE, Bellevue, Washington, 98004, on the 29th day of March 2018.

EXPEDIA, INC.

By: Michael S. Marron
Vice President, Associate
General Counsel and Assistant
Secretary

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS, SCHEDULES AND EXHIBITS

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Expedia, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Expedia, Inc. (the Company) as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2017 and 2016, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 8, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2004.

Seattle, Washington

February 8, 2018

Consolidated Financial Statements

EXPEDIA, INC. CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31,		
	2017	2016	2015
	(In thousands, except for per share data)		
Revenue	\$ 10,059,844	\$ 8,773,564	\$ 6,672,317
Costs and expenses:			
Cost of revenue ⁽¹⁾	1,756,531	1,596,698	1,309,559
Selling and marketing ⁽¹⁾	5,297,832	4,367,417	3,381,086
Technology and content ⁽¹⁾	1,386,787	1,235,019	830,244
General and administrative ⁽¹⁾	675,961	678,292	573,913
Amortization of intangible assets	275,445	317,141	156,458
Impairment of intangible assets	—	34,890	7,207
Legal reserves, occupancy tax and other	25,412	26,498	(104,587)
Restructuring and related reorganization charges ⁽¹⁾	16,738	55,907	104,871
Operating income	625,138	461,702	413,566
Other income (expense):			
Interest income	34,137	19,726	16,695
Interest expense	(181,712)	(173,148)	(126,195)
Gain on sale of business	—	—	508,810
Other, net	(60,799)	(31,680)	113,086
Total other income (expense), net	(208,374)	(185,102)	512,396
Income before income taxes	416,764	276,600	925,962
Provision for income taxes	(45,405)	(15,315)	(203,214)
Net income	371,359	261,285	722,748
Net loss attributable to non-controlling interests	6,605	20,563	41,717
Net income attributable to Expedia, Inc.	\$ 377,964	\$ 281,848	\$ 764,465
Earnings per share attributable to Expedia, Inc. available to common stockholders:			
Basic	\$ 2.49	\$ 1.87	\$ 5.87
Diluted	2.42	1.82	5.70
Shares used in computing earnings per share:			
Basic	151,619	150,367	130,159
Diluted	156,385	154,517	134,018
Dividends declared per common share	\$ 1.16	\$ 1.00	\$ 0.84
(1) Includes stock-based compensation as follows:			
Cost of revenue	\$ 10,173	\$ 11,388	\$ 5,307
Selling and marketing	39,855	46,654	33,164
Technology and content	54,633	63,536	26,766
General and administrative	44,689	108,149	80,082
Restructuring and related reorganization charges	—	12,690	32,749

See notes to consolidated financial statements.

EXPEDIA, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31,		
	2017	2016	2015
	(In thousands)		
Net income	\$ 371,359	\$ 261,285	\$ 722,748
Other comprehensive income (loss), net of tax			
Currency translation adjustments, net of taxes	189,580	(10,217)	(147,815)
Net reclassification of foreign currency translation adjustments into total other income (expenses), net	—	—	(43,183)
Unrealized gains (losses) on available for sale securities, net of taxes	(6,705)	154	(67)
Other comprehensive income (loss), net of tax	182,875	(10,063)	(191,065)
Comprehensive income	554,234	251,222	531,683
Less: Comprehensive income (loss) attributable to non-controlling interests	44,804	(29,075)	(86,662)
Comprehensive income attributable to Expedia, Inc.	\$ 509,430	\$ 280,297	\$ 618,345

See notes to consolidated financial statements.

EXPEDIA, INC.
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2017	2016
	(In thousands, except per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,846,729	\$ 1,796,811
Restricted cash and cash equivalents	69,055	18,733
Short-term investments	468,508	72,313
Accounts receivable, net of allowance of \$30,696 and \$25,278	1,865,995	1,343,247
Income taxes receivable	20,633	19,402
Prepaid expenses and other current assets	268,669	199,745
Total current assets	5,539,589	3,450,251
Property and equipment, net	1,575,258	1,394,904
Long-term investments and other assets	845,450	520,058
Deferred income taxes	17,930	23,658
Intangible assets, net	2,308,536	2,446,652
Goodwill	8,228,865	7,942,023
TOTAL ASSETS	\$ 18,515,628	\$ 15,777,546
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, merchant	\$ 1,837,936	\$ 1,509,313
Accounts payable, other	697,560	577,012
Deferred merchant bookings	3,219,279	2,617,791
Deferred revenue	325,722	282,517
Income taxes payable	33,374	49,739
Accrued expenses and other current liabilities	1,264,819	1,090,826
Current maturities of long-term debt	500,000	—
Total current liabilities	7,878,690	6,127,198
Long-term debt, excluding current maturities	3,749,054	3,159,336
Deferred income taxes	328,602	484,970
Other long-term liabilities	408,380	312,939
Commitments and contingencies		
Redeemable non-controlling interests	22,334	—
Stockholders' equity:		
Common stock \$.0001 par value	23	22
Authorized shares: 1,600,000		
Shares issued: 228,467 and 224,310		
Shares outstanding: 138,939 and 137,232		
Class B common stock \$.0001 par value	1	1
Authorized shares: 400,000		
Shares issued and outstanding: 12,800 and 12,800		
Additional paid-in capital	9,162,909	8,794,298
Treasury stock — Common stock, at cost	(4,822,743)	(4,510,655)
Shares: 89,528 and 87,077		
Retained earnings	331,078	129,034
Accumulated other comprehensive income (loss)	(148,933)	(280,399)
Total Expedia, Inc. stockholders' equity	4,522,335	4,132,301
Non-redeemable non-controlling interests	1,606,233	1,560,802
Total stockholders' equity	6,128,568	5,693,103
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 18,515,628	\$ 15,777,546

See notes to consolidated financial statements.

EXPEDIA, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In thousands, except share data)

	Common stock		Class B common stock		Additional paid-in capital	Treasury stock		Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Non-redeemable non-controlling interest	Total
	Shares	Amount	Shares	Amount		Shares	Amount				
Balance as of December 31, 2014	196,802,236	\$ 20	12,799,999	\$ 1	\$ 5,921,140	82,535,396	\$ (3,998,120)	\$ —	\$ (138,774)	\$ 109,462	\$ 1,893,729
Net income (excludes \$15,417 of net loss attributable to redeemable non-controlling interest)								764,465		(26,300)	738,165
Other comprehensive income (loss), net of taxes									(146,120)	641	(145,479)
Proceeds from exercise of equity instruments and employee stock purchase plans	3,385,749	—			96,534						96,534
Withholding taxes for stock options					(85,033)						(85,033)
Tax benefits on equity awards					89,128						89,128
Issuance of common stock in connection with acquisitions	20,195,139	2			2,552,340						2,552,342
Treasury stock activity related to vesting of equity instruments						127,712	(15,763)				(15,763)
Common stock repurchases						525,504	(44,822)				(44,822)
Proceeds from issuance of treasury stock					18,779	(264,841)	3,796				22,575
Cash dividends					—			(108,778)			(108,778)
Adjustment to the fair value of redeemable non-controlling interests					(40,558)			(148,021)			(188,579)
Sale of controlling interest in eLong					—					(92,550)	(92,550)
Acquisition of non-controlling interest					—					64,115	64,115
Other changes in ownership of non-controlling interests					(4,198)					10,005	5,807
Stock-based compensation expense					147,988						147,988
Other					388						388
Balance as of December 31, 2015	220,383,124	22	12,799,999	1	8,696,508	82,923,771	(4,054,909)	507,666	(284,894)	65,373	4,929,767
Net income (excludes \$22,286 of net loss attributable to redeemable non-controlling interest)								281,848		1,723	283,571
Other comprehensive income (loss), net of taxes									(1,551)	—	(1,551)
Proceeds from exercise of equity instruments and employee stock purchase plans	3,413,505	—			141,043						141,043
Withholding taxes for stock options					(1,282)						(1,282)
Issuance of common stock in connection with acquisitions	513,140	—			—						—
Treasury stock activity related to vesting of equity instruments						174,378	(19,377)				(19,377)
Common stock repurchases						3,979,170	(436,369)				(436,369)
Impact of adoption of new accounting guidance related to stock-based compensation					10,048			(7,037)			3,011
Cash dividends					—			(149,906)			(149,906)
Adjustment to the fair value of redeemable non-controlling interests					(344,064)			(503,537)			(847,601)
Change in ownership of non-controlling interest related to travago initial public offering ("IPO")					(32,141)				6,046	26,095	—
Transfer from redeemable non-controlling interests					—					1,380,976	1,380,976

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	Common stock		Class B common stock		Additional paid-in capital	Treasury stock		Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Non- redeemable non-controlling interest	Total
	Shares	Amount	Shares	Amount		Shares	Amount				
Proceeds related to trivago IPO, net of fees and expenses					124,616					85,287	209,903
Other changes in ownership of non-controlling interests					—					274	274
Stock-based compensation expense					196,358						196,358
Other					3,212					1,074	4,286
Balance as of December 31, 2016	224,309,769	\$ 22	12,799,999	1	8,794,298	87,077,319	(4,510,655)	129,034	(280,399)	1,560,802	5,693,103
Net income (excludes \$2,535 of net income attributable to redeemable non-controlling interest)								377,964		(9,140)	368,824
Other comprehensive income (loss), net of taxes									131,466	51,409	182,875
Proceeds from exercise of equity instruments and employee stock purchase plans	3,982,546	1			228,188						228,189
Withholding taxes for stock options					(9,063)						(9,063)
Issuance of common stock in connection with acquisitions	175,040	—			—						—
Treasury stock activity related to vesting of equity instruments						133,319	(17,621)				(17,621)
Common stock repurchases						2,317,617	(294,467)				(294,467)
Cash dividends					—			(175,920)			(175,920)
Other changes in non-controlling interests					2,649					3,162	5,811
Stock-based compensation expense					147,843						147,843
Other					(1,006)						(1,006)
Balance as of December 31, 2017	228,467,355	\$ 23	12,799,999	\$ 1	\$ 9,162,909	89,528,255	\$ (4,822,743)	\$ 331,078	\$ (148,933)	\$ 1,606,233	\$ 6,128,568

See notes to consolidated financial statements.

EXPEDIA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	December 31,		
	2017	2016	2015
	(In thousands)		
Operating activities:			
Net income	\$ 371,359	\$ 261,285	\$ 722,748
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of property and equipment, including internal-use software and website development	614,099	477,061	336,680
Amortization of stock-based compensation	149,350	242,417	178,068
Amortization of intangible assets	275,445	317,141	156,458
Impairment of intangible assets	—	34,890	7,207
Deferred income taxes	(103,308)	(14,088)	(21,635)
Foreign exchange (gain) loss on cash, cash equivalents and short-term investments, net	(78,819)	16,253	88,528
Realized (gain) loss on foreign currency forwards	(6,335)	53,089	(54,226)
Gain on sale of business	—	—	(508,810)
Non-controlling interest basis adjustment	(1,678)	—	(77,400)
Other	(13,660)	7,555	15,865
Changes in operating assets and liabilities, net of effects from acquisitions and disposals:			
Accounts receivable	(455,668)	(276,154)	(198,262)
Prepaid expenses and other assets	(116,768)	(30,198)	97,701
Accounts payable, merchant	315,989	184,398	97,248
Accounts payable, other, accrued expenses and other current liabilities	256,728	79,202	194,458
Tax payable/receivable, net	(30,577)	(100,525)	39,776
Deferred merchant bookings	592,912	261,402	299,534
Deferred revenue	30,085	50,606	(5,893)
Net cash provided by operating activities	1,799,154	1,564,334	1,368,045
Investing activities:			
Capital expenditures, including internal-use software and website development	(710,330)	(749,348)	(787,041)
Purchases of investments	(1,811,355)	(45,352)	(521,329)
Sales and maturities of investments	1,096,404	60,935	410,923
Acquisitions, net of cash acquired	(170,639)	(777)	(2,063,649)
Proceeds from sale of business, net of cash divested and disposal costs	—	67,088	523,882
Net settlement of foreign currency forwards	6,335	(53,089)	54,226
Other, net	7,195	2,222	11,728
Net cash used in investing activities	(1,582,390)	(718,321)	(2,371,260)
Financing activities:			
Proceeds from issuance of long-term debt, net of issuance costs	989,600	(2,093)	1,441,860
Payment of HomeAway Convertible Notes	—	(401,424)	—
Purchases of treasury stock	(312,089)	(455,746)	(60,546)
Proceeds from issuance of treasury stock	—	—	22,575
Payment of dividends to stockholders	(175,775)	(150,159)	(108,527)
Proceeds from exercise of equity awards and employee stock purchase plan	229,081	141,043	97,716
Changes in controlled subsidiaries, net	(18,137)	208,016	(8,518)
Excess tax benefit on equity awards	—	—	90,855
Withholding taxes for stock option exercises	(9,063)	(1,282)	(85,033)
Other, net	(16,103)	(28,974)	13,817
Net cash provided by (used in) financing activities	687,514	(690,619)	1,404,199
Effect of exchange rate changes on cash and cash equivalents	145,640	(34,882)	(127,385)
Net increase in cash and cash equivalents	1,049,918	120,512	273,599
Cash and cash equivalents at beginning of year	1,796,811	1,676,299	1,402,700
Cash and cash equivalents at end of year	\$2,846,729	\$1,796,811	\$1,676,299
Supplemental cash flow information			
Cash paid for interest	\$ 162,932	\$ 153,755	\$ 109,507
Income tax payments, net	174,180	124,291	96,834

See notes to consolidated financial statements.

Expedia, Inc.**Notes to Consolidated Financial Statements****NOTE 1 — Organization and Basis of Presentation*****Description of Business***

Expedia, Inc. and its subsidiaries provide travel products and services to leisure and corporate travelers in the United States and abroad as well as various media and advertising offerings to travel and non-travel advertisers. These travel products and services are offered through a diversified portfolio of brands including: Expedia.com[®], Hotels.com[®], Hotwire.com[™], Travelocity[®], Expedia[®] Affiliate Network, Classic Vacations[®], Expedia Local Expert[®], Expedia[®] CruiseShipCenters[®], CarRentals.com[™], Wotif Group, Orbitz[®], CheapTickets[®], ebookers[®], SilverRail Technologies, Inc., Egencia[®], trivago[®], HomeAway[®] and eLong[™] through its sale on May 22, 2015. In addition, many of these brands have related international points of sale, including those as part of AirAsia-Expedia. We refer to Expedia, Inc. and its subsidiaries collectively as “Expedia,” the “Company,” “us,” “we” and “our” in these consolidated financial statements.

Basis of Presentation

The accompanying consolidated financial statements include Expedia, Inc., our wholly-owned subsidiaries, and entities we control, or in which we have a variable interest and are the primary beneficiary of expected cash profits or losses. We record our investments in entities that we do not control, but over which we have the ability to exercise significant influence, using the equity method. We have eliminated significant intercompany transactions and accounts.

We believe that the assumptions underlying our consolidated financial statements are reasonable. However, these consolidated financial statements do not present our future financial position, the results of our future operations and cash flows.

Seasonality

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

NOTE 2 — Significant Accounting Policies***Consolidation***

Our consolidated financial statements include the accounts of Expedia, Inc., our wholly-owned subsidiaries, and entities for which we control a majority of the entity’s outstanding common stock. We record non-controlling interest in our consolidated financial statements to recognize the minority ownership interest in our consolidated subsidiaries. Non-controlling interest in the earnings and losses of consolidated subsidiaries represent the share of net income or loss allocated to members or partners in our consolidated entities, which includes the non-controlling interest share of net income or loss from our redeemable and non-redeemable non-controlling interest entities. Upon closing of its initial public offering (“IPO”) on December 16, 2016, trivago became a separately listed company on the Nasdaq Global Select Market and, therefore, is subject to its own reporting and filing requirements, which could result in possible differences that are not expected to be material to Expedia, Inc.

We characterize our minority interest in AirAsia-Expedia and trivago, subsequent to its IPO, as a non-redeemable non-controlling interest and classify it as a component of stockholders’ equity in our consolidated financial statements. Non-

controlling interests with shares redeemable at the option of the minority holders, such as trivago prior to its IPO, have been included in redeemable non-controlling interests. See “Redeemable Non-controlling Interest” below for further information.

We have eliminated significant intercompany transactions and accounts in our consolidated financial statements.

Accounting Estimates

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

Reclassifications

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

Revenue Recognition

We recognize 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.

We also evaluate 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 we perform 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 our primary transaction-based revenue models, discussed below, we have determined net presentation is appropriate for the majority of revenue transactions.

We offer traditional 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, we facilitate the booking of hotel rooms, airline seats, car rentals and destination services from our travel suppliers and we are the merchant of record for such bookings. The majority of our merchant transactions relate to hotel bookings.

Under the agency model, we act as the agent in the transaction, passing reservations booked by the traveler to the relevant travel provider. We receive commissions or ticketing fees from the travel supplier and/or traveler. For certain agency airline, hotel and car transactions, we also receive fees from global distribution systems partners that control the computer systems through which these reservations are booked.

Under the advertising model, we offer travel and non-travel advertisers access to a potential source of incremental traffic and transactions through our various media and advertising offerings on trivago and our transaction-based websites.

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

Merchant Hotel. Our travelers pay us for merchant hotel transactions prior to departing on their trip, generally when they book the reservation. We record the payment in deferred merchant bookings until the stay occurs, at which point we record the revenue. In certain nonrefundable, nonchangeable transactions where we have no significant post-delivery obligations, we record revenue when the traveler completes the transaction on our 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 us for less than the cost we accrued, we generally recognize those amounts as revenue six months in arrears, net of an allowance, when we determine it is not probable that we will be required to pay the supplier, based

on historical experience and contract terms. We generally contract in advance with lodging providers to obtain access to rooms at negotiated rates. Certain contracts specifically identify the number of potential rooms and the negotiated rate of the rooms to which we 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 we may have access over the terms of the contracts. In either case we may return unbooked hotel rooms 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, we charge the traveler a cancellation fee or penalty that approximates the amount a hotel may invoice us for the cancellation.

Agency and Merchant Air. We record revenue on air transactions when the traveler books the transaction, as we have no significant post-delivery obligations. We record 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, our agency revenue comes from certain hotel transactions as well as cruise and car rental reservations. We generally record agency revenue from hotel, cruise and car reservations on an accrual basis when the travel occurs. We record an allowance for cancellations on this revenue based on historical experience.

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

Advertising. We record advertising revenue ratably over the advertising period or upon delivery of advertising impressions, depending on the terms of the advertising contract. We record revenue from click-through fees charged to our travel partners for traveler leads sent to the travel partners' websites. We record revenue from click-through fees after the traveler makes the click-through to the related travel partners' websites.

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 our websites. During 2016, HomeAway began transitioning 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 we provide the service.

Other. We record revenue from all other sources either upon delivery or when we provide the service.

Cash and Cash Equivalents

Our cash and cash equivalents include cash and liquid financial instruments, including money market funds and time deposit investments, with maturities of three months or less when purchased.

Short-term and Long-term Investments

We determine the appropriate classification of our investments in marketable securities at the time of purchase and reevaluate such designation at each balance sheet date. Based on our intent and ability to hold certain assets until maturity, we may classify certain debt securities as held to maturity and measure them 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 long-term investments and other assets.

We record investments using the equity method when we have the ability to exercise significant influence over the investee. Equity investments without readily determinable fair values for which we do not have the ability to exercise significant influence are accounted for using the cost method of accounting and classified within long-term investments and other assets. Under the cost method, investments are carried at cost and are adjusted only for other-than-temporary declines in fair value, certain distributions, and additional investments.

We periodically evaluate the recoverability of investments and record a write-down to fair value if a decline in value is determined to be other-than-temporary.

Accounts Receivable

Accounts receivable are generally due within thirty days and are recorded net of an allowance for doubtful accounts. We consider accounts outstanding longer than the contractual payment terms as past due. We determine our 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 to us, and the condition of the general economy and industry as a whole.

Property and Equipment

We record property and equipment at cost, net of accumulated depreciation and amortization. We also capitalize certain costs incurred related to the development of internal use software. We capitalize costs incurred during the application development stage related to the development of internal use software. We expense costs incurred related to the planning and post-implementation phases of development as incurred.

We compute depreciation using the straight-line method over the estimated useful lives of the assets, which is three to five years for computer equipment, capitalized software development and furniture and other equipment. We amortize leasehold improvement using the straight-line method, over the shorter of the estimated useful life of the improvement or the remaining term of the lease.

We establish assets and liabilities for the present value of estimated future costs to return certain of our leased facilities to their original condition under the authoritative accounting guidance for asset retirement obligations. Such assets are depreciated over the lease period into operating expense, and the recorded liabilities are accreted to the future value of the estimated restoration costs.

We establish assets and liabilities 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 our involvement in the construction project for a new office space of our trivago subsidiary, we are recording that lease under build-to-suit guidance. We record project construction costs during the construction period incurred by the landlord as a construction-in-progress asset and a related construction financing obligation on our consolidated balance sheets.

Business Combinations

We assign the value of the consideration transferred to acquire a 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 customer relationships and trade names, 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.

Recoverability of Goodwill and Indefinite-Lived Intangible Assets

Goodwill is assigned to reporting units that are expected to benefit from the synergies of the business combination as of the acquisition date. We assess goodwill and indefinite-lived intangible assets, neither of which is amortized, for impairment annually as of October 1, or more frequently, if events and circumstances indicate impairment may have occurred. In the evaluation of goodwill for impairment, we typically perform a quantitative assessment and compare the fair value of the reporting unit to the carrying value. Effective October 1, 2017, we prospectively adopted accounting guidance that simplified our goodwill impairment testing by eliminating the requirement to calculate the implied fair value of goodwill (formerly "Step 2") in the event an impairment is identified. Instead, an impairment charge is recorded based on the excess of the reporting unit's carrying amount over its fair value. Periodically, we may choose to perform a qualitative assessment, prior to performing the quantitative analysis, to determine whether the fair value of the goodwill is more likely than not impaired.

We generally base our measurement of fair value of reporting units on a blended analysis of the present value of future discounted cash flows and market valuation approach with the exception of our standalone publicly traded subsidiary, which is based on market valuation. The discounted cash flows model indicates the fair value of the reporting units based on the present

value of the cash flows that we expect the reporting units to generate in the future. Our significant estimates in the discounted cash flows model include: our weighted average cost of capital; long-term rate of growth and profitability of our business; and working capital effects. The market valuation approach indicates the fair value of the business based on a comparison of the Company to comparable publicly traded firms in similar lines of business. Our significant estimates in the market approach model include identifying similar companies with comparable business factors such as size, growth, profitability, risk and return on investment and assessing comparable revenue and operating income multiples in estimating the fair value of the reporting units.

We believe the weighted use of discounted cash flows and market approach is the best method for determining the fair value of our reporting units because these are the most common valuation methodologies used within the travel and internet industries; and the blended use of both models compensates for the inherent risks associated with either model if used on a stand-alone basis.

In addition to measuring the fair value of our reporting units as described above, we consider the combined carrying and fair values of our reporting units in relation to the Company's total fair value of equity plus debt as of the assessment date. Our equity value assumes our fully diluted market capitalization, using either the stock price on the valuation date or the average stock price over a range of dates around the valuation date, plus an estimated acquisition premium which is based on observable transactions of comparable companies. The debt value is based on the highest value expected to be paid to repurchase the debt, which can be fair value, principal or principal plus a premium depending on the terms of each debt instrument.

In our evaluation of our indefinite-lived intangible assets, we typically first perform a quantitative assessment and an impairment charge is recorded for the excess of the carrying value of indefinite-lived intangible assets over their fair value, if necessary. We base our measurement of fair value of indefinite-lived intangible assets, which primarily consist of trade name and trademarks, using the relief-from-royalty method. This method assumes that the trade name and trademarks have value to the extent that their owner is relieved of the obligation to pay royalties for the benefits received from them. As with goodwill, periodically, we may choose to perform a qualitative assessment, prior to performing the quantitative analysis, to determine whether the fair value of the indefinite-lived intangible asset is more likely than not impaired.

Recoverability of Intangible Assets with Definite Lives and Other 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 of less than one to twelve years. We review the carrying value of long-lived assets or asset groups, including property and equipment, to be used in operations whenever events or changes in circumstances indicate that the carrying amount of the assets 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, or a significant decline in the observable market value of an asset, among others. If such facts indicate a potential impairment, we would assess the recoverability of an asset group by determining if 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 assets over the remaining economic life of the primary asset in the asset group. If the recoverability test indicates that the carrying value of the asset group is not recoverable, we will estimate the fair value of the asset group using appropriate valuation methodologies which would typically include an estimate of discounted cash flows. Any impairment would be measured as the difference between the asset groups carrying amount and its estimated fair value.

Assets held for sale, to the extent we have any, are reported at the lower of cost or fair value less costs to sell.

Redeemable Non-controlling Interests

We have non-controlling interests in majority owned entities, which were carried at fair value as the non-controlling interests contained certain rights, whereby we could acquire and the minority shareholders could sell to us the additional shares of the company. If the redeemable non-controlling interest is redeemable at an amount other than fair value, we adjust the non-controlling interest to redemption value through earnings each period. In circumstances where the non-controlling interest is redeemable at fair value, which included trivago prior to its IPO in December 2016, changes in fair value of the shares for which the minority holders could sell to us were recorded to the non-controlling 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" on the fair value hierarchy) and were based on various valuation techniques, including market comparables and discounted cash flow projections.

Income Taxes

We record income taxes under the liability method. Deferred tax assets and liabilities reflect our estimation of the future tax consequences of temporary differences between the carrying amounts of assets and liabilities for book and tax purposes. We determine deferred income taxes based on the differences in accounting methods and timing between financial statement and income tax reporting. Accordingly, we determine the deferred tax asset or liability for each temporary difference based on the enacted tax rates expected to be in effect when we realize the underlying items of income and expense. The Tax Cuts and Jobs Act ("the Tax Act") enacted in December 2017 reduced the U.S. Corporate income tax rate from 35% to 21%, effective January 1, 2018. See NOTE 11 — Income Taxes for further information on the tax impacts of the Tax Act.

We consider many factors when assessing the likelihood of future realization of our deferred tax assets, including our recent earnings experience by jurisdiction, expectations of future taxable income, and the carryforward periods available to us for tax reporting purposes, as well as other relevant factors. We may establish a valuation allowance to reduce deferred tax assets to the amount we believe is more likely than not to be realized. Due to inherent complexities arising from the nature of our businesses, future changes in income tax law, tax sharing agreements or variances between our actual and anticipated operating results, we make certain judgments and estimates. Therefore, actual income taxes could materially vary from these estimates. All deferred income taxes are classified as long-term on our consolidated balance sheets.

We account for uncertain tax positions based on a two-step process of evaluating recognition and measurement criteria. The first step assesses whether the tax position is more likely than not to be sustained upon examination by the tax authority, including resolution of any appeals or litigation, based on the technical merits of the position. If the tax position meets the more likely than not criteria, the portion of the tax benefit greater than 50% likely to be realized upon settlement with the tax authority is recognized in the financial statements.

We recognize interest and penalties related to unrecognized tax benefits in the income tax expense line in our consolidated statement of operations. Accrued interest and penalties are included in other long-term liabilities on the consolidated balance sheet.

Presentation of Taxes in the Income Statement

We present taxes that we collect from customers and remit to government authorities on a net basis in our consolidated statements of operations.

Derivative Instruments

Derivative instruments are carried at fair value on our consolidated balance sheets. The fair values of the derivative financial instruments generally represent the estimated amounts we would expect to receive or pay upon termination of the contracts as of the reporting date.

At December 31, 2017 and 2016, our derivative instruments primarily consisted of foreign currency forward contracts. We use foreign currency forward contracts to economically hedge certain merchant revenue exposures, foreign denominated liabilities related to certain of our loyalty programs and our other foreign currency-denominated operating liabilities. Our goal in managing our foreign exchange risk is to reduce, to the extent practicable, our potential exposure to the changes that exchange rates might have on our earnings, cash flows and financial position. Our foreign currency forward contracts are typically short-term and, as they do not qualify for hedge accounting treatment, we classify the changes in their fair value in other, net. We do not hold or issue financial instruments for speculative or trading purposes.

In June 2015, we issued Euro 650 million of registered senior unsecured notes that are due in June 2022 and bear interest at 2.5% (the "2.5% Notes"). The aggregate principal value of the 2.5% Notes is designated as a hedge of our net investment in certain Euro functional currency subsidiaries. The notes are measured at Euro to U.S. Dollar exchange rates at each balance sheet date and transaction gains or losses due to changes in rates are recorded in accumulated other comprehensive income (loss) ("OCI"). The Euro-denominated net assets of these subsidiaries are translated into U.S. Dollars at each balance sheet date, with effects of foreign currency changes also reported in accumulated OCI. Since the notional amount of the recorded Euro-denominated debt is less than the notional amount of our net investment, we do not expect to incur any ineffectiveness on this hedge.

Foreign Currency Translation and Transaction Gains and Losses

Certain of our operations outside of the United States use the related local currency as their functional currency. We translate revenue and expense at average rates of exchange during the period. We translate 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 OCI. Due to the nature of our operations and our corporate structure, we also have subsidiaries that have significant transactions in foreign currencies other than their functional currency. We record transaction gains and losses in our consolidated statements of operations related to the recurring remeasurement and settlement of such transactions.

To the extent practicable, we attempt to minimize this exposure by maintaining natural hedges between our current assets and current liabilities of similarly denominated foreign currencies. Additionally, as discussed above, we use 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 our foreign currency-denominated operating liabilities.

Debt Issuance Costs

We defer costs we incur to issue debt, which are presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability, and amortize these costs to interest expense over the term of the debt or, in circumstances where the debt can be redeemed at the option of the holders, over the term of the redemption option.

Marketing Promotions

We periodically provide incentive offers to our customers to encourage booking of travel products and services. Generally, our incentive offers are as follows:

Current Discount Offers. These promotions include dollar off discounts to be applied against current purchases. We record the discounts as reduction in revenue at the date we record the corresponding revenue transaction.

Inducement Offers. These promotions include discounts granted at the time of a current purchase to be applied against a future qualifying purchase. We treat inducement offers as a reduction to revenue based on estimated future redemption rates. We allocate the discount amount at the time of the offer between the current purchase and the potential future purchase based on our expected relative value of the transactions. We estimate our redemption rates using our 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, we record these concession offers as a reduction to revenue based on estimated future redemption rates. We estimate our redemption rates using our historical experience for concession offers.

Loyalty and Points Based Offers. We offer certain internally administered traveler loyalty programs to our customers, such as our Hotels.com Rewards[®] program, our Brand Expedia Expedia[®] + rewards program and our 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 points of sale. Orbitz Rewards allows travelers to earn OrbucksSM, the currency of Orbitz Rewards, on flights, hotels and vacation packages and instantly redeem those Orbucks on future bookings at various hotels worldwide. As travelers accumulate points towards free travel products, we record a liability for the estimated future cost of redemptions. The cost of these loyalty points is recorded as a reduction to revenue in our consolidated financial statements. We determine 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, 2017 and 2016, we had a liability related to our loyalty programs of \$562 million and \$442 million included in accrued expenses and other current liabilities.

Advertising Expense

We incur advertising expense consisting of offline costs, including television and radio advertising, and online advertising expense to promote our brands. We expense the production costs associated with advertisements in the period in which the advertisement first takes place. We expense the costs of communicating the advertisement (e.g., television airtime) as incurred each time the advertisement is shown. For the years ended December 31, 2017, 2016 and 2015, our advertising expense was \$3.3 billion, \$2.7 billion and \$2.1 billion. As of December 31, 2017 and 2016, we had \$38 million and \$23 million of prepaid marketing expenses included in prepaid expenses and other current assets.

Stock-Based Compensation

We measure and amortize the fair value of stock options and restricted stock units (“RSUs”) as follows:

Stock Options. We measure 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 our common stock and other relevant factors. We base our expected term assumptions on our historical experience and on the terms and conditions of the stock awards granted to employees. We amortize the fair value, net of actual forfeitures, over the remaining vesting term on a straight-line basis. In addition, we classify certain employee option awards as liabilities when we deem 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 our total compensation expense recorded from grant date to settlement date will equal the settlement amount. The majority of our 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. We measure the value of RSUs at fair value based on the number of shares granted and the quoted price of our common stock at the date of grant. We amortize the fair value, net of actual forfeitures, as stock-based compensation expense over the vesting term on a straight-line basis. We record RSUs that may be settled by the holder in cash, rather than shares, as a liability and we remeasure these instruments at fair value at the end of each reporting period. Upon settlement of these awards, our total compensation expense recorded over the vesting period of the awards will equal the settlement amount, which is based on our stock price on the settlement date. Performance-based RSUs vest upon achievement of certain company-based performance conditions. On the date of grant, we determine the fair value of the performance-based award based on the fair value of our common stock at that time and we assess whether it is probable that the performance targets will be achieved. If assessed as probable, we record compensation expense for these awards over the estimated performance period using the accelerated method. At each reporting period, we reassess 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 our current estimates, the cumulative effect on current and prior periods of those changes will be 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 our original estimates of fair value.

During the second quarter of 2016, we elected to early adopt new guidance the Financial Accounting Standards Board (“FASB”) issued in March 2016 related to accounting for share-based payments, which required us to reflect any adjustments as of January 1, 2016, the beginning of the annual period that includes the interim period of adoption. The primary impact of adoption was the recognition of excess tax benefits in our provision for income taxes rather than additional paid-in capital for all periods in 2016. Additionally, our consolidated statement of cash flows now present excess tax benefits as an operating activity on a prospective basis. Finally, we have elected to account for forfeitures as they occur, rather than estimate expected forfeitures. The net cumulative effect of this change was recognized as a \$7 million reduction to retained earnings as of January 1, 2016. The adoption of the new guidance resulted in the recognition of \$40 million and \$60 million of excess tax benefits in our provision for income taxes rate rather than additional paid-in capital for 2016 and 2017.

Earnings Per Share

We compute basic earnings per share by taking net income attributable to Expedia, Inc. available to common stockholders divided by the weighted average number of common and Class B common shares outstanding during the period excluding restricted stock and stock held in escrow. Diluted earnings per share include the potential dilution that could occur from stock-based awards and other stock-based commitments using the treasury stock or the as if converted methods, as applicable. For additional information on how we compute earnings per share, see NOTE 14 — Earnings Per Share.

Fair Value Recognition, Measurement and Disclosure

The carrying amounts of cash and cash equivalents and restricted cash and cash equivalents reported on our consolidated balance sheets approximate fair value as we maintain them with various high-quality financial institutions. The accounts receivable are short-term in nature and are generally settled shortly after the sale.

We disclose the fair value of our financial instruments based on the fair value hierarchy using the following three categories:

Level 1 — Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2 — Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 — Valuations based on unobservable inputs reflecting the Company's own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

Certain Risks and Concentrations

Our business 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. We also rely on global distribution system partners and third-party service providers for certain fulfillment services.

Financial instruments, which potentially subject us to concentration of credit risk, consist primarily of cash and cash equivalents and corporate debt securities. We maintain some cash and cash equivalents balances with financial institutions that are in excess of Federal Deposit Insurance Corporation insurance limits. Our 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, Canadian dollar, Australian dollar, Japanese yen and Brazilian real.

Contingent Liabilities

We have a number of regulatory and legal matters outstanding, as discussed further in NOTE 17 — Commitments and Contingencies. Periodically, we review the status of all significant outstanding matters to assess the potential financial exposure. When (i) it is probable that an asset has been impaired or a liability has been incurred and (ii) the amount of the loss can be reasonably estimated, we record the estimated loss in our consolidated statements of operations. We provide disclosure in the notes to the consolidated financial statements for loss contingencies that do not meet both of 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. We base accruals made 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.

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 our travel services, we collect a tax recovery charge from the customer which we pay to the hotel. We calculate the tax recovery charge by applying the occupancy tax rate supplied to us 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, we do not collect or remit occupancy taxes, nor do we pay occupancy taxes to the hotel operator on the portion of the customer payment we retain. Some jurisdictions have questioned our practice in this regard. While the applicable tax provisions vary among the jurisdictions, we generally believe that we are not required to collect and remit such occupancy taxes. We are 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 we are 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 17 — Commitments and Contingencies for further discussion.

Recent Accounting Policies Not Yet Adopted

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

The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective). We will adopt this new guidance in the first quarter of 2018 and apply the modified retrospective method.

We have determined the new guidance will not change our previous conclusions on net presentation. We have also determined that the standard will impact our loyalty program accounting as we will no longer be permitted to use the incremental cost method when recording the financial impact of rewards earned in conjunction with our traveler loyalty programs. Instead, we will be required to re-value our liability using a relative fair value approach. Additionally, due to the new definition of variable consideration, we will be required to estimate and record certain variable payments earlier than currently recorded. Both modifications will result in cumulative-effect adjustments to opening retained earnings, with an insignificant change to revenue on a go-forward basis. Upon adoption, we expect a net reduction to the opening balance of retained earnings of approximately \$15 to \$25 million, on a pre-tax basis, of which approximately \$45 to \$55 million is related to changes in the accounting for our loyalty program, partially offset by the impact of estimating variable consideration of approximately \$30 to \$40 million. The new guidance will likely also result in insignificant changes in the timing and classification of certain other revenue streams, and an insignificant amount of capitalization of costs to obtain contracts.

We have completed our overall assessment and are finalizing the quantification of the retained earnings impact. Additionally, we have identified and implemented changes to our accounting policies and practices, business processes, and controls to support the new revenue recognition standard. We are continuing our assessment of potential changes to our disclosures under the new guidance.

Recognition and Measurement of Financial Instruments. 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. The new standard is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The most significant impact for the Company is with respect to the requirement that equity investments with readily determinable fair values, such as our investment in Despegar.com, Corp ("Despegar"), must be carried at fair value with changes in fair value recorded through net income. Today, such investment is designated as available for sale and is recorded at fair value with changes in fair value recorded through other comprehensive income. Upon adoption in the first quarter of 2018, we will record a cumulative-effect adjustment to the consolidated balance sheet as of the beginning of the annual period of adoption related to unrealized gains/losses, net of tax, previously classified within other comprehensive income and will begin recording fair value changes within other, net on our consolidated statements of operations. See NOTE 5 — Fair Value Measurements for the carrying value and fair value of the Despegar equity investment. In addition, we intend to elect to measure minority equity investments that do not have a readily determinable fair value at cost less impairment, adjusted by observable price changes as permitted by the new guidance with changes recorded within other, net on our consolidated statements of operations. Fair value changes for our investments could vary significantly period to period.

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

Statement of Cash Flows. 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 plan to adopt this new guidance on January 1, 2018 retrospectively and currently anticipate

the most significant impact will be to include in our cash and cash-equivalent balances in the consolidated statement of cash flow those amounts that are deemed to be restricted cash and restricted cash equivalents.

Intra-entity Transfers of Assets Other Than Inventory. 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 anticipate a retained earnings decrease of approximately \$25 million upon adoption related to the unrecognized income tax effects of asset transfers that occurred prior to adoption.

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

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

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

NOTE 3 — Acquisitions and Other Investments

2017 Acquisition and Other Investment Activity

During 2017, we completed several business combinations, one of which we made an initial investment in during 2015. The following summarizes the preliminary aggregate purchase price allocation for these acquisitions, in thousands:

Goodwill	\$	123,915
Intangibles with definite lives ⁽¹⁾		75,894
Net assets and non-controlling interests acquired ⁽²⁾		14,595
Deferred tax liabilities		(20,834)
Total ⁽³⁾	\$	193,570

(1) Acquired intangible assets with definite lives have a weighted average useful life of 3.8 years.

(2) Includes cash acquired of \$5 million.

(3) The total purchase price includes noncash consideration of \$10 million related to the removal of a cost method investment upon our acquisition of a controlling interest as well as \$8 million related to replacement stock awards attributable to pre-acquisition service, with the remainder paid in cash during the period.

The redeemable non-controlling interest in one of our acquisitions is redeemable at an amount other than fair value requiring that each period we adjust the non-controlling interest to redemption value through earnings. In addition, another of our acquisitions made during the period includes redeemable non-controlling interests, which are redeemable at fair value

requiring that each period we adjust the changes in the fair value of the non-controlling interest through retained earnings (or additional paid-in capital if there is no retained earnings). Fair value determinations are based on various valuation techniques, including market comparables and discounted cash flow projections.

Of the goodwill recorded for the business combinations, \$12 million is expected to be deductible for tax purposes with the remainder not expected to be deductible. The purchase price allocations were based on preliminary valuations of the assets acquired and liabilities assumed and are subject to revision. The results of operations were immaterial from the transaction close dates through December 31, 2017. Pro forma results have not been presented as such pro forma financial information would not be materially different from historical results.

Other Investments. On July 27, 2017, we announced that Expedia and Traveloka Holding Limited ("Traveloka"), a Southeast Asian online travel company, have expanded our partnership to include deeper cooperation on hotel supply and that we made a \$350 million investment in Traveloka, the majority of which is accounted for as a cost method investment and included within long-term investment and other assets on the consolidated balance sheet with a small portion allocated to intangible assets.

2016 Acquisition and Other Investment Activity

We had nominal acquisition activity during the year ended December 31, 2016.

2015 Acquisition and Other Investment Activity

HomeAway Acquisition. On December 15, 2015, we completed our acquisition of HomeAway, Inc., including all of its brands, for total purchase consideration of \$3.6 billion primarily in cash and Expedia common stock. With Expedia's expertise in powering global transactional platforms and our industry-leading technology capabilities, we are partnering with HomeAway to accelerate their shift from a classified marketplace to an online, transactional model to create even better experiences for HomeAway's global traveler audience and the owners and managers of its properties around the world.

Each outstanding share of common stock of HomeAway immediately prior to the acquisition was exchanged for \$10.15 in cash and 0.2065 of a share of Expedia common stock, with cash paid in lieu of fractional shares. The aggregate purchase consideration for HomeAway is as follows, in thousands:

Fair value of shares of Expedia common stock issued to HomeAway stockholders and equity award holders	\$	2,515,755
Cash consideration paid to HomeAway stockholders and equity award holders		1,027,061
Replacement restricted stock units and stock options attributable to pre-acquisition service		19,513
Total purchase consideration	\$	<u>3,562,329</u>

The fair value of common stock shares issued was based on the closing price of Expedia's common stock at December 14, 2015 and included the fair value of shares of Expedia common stock issued to (i) HomeAway stockholders based on approximately 97 million HomeAway shares outstanding as of December 14, 2015 and (ii) holders of equity awards vested as of December 14, 2015. Approximately 20 million shares of Expedia common stock were issued in connection with the acquisition of HomeAway. Purchase consideration also included \$20 million for the portion of certain unvested employee options and restricted stock unit awards of HomeAway attributable to pre-combination service, which were replaced with Expedia awards in conjunction with the acquisition and measured at fair value on the acquisition date. The fair value for the portion of the awards attributable to post-combination service was \$106 million, net of estimated forfeitures.

The following summarizes the final allocation of the purchase price for HomeAway, in thousands:

Cash	\$	900,281
Other current assets ⁽¹⁾		54,372
Long-term assets		90,890
Intangible assets with definite lives ⁽²⁾		533,279
Intangible assets with indefinite lives ⁽³⁾		239,200
Goodwill		2,613,151
Deferred revenue		(181,837)
Other current liabilities		(109,581)
Debt		(401,580)
Other long-term liabilities		(30,989)
Deferred tax liabilities, net		(144,857)
Total	\$	<u>3,562,329</u>

- (1) Gross accounts receivable was \$24 million, of which \$1 million was estimated to be uncollectible.
- (2) Acquired definite-lived intangible assets primarily consist of supplier relationships, customer relationships and developed technology assets with average lives ranging from less than one to ten years and a weighted average useful life of 5.2 years.
- (3) Acquired indefinite-lived intangible assets primarily consist of trade names and trademarks.

The goodwill of \$2.6 billion was primarily attributable to assembled workforce and operating synergies as it relates to the shift to a transaction model. The goodwill was allocated to the new HomeAway reportable segment and is not expected to be deductible for tax purposes.

We assumed approximately \$402 million of 0.125% Convertible Senior Notes due 2019 (the “Convertible Notes”) in connection with the HomeAway acquisition. However, following the consummation of the HomeAway acquisition, we subsequently delivered a notice to holders of the Convertible Notes, as required per the terms of the Convertible Notes indenture, to which each holder of the Convertible Notes had the right to (i) require the Company to repurchase its Convertible Notes for cash at a price equal to 100% of the principal amount of such notes plus accrued and unpaid interest or (ii) convert its Convertible Notes, at a specified conversion rate into HomeAway common stock (which, following consummation of the HomeAway acquisition, represented the right to receive the transaction consideration) or (iii) allow the Convertible Notes to remain outstanding for the remaining term. As a result, the majority of the Convertible Notes, or \$401 million, were repurchased during 2016.

In connection with the issuance of the Convertible Notes, HomeAway also sold warrants (the “Warrants”) to acquire approximately 7.7 million shares of HomeAway common stock. As a result of the merger, the Warrant holders had the right to terminate the Warrants at fair value as determined in a commercially reasonable manner. A portion of such Warrants were settled on December 16, 2015 for \$23 million in cash, with the \$8 million remainder settled in January 2016.

HomeAway was consolidated into our financial statements starting on the acquisition date and we recognized a related \$20 million in revenue and \$14 million in operating losses, including fees related to the acquisition that are not allocated to the segment, for 2015.

In connection with the acquisition, HomeAway incurred fees paid to financial advisors totaling approximately \$33 million, which were contingent upon closing and were excluded from both Expedia’s consolidated statement of operations and the pre-combination financial statements of HomeAway.

Orbitz Acquisition. On September 17, 2015, we completed our acquisition of Orbitz Worldwide, including all of its brands, including Orbitz, ebookers, HotelClub, CheapTickets, Orbitz Partner Network and Orbitz for Business, for a total purchase consideration of \$1.8 billion. The acquisition provides Expedia the opportunity to deliver a better customer experience to Orbitz’ loyal customer base and to further enhance the marketing and distribution capabilities we offer to our global supply partners.

The purchase consideration consisted primarily of \$1.4 billion in cash, or \$12 per share for all shares of Orbitz common stock outstanding as of the purchase date, as well as the settlement of \$432 million of pre-existing Orbitz debt at the closing of the acquisition. Purchase consideration also included \$17 million for the portion of certain unvested employee restricted stock unit awards of Orbitz attributable to pre-combination service, which were replaced with Expedia awards in conjunction with

the acquisition and measured at fair value on the acquisition date. The fair value for the portion of the awards attributable to post-combination service was \$49 million, net of estimated forfeitures, of which \$34 million was recognized during 2015.

The following summarizes the final allocation of the purchase price for Orbitz, in thousands:

Cash consideration for shares	\$	1,362,362
Settlement of Orbitz debt		432,231
Replacement restricted stock units attributable to pre-acquisition service		16,717
Other consideration		2,214
Total purchase consideration	\$	1,813,524
Cash	\$	194,515
Accounts receivable, net ⁽¹⁾		150,187
Other current assets		33,727
Long-term assets		114,800
Intangible assets with definite lives ⁽²⁾		515,003
Intangible assets with indefinite lives ⁽³⁾		166,800
Goodwill		1,444,307
Current liabilities		(636,169)
Other long-term liabilities		(54,599)
Deferred tax liabilities, net		(115,047)
Total	\$	1,813,524

- (1) Gross accounts receivable was \$157 million, of which \$7 million was estimated to be uncollectible.
- (2) Acquired definite-lived intangible assets primarily consist of customer relationship assets, developed technology assets and partner relationship assets with estimated useful lives ranging from less than one to ten years with a weighted average life of 6.0 years.
- (3) Acquired indefinite-lived intangible assets primarily consist of trade names and trademarks.

The goodwill of \$1.4 billion is primarily attributable to operating synergies. The goodwill was allocated to the Core Online Travel Agencies (“Core OTA”) segment and is not expected to be deductible for tax purposes.

Orbitz was consolidated into our financial statements starting on the acquisition date and we recognized a related \$196 million in revenue and \$163 million in operating losses, including restructuring charges of \$92 million as well as fees related to the acquisition that are not allocated to the Core OTA segment, for 2015.

In connection with the merger, Orbitz incurred fees paid to financial advisers totaling approximately \$25 million, which were contingent upon closing and were excluded from both Expedia’s consolidated statement of operations and the pre-combination financial statements of Orbitz. In addition, Orbitz offered certain employees a continuity incentive of approximately \$30 million for continuing employment through the closing date and beyond. The first half of the incentives were contingent and paid upon the closing of the acquisition and related to service provided in the pre-acquisition period. The second half of the incentive was payable 180 days after the closing (or upon involuntary termination, if applicable) and was expensed to restructuring and related reorganization charges over the applicable service period.

Combined Pro forma Information (Unaudited). Supplemental information on an unaudited combined pro forma basis, as if the HomeAway and Orbitz acquisitions had been consummated on January 1, 2014, is presented as follows, in thousands:

	Year Ended December 31, 2015
Revenue	\$ 7,838,863
Net income attributable to Expedia, Inc.	816,634

The pro forma results include adjustments primarily related to amortization of acquired intangibles, depreciation of fixed assets, certain accounting policy alignments as well as direct and incremental acquisition related costs reflected in the historical financial statements.

Other 2015 Acquisitions. On March 10, 2015, we completed the acquisition of an additional 25% equity interest of AAE Travel Pte. Ltd., the joint venture formed between Expedia and AirAsia Berhad in 2011, for cash consideration of

approximately \$94 million. This investment increased our total ownership in the venture from 50% to 75% and resulted in the consolidation of the entity. In conjunction with the acquisition of the additional interest, we remeasured our previously held equity interest to fair value, excluding any acquisition premium, and recognized a gain of \$77 million in other, net during the period. The fair value of the 25% noncontrolling interest, including an acquisition premium, was estimated to be \$64 million at the time of the acquisition. Both fair values were determined based on various valuation techniques, including market comparables and discounted cash flow projections (Level 3 inputs).

On January 23, 2015, we acquired the Travelocity brand and other associated assets from Sabre for \$280 million in cash consideration. As a result of the asset acquisition, the strategic marketing and other related agreements entered into in 2013 were terminated. Under the terms of the strategic marketing agreement, Travelocity was compensated through a performance-based marketing fee related to bookings powered by Expedia made through Travelocity-branded websites in the United States and Canada. Revenue earned on the Travelocity websites was recorded as a component of Expedia's net revenue in accordance with our revenue recognition policies and the related marketing fee paid to Travelocity was recorded as selling and marketing expense. In conjunction with the acquisition, we did not acquire any cash or working capital assets or assume any liabilities.

In addition, we completed three other acquisitions during 2015 for a total purchase price of \$9 million.

The following summarizes the allocation of the purchase price for the 2015 acquisitions, excluding HomeAway and Orbitz, in thousands:

Goodwill	\$	196,431
Intangible assets with indefinite lives		163,400
Intangible assets with definite lives ⁽¹⁾		146,126
Net assets and non-controlling interests acquired ⁽²⁾		(23,366)
Deferred tax liabilities		(7,910)
Total ⁽³⁾	\$	474,681

- (1) Acquired definite-lived intangible assets primarily consist of customer relationship, reacquired right and supplier relationship assets and have estimated useful lives of between four and ten years with a weighted average life of 5.8 years.
- (2) Includes cash acquired of \$41 million.
- (3) The total purchase price includes noncash consideration of \$99 million related to an equity method investment, which is currently consolidated upon our acquisition of a controlling interest, as discussed above, with the remainder paid in cash during the period.

The goodwill of \$196 million is primarily attributable to operating synergies and \$82 million is expected to be deductible for tax purposes with the remainder not expected to be deductible.

The results of operations of the other acquired companies have been included in our consolidated results from the transaction closing dates forward. Pro forma results of operations have not been presented as such pro forma financial information would not be materially different from historical results.

Other Investments. On March 10, 2015, we announced that Expedia and Decolar.com, Inc. ("Decolar"), the Latin American online travel company that operates the Decolar.com and Despegar.com branded websites, expanded our partnership to include deeper cooperation on hotel supply and we made a \$273 million cost method investment in Decolar, including acquisition-related costs, which was included within long-term investments and other assets on our consolidated balance sheet.

Acquisition-related Costs. Other than costs mentioned above related to Orbitz and HomeAway that were contingent upon closing and those costs related to cost method investments, total acquisition-related costs incurred by Expedia in 2015, which included legal, finance, consulting and other professional fees, were expensed as incurred within general and administrative expenses and were approximately \$47 million.

NOTE 4 — Disposition of Business

On May 22, 2015, we completed the sale of our 62.4% ownership stake in eLong, Inc., which was a separate reportable segment, for approximately \$671 million (or \$666 million net of costs to sell and other transaction expenses) to several purchasers, including Ctrip.com International, Ltd. Of the total sales price, approximately \$67 million was remitted directly to escrow for estimated tax obligations, and represented a noncash item in our consolidated statement of cash flows for 2015. In November 2016, we received the escrow deposit, which was included as an investing inflow in our consolidated statement of

cash flows for 2016. As a result of the sale, we recognized a pre-tax gain of \$509 million (\$395 million after tax) during 2015 included in gain on sale of business in our consolidated statement of operations.

The following table presents the carrying amounts of our eLong business immediately preceding the disposition on May 22, 2015, in thousands:

Total current assets ⁽¹⁾	\$	350,196
Total long-term assets		137,709
Total assets divested	\$	487,905
Total current liabilities	\$	187,296
Total long-term liabilities		5,782
Total liabilities divested	\$	193,078
Components of accumulated other comprehensive income divested		45,259
Non-redeemable non-controlling interest divested		92,550
Net carrying value divested	\$	157,018

(1) Includes cash and cash equivalents of approximately \$74 million.

We evaluated the disposition of eLong and determined it did not meet the “major effect” criteria for classification as a discontinued operation largely due to how recently it began having material impacts to our quarterly consolidated operating and net income at the time of the determination. However, we determined that the disposition did represent an individually significant component of our business. The following table presents certain amounts related to eLong in our consolidated results of operations for the year ended December 31, 2015 through its disposal on May 22, 2015, in thousands:

Operating loss ⁽¹⁾	\$	(85,536)
Income before taxes ⁽²⁾		438,843
Income before taxes attributable to Expedia, Inc. ⁽²⁾		465,400
Net income attributable to Expedia, Inc. ⁽³⁾		349,183

(1) Includes stock-based compensation and amortization of intangible assets of approximately \$20 million, which was included within Corporate & Eliminations in NOTE 19 — Segment Information.

(2) Includes the pre-tax gain of \$509 million related to the gain on sale.

(3) Includes the after-tax gain of \$395 million related to the gain on sale.

NOTE 5 — Fair Value Measurements

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

	Total	Level 1 (In thousands)	Level 2
Assets			
Cash equivalents:			
Money market funds	\$ 15,873	\$ 15,873	\$ —
Time deposits	552,297	—	552,297
Derivatives:			
Foreign currency forward contracts	6,141	—	6,141
Investments:			
Time deposits	468,508	—	468,508
Marketable equity securities	263,550	263,550	—
Total assets	\$ 1,306,369	\$ 279,423	\$ 1,026,946

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

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

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

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

We periodically invest in investment grade corporate debt securities, all of which are classified as available for sale. As of December 31, 2017, we had no short-term or long-term available for sale investments. As of December 31, 2016, we had \$48 million of short-term and \$16 million of long-term available for sale investments and the amortized cost basis of the investments approximated their fair value with both gross unrealized gains and gross unrealized losses of less than \$1 million.

On September 20, 2017, Despegar completed its initial public offering and, therefore we designated our previous cost method investment in Despegar as available for sale. As of December 31, 2017, the cost basis was \$273 million and related gross unrealized loss was \$9 million.

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

We use foreign currency forward contracts to economically hedge certain merchant revenue exposures, foreign denominated liabilities related to certain of our loyalty programs and our other foreign currency-denominated operating liabilities. As of December 31, 2017, we were party to outstanding forward contracts hedging our liability exposures with a total net notional value of \$2.6 billion. We had a net forward asset of \$6 million recorded in prepaid expenses and other current assets as of December 31, 2017 and a net forward liability of \$4 million recorded in accrued expenses and other current liabilities as of December 31, 2016. We recorded \$17 million, \$(66) million and \$46 million in net gains (losses) from foreign currency forward contracts in 2017, 2016 and 2015.

Assets Measured at Fair Value on a Non-recurring Basis

Our non-financial assets, such as goodwill, intangible assets and property and equipment, as well as equity and cost method investments, are adjusted to fair value only when an impairment charge is recognized or the underlying investment is sold. Such fair value measurements are based predominately on Level 3 inputs.

Intangible Assets. During 2016, we recognized intangible impairment charges of \$35 million, of which \$2 million was recorded during the third quarter of 2016 and \$33 million was recorded in conjunction with the annual impairment of goodwill and intangible assets on October 1, 2016. These impairment charges were related to indefinite-lived trade names within our Core OTA segment and resulted from changes in estimated future revenues of the related brands. The assets, classified as Level 3 measurements, were written down to \$76 million based on a valuation using the relief-from-royalty method, which includes unobservable inputs, including royalty rates and projected revenues. In addition, we recognized impairment charges of \$7 million during 2015.

Cost Method Investments. As of December 31, 2017 and 2016, we had \$371 million and \$323 million of cost method investments. During 2017, we recorded \$14 million in net losses related to certain cost method investments, which included \$6 million in other-than-temporary impairments as well as a loss recognized on the liquidation of an investment of \$9 million. As a result of these impairments and subsequent liquidation, we have no remaining fair value related to these cost investments as of December 31, 2017. In addition, during 2016, we recognized other-than-temporary investment impairments of \$12 million related to two cost investments, the remaining fair value of which was less than \$1 million as of December 31, 2016.

NOTE 6 — Property and Equipment, Net

Our property and equipment consists of the following:

	December 31,	
	2017	2016
	(In thousands)	
Capitalized software development	\$ 2,111,262	\$ 1,606,960
Computer equipment	658,031	665,652
Furniture and other equipment	84,509	72,811
Buildings and leasehold improvements	282,865	241,713
Land	129,049	130,812
	<u>3,265,716</u>	<u>2,717,948</u>
Less: accumulated depreciation	(2,055,720)	(1,575,879)
Projects in progress ⁽¹⁾	365,262	252,835
Property and equipment, net	<u>\$ 1,575,258</u>	<u>\$ 1,394,904</u>

- (1) At December 31, 2017 and 2016, projects in progress included approximately \$111 million and \$38 million of project construction costs capitalized pursuant to build-to-suit lease guidance, which were incurred by the landlord, as property and equipment, net with a related construction financing obligation in other long-term liabilities. 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.

As of December 31, 2017 and 2016, our recorded capitalized software development costs, net of accumulated amortization, were \$735 million and \$639 million. For the years ended December 31, 2017, 2016 and 2015, we recorded amortization of capitalized software development costs of \$398 million, \$300 million and \$230 million, most of which is included in technology and content expenses.

During 2015, we acquired our future corporate headquarters for \$229 million, consisting of multiple office and lab buildings located in Seattle, Washington. We have subsequently spent approximately \$30 million in 2016 and approximately \$70 million in 2017 relating to the build out of our headquarters. The acquired building assets and related expenditures are included in construction in process and will begin depreciating when the costs incurred related to the build out of the headquarters are complete and the building assets are ready for their intended use, which we estimate to start at the end of 2019.

NOTE 7 — Goodwill and Intangible Assets, Net

The following table presents our goodwill and intangible assets as of December 31, 2017 and 2016:

	December 31,	
	2017	2016
	(In thousands)	
Goodwill	\$ 8,228,865	\$ 7,942,023
Intangible assets with indefinite lives	1,478,729	1,457,072
Intangible assets with definite lives, net	829,807	989,580
	<u>\$ 10,537,401</u>	<u>\$ 10,388,675</u>

Impairment Assessments. We perform our annual assessment of possible impairment of goodwill and indefinite-lived intangible assets as of October 1, or more frequently if events and circumstances indicate that impairment may have occurred. As of October 1, 2017, we had no impairments of goodwill or intangible assets with indefinite-lives. As of October 1, 2016, we

had no impairments to goodwill but recorded a \$35 million impairment charge related to indefinite-lived trade names within our Core OTA segment.

Goodwill. The following table presents the changes in goodwill by reportable segment:

	Core OTA	trivago	HomeAway	Egencia	Total
	(In thousands)				
Balance as of January 1, 2016	\$ 4,717,371	\$ 539,577	\$ 2,602,712	\$ 133,281	\$ 7,992,941
Additions	128	—	—	—	128
Foreign exchange translation and other	(14,028)	(23,339)	(12,127)	(1,552)	(51,046)
Balance as of December 31, 2016	4,703,471	516,238	2,590,585	131,729	7,942,023
Additions	123,617	298	—	—	123,915
Foreign exchange translation and other	12,949	72,113	64,649	13,216	162,927
Balance as of December 31, 2017	<u>\$ 4,840,037</u>	<u>\$ 588,649</u>	<u>\$ 2,655,234</u>	<u>\$ 144,945</u>	<u>\$ 8,228,865</u>

Any change in goodwill amounts resulting from purchase accounting adjustments are presented as "Foreign exchange translation and other" in the above table. In 2017, the additions to goodwill relate to our acquisitions as described in NOTE 3 — Acquisitions and Other Investments.

As of December 31, 2017 and 2016, accumulated goodwill impairment losses in total were \$2.5 billion, which was associated with our Core OTA segment.

Indefinite-lived Intangible Assets. Our indefinite-lived intangible assets relate principally to trade names and trademarks acquired in various acquisitions.

Intangible Assets with Definite Lives. The following table presents the components of our intangible assets with definite lives as of December 31, 2017 and 2016:

	December 31, 2017			December 31, 2016		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
	(In thousands)					
Customer relationships	\$ 665,027	\$ (304,130)	\$ 360,897	\$ 622,117	\$ (185,468)	\$ 436,649
Supplier relationships	655,467	(367,609)	287,858	618,543	(289,834)	328,709
Technology	531,735	(440,852)	90,883	480,823	(355,471)	125,352
Domain names	131,944	(70,203)	61,741	117,109	(53,607)	63,502
Other	451,915	(423,487)	28,428	446,617	(411,249)	35,368
Total	<u>\$ 2,436,088</u>	<u>\$ (1,606,281)</u>	<u>\$ 829,807</u>	<u>\$ 2,285,209</u>	<u>\$ (1,295,629)</u>	<u>\$ 989,580</u>

Amortization expense was \$275 million, \$317 million and \$156 million for the years ended December 31, 2017, 2016 and 2015. The estimated future amortization expense related to intangible assets with definite lives as of December 31, 2017, assuming no subsequent impairment of the underlying assets, is as follows, in thousands:

2018	\$ 279,126
2019	172,834
2020	133,859
2021	88,895
2022	72,411
2023 and thereafter	82,682
Total	<u>\$ 829,807</u>

NOTE 8 — Debt

The following table sets forth our outstanding debt:

	December 31,	
	2017	2016
	(In thousands)	
7.456% senior notes due 2018	\$ 500,000	\$ 500,000
5.95% senior notes due 2020	747,829	747,020
2.5% (€650 million) senior notes due 2022	774,882	677,503
4.5% senior notes due 2024	495,159	494,472
5.0% senior notes due 2026	741,319	740,341
3.8% senior notes due 2028	989,865	—
Total debt ⁽¹⁾	4,249,054	3,159,336
Current maturities of long-term debt	(500,000)	—
Long-term debt, excluding current maturities	\$ 3,749,054	\$ 3,159,336

(1) Net of discounts and debt issuance costs.

Long-term Debt

Our \$500 million in registered senior unsecured notes outstanding at December 31, 2017 are due in August 2018 and bear interest at 7.456% (the “7.456% Notes”). Interest is payable semi-annually in February and August of each year. At any time Expedia may redeem the 7.456% Notes at a redemption price of 100% of the principal plus accrued interest, plus a “make-whole” premium, in whole or in part.

Our \$750 million in registered senior unsecured notes outstanding at December 31, 2017 are due in August 2020 and bear interest at 5.95% (the “5.95% Notes”). The 5.95% Notes were issued at 99.893% of par resulting in a discount, which is being amortized over their life. Interest is payable semi-annually in February and August of each year. We may redeem the 5.95% Notes at a redemption price of 100% of the principal plus accrued interest, plus a “make-whole” premium, in whole or in part.

Our Euro 650 million of registered senior unsecured notes outstanding at December 31, 2017 are due in June 2022 and bear interest at 2.5% (the “2.5% Notes”). The 2.5% Notes were issued at 99.525% of par resulting in a discount, which is being amortized over their life. Interest is payable annually in arrears in June of each year, beginning June 3, 2016. We may redeem the 2.5% Notes at our option, at whole or in part, at any time or from time to time. If we elect to redeem the 2.5% Notes prior to March 3, 2022, we may redeem them at a specified “make-whole” premium. If we elect to redeem the 2.5% Notes on or after March 3, 2022, we may redeem them at a redemption price of 100% of the principal plus accrued and unpaid interest. Subject to certain limited exceptions, all payments of interest and principal for the 2.5% Notes will be made in Euros.

Our \$500 million in registered senior unsecured notes outstanding at December 31, 2017 are due in August 2024 and bear interest at 4.5% (the “4.5% Notes”). The 4.5% Notes were issued at 99.444% of par resulting in a discount, which is being amortized over their life. Interest is payable semi-annually in February and August of each year. We may redeem the 4.5% Notes at our option at any time in whole or from time to time in part. If we elect to redeem the 4.5% Notes prior to May 15, 2024, we may redeem them at a redemption price of 100% of the principal plus accrued interest, plus a “make-whole” premium. If we elect to redeem the 4.5% Notes on or after May 15, 2024, we may redeem them at a redemption price of 100% of the principal plus accrued interest.

Our \$750 million in registered senior unsecured notes outstanding at December 31, 2017 are due in February 2026 and bear interest at 5.0% (the “5.0% Notes”). The 5.0% Notes were issued at 99.535% of par resulting in a discount, which is being amortized over their life. Interest is payable semi-annually in arrears in February and August of each year. We may redeem the 5.0% Notes at our option at any time in whole or from time to time in part. If we elect to redeem the 5.0% Notes prior to November 12, 2025, we may redeem them at a redemption price of 100% of the principal plus accrued interest, plus a “make-whole” premium. If we elect to redeem the 5.0% Notes on or after November 12, 2025, we may redeem them at a redemption price of 100% of the principal plus accrued interest.

In September 2017, we privately placed \$1 billion of senior unsecured notes that are due in February 2028 and bear interest at 3.8%. In January 2018, we 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 “3.8% Notes”). The 3.8% Notes were issued at 99.747% of par resulting in a discount, which is being amortized over their life. Interest is payable semi-annually in arrears in February and August of each year, beginning February 15, 2018. We may redeem the 3.8%

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

The 7.456%, 5.95%, 2.5% 4.5%, 5.0% and 3.8% Notes (collectively the “Notes”) are senior unsecured obligations issued by Expedia and guaranteed by certain domestic Expedia subsidiaries. The Notes rank equally in right of payment with all of our existing and future unsecured and unsubordinated obligations of Expedia and the guarantor subsidiaries. For further information, see NOTE 22 — Guarantor and Non-Guarantor Supplemental Financial Information. In addition, the Notes include covenants that limit our ability to (i) create certain liens, (ii) enter into sale/leaseback transactions and (iii) merge or consolidate with or into another entity or transfer substantially all of our assets. Accrued interest related to the Notes was \$75 million and \$63 million as of December 31, 2017 and 2016. The 5.95%, 2.5%, 4.5%, 5.0% and 3.8% Notes are redeemable in whole or in part, at the option of the holders thereof, upon the occurrence of certain change of control triggering events at a purchase price in cash equal to 101% of the principal plus accrued and unpaid interest.

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

	December 31,	
	2017	2016
	(In thousands)	
7.456% senior notes due 2018	\$ 516,000	\$ 541,000
5.95% senior notes due 2020	810,000	823,000
2.5% (€650 million) senior notes due 2022 ⁽¹⁾	828,000	718,000
4.5% senior notes due 2024	528,000	511,000
5.0% senior notes due 2026	807,000	782,000
3.8% senior notes due 2028	969,000	—

(1) Approximately 690 million Euro as of December 31, 2017 and 682 million Euro as of December 31, 2016.

Credit Facility

As of December 31, 2017, Expedia, Inc. 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, 2017 and 2016, we had no revolving credit facility borrowings outstanding. The facility bears interest based on the Company’s credit ratings, with drawn amounts bearing interest at LIBOR plus 137.5 basis points and the commitment fee on undrawn amounts at 17.5 basis points as of December 31, 2017. 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, 2017 and 2016, there was \$14 million and \$19 million of outstanding stand-by LOCs issued under the facility.

In addition, one of our international subsidiaries maintains a Euro 50 million uncommitted credit facility, which is guaranteed by Expedia, Inc. and may be terminated at any time by the lender. As of December 31, 2017 and 2016, we had no borrowings outstanding under this facility.

NOTE 9 — Employee Benefit Plans

Our U.S. employees are generally eligible to participate in a retirement and savings plan that qualifies under Section 401(k) of the Internal Revenue Code. Participating employees may contribute up to 50% of their pretax salary, but not more than statutory limits. We contribute fifty cents for each dollar a participant contributes in this plan, with a maximum contribution of 3% of a participant’s earnings. Our contribution vests with the employee after the employee completes two years of service. Participating employees have the option to invest in our common stock, but there is no requirement for participating employees to invest their contribution or our matching contribution in our common stock. We also have various defined contribution plans for our international employees. Our contributions to these benefit plans were \$60 million, \$53 million and \$41 million for the years ended December 31, 2017, 2016 and 2015.

NOTE 10 — Stock-Based Awards and Other Equity Instruments

Pursuant to the Amended and Restated Expedia, Inc. 2005 Stock and Annual Incentive Plan, we may grant restricted stock, restricted stock awards, RSUs, stock options and other stock-based awards to directors, officers, employees and consultants. As of December 31, 2017, we had approximately 13 million shares of common stock reserved for new stock-based awards under the 2005 Stock and Annual Incentive Plan. We issue new shares to satisfy the exercise or release of stock-based awards. In 2017, we introduced an equity choice program for annual awards that allows for the choice of stock options or RSUs with certain limitations. During 2016 and 2015, we awarded stock options as our primary form of stock-based compensation.

The following table presents a summary of our stock option activity:

	Options (In thousands)	Weighted Average Exercise Price	Remaining Contractual Life (In years)	Aggregate Intrinsic Value (In thousands)
Balance as of January 1, 2015	14,435	\$ 49.33		
Granted	7,572	94.13		
Exercised	(4,201)	34.57		
Cancelled	(751)	74.06		
Balance as of December 31, 2015	17,055	71.77		
Granted	5,670	105.37		
Exercised	(2,686)	47.57		
Cancelled	(1,198)	91.62		
Balance as of December 31, 2016	18,841	84.07		
Granted	3,618	124.08		
Exercised	(3,422)	62.67		
Cancelled	(3,384)	96.86		
Balance as of December 31, 2017	15,653	95.23	4.4	\$ 402,509
Exercisable as of December 31, 2017	5,903	74.64	3.1	266,849
Vested and expected to vest after December 31, 2017	15,653	95.23	4.4	402,509

The aggregate intrinsic value of outstanding options shown in the stock option activity table above represents the total pretax intrinsic value at December 31, 2017, based on our closing stock price of \$119.77 as of the last trading date in 2017. The total intrinsic value of stock options exercised was \$249 million, \$181 million and \$314 million for the years ended December 31, 2017, 2016 and 2015.

The fair value of stock options granted during the years ended December 31, 2017, 2016 and 2015 were 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:

	2017	2016	2015
Risk-free interest rate	1.58%	0.97%	1.19%
Expected volatility	32.47%	39.06%	41.48%
Expected life (in years)	3.65	3.59	4.06
Dividend yield	0.92%	0.91%	0.78%
Weighted-average estimated fair value of options granted during the year	\$ 30.17	\$ 29.48	\$ 30.56

In addition to the Expedia, Inc. 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, we exercised our 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 following table presents a summary of RSU activity:

	RSUs (In thousands)	Weighted Average Grant-Date Fair Value
Balance as of January 1, 2015	337	\$ 61.97
Granted	1,643	123.42
Vested	(493)	103.73
Cancelled	(91)	67.11
Balance as of December 31, 2015	1,396	119.20
Granted	691	109.38
Vested	(516)	118.71
Cancelled	(222)	117.84
Balance as of December 31, 2016	1,349	114.58
Granted	1,350	123.24
Vested	(492)	115.29
Cancelled	(266)	116.26
Balance as of December 31, 2017	1,941	120.19

RSUs, which are stock awards that are granted to employees entitling the holder to shares of our common stock as the award vests, were our primary form of stock-based award prior to 2009. Our RSUs generally vest over three or four-years, but may accelerate in certain circumstances, including certain changes in control. During 2015, in connection with the acquisitions disclosed in NOTE 3 — Acquisitions and Other Investments, we replaced certain unvested employee RSUs of the acquiree with Expedia awards the amount of which is included within granted in the above table.

The total market value of shares vested during the years ended December 31, 2017, 2016 and 2015 was \$65 million, \$57 million and \$60 million.

In 2017, we recognized total stock-based compensation expense of \$149 million, which included the reversal of \$41 million of previously recognized stock-based compensation as a result of the departure of our former CEO and the related forfeiture of certain of his stock-based awards within general and administrative expense. In 2016 and 2015, we recognized total stock-based compensation expense of \$242 million, including amounts related to travago discussed above, and \$178 million. The total income tax benefit related to stock-based compensation expense was \$38 million, \$56 million and \$45 million for 2017, 2016 and 2015.

Cash received from stock-based award exercises for the years ended December 31, 2017 and 2016 was \$213 million and \$128 million. Total current income tax benefits during the years ended December 31, 2017 and 2016 associated with the exercise of stock-based awards held by our employees were \$100 million and \$76 million.

During 2015, our Chairman and Senior Executive exercised options to purchase 1.9 million shares. 0.5 million shares were withheld and concurrently cancelled by the Company to cover the weighted average exercise price of \$30.38 per share and 0.8 million shares were withheld and concurrently cancelled to cover tax obligations, with a net delivery of 0.6 million shares.

As of December 31, 2017, there was approximately \$410 million of unrecognized stock-based compensation expense related to unvested stock-based awards, which is expected to be recognized in expense over a weighted-average period of 2.6 years.

Employee Stock Purchase Plan

We have an Employee Stock Purchase Plan (“ESPP”), which allows shares of our common stock 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 2017, 2016 and 2015, approximately 141,000, 139,000, and 95,000 shares were purchased under this plan for an average price of \$112.31, \$95.63 and \$93.30 per share. As of December 31, 2017, we have reserved approximately 1 million shares of our common stock for issuance under the ESPP.

NOTE 11 — Income Taxes

The Tax Act was enacted in December 2017. The Tax Act significantly changes U.S. tax law by, among other things, lowering U.S. corporate income tax rates, implementing a territorial tax system and imposing a one-time transition tax on deemed repatriated earnings of foreign subsidiaries. The Tax Act reduces the U.S. corporate income tax rate from 35% to 21%, effective January 1, 2018.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. As a result of the reduction in the U.S. corporate income tax rate from 35% to 21% under the Tax Act, we revalued our ending net deferred tax liabilities at December 31, 2017 and recognized a provisional \$158 million tax benefit.

The Tax Act provided for a one-time transition tax on the deemed repatriation of post-1986 undistributed foreign subsidiary earnings and profits (“E&P”). We have recognized a provisional \$144 million of income tax expense related to the transition tax. After utilization of existing net operating loss and tax credits carryforwards, we expect to pay minimal U.S. federal cash taxes on the deemed repatriation.

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

The SEC staff issued Staff Accounting Bulletin No. 118 (“SAB 118”) to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act and allows the registrant to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. We have recognized a net tax benefit of \$14 million for the provisional tax impacts related to the one-time transition tax and the revaluation of deferred tax balances and included these estimates in our consolidated financial statements for the year ended December 31, 2017. We are in the process of analyzing the impact of the various provisions of the Tax Act. The ultimate impact may materially differ from these provisional amounts due to, among other things, additional analysis, changes in interpretations and assumptions we have made, additional regulatory guidance that may be issued, and actions we may take as a result of the Tax Act. We expect to complete our analysis within the measurement period in accordance with SAB 118.

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

	Year Ended December 31,		
	2017	2016	2015
	(In thousands)		
U.S.	\$ (44,867)	\$ (47,205)	\$ 24,397
Foreign	461,631	323,805	901,565
Total	<u>\$ 416,764</u>	<u>\$ 276,600</u>	<u>\$ 925,962</u>

Provision for Income Taxes

The following table summarizes our provision for income taxes:

	Year Ended December 31,		
	2017	2016	2015
	(In thousands)		
Current income tax expense:			
Federal	\$ 12,671	\$ (41,418)	\$ 154,050
State	5,862	5,875	1,440
Foreign	130,180	64,946	69,359
Current income tax expense	148,713	29,403	224,849
Deferred income tax (benefit) expense:			
Federal	(93,842)	(5,166)	(6,865)
State	(891)	(2,863)	2,156
Foreign	(8,575)	(6,059)	(16,926)
Deferred income tax (benefit) expense:	(103,308)	(14,088)	(21,635)
Income tax expense	\$ 45,405	\$ 15,315	\$ 203,214

We reduced our current income tax payable by \$100 million, \$76 million and \$130 million for the years ended December 31, 2017, 2016 and 2015 for tax deductions attributable to stock-based compensation.

Deferred Income Taxes

As of December 31, 2017 and 2016, the significant components of our deferred tax assets and deferred tax liabilities were as follows:

	December 31,	
	2017	2016
	(In thousands)	
Deferred tax assets:		
Provision for accrued expenses	\$ 49,526	\$ 94,031
Loyalty rewards reserve	131,248	163,410
Occupancy tax reserve	11,017	27,814
Net operating loss and tax credit carryforwards	121,896	114,470
Stock-based compensation	51,706	81,221
Other	36,187	31,569
Total deferred tax assets	401,580	512,515
Less valuation allowance	(76,280)	(65,516)
Net deferred tax assets	\$ 325,300	\$ 446,999
Deferred tax liabilities:		
Prepaid merchant bookings and prepaid expenses	\$ (1,372)	\$ (20,289)
Goodwill and intangible assets	(499,190)	(718,810)
Property and equipment	(130,736)	(152,550)
Other	(4,674)	(16,662)
Total deferred tax liabilities	\$ (635,972)	\$ (908,311)
Net deferred tax liability	\$ (310,672)	\$ (461,312)

As of December 31, 2017, we had federal, state, and foreign net operating loss carryforwards (“NOLs”) of approximately \$65 million, \$210 million and \$370 million. If not utilized, the federal and state NOLs will expire at various times between 2018 and 2037. Foreign NOLs of \$253 million may be carried forward indefinitely, and foreign NOLs of \$117 million will expire at various times between 2018 and 2024.

As of December 31, 2017, we had a valuation allowance of approximately \$76 million related to certain NOL carryforwards for which it is more likely than not the tax benefit will not be realized. The valuation allowance increased by \$10 million from the amount recorded as of December 31, 2016 primarily due to the historic NOL carryforwards of acquired

entities in 2017 as well as foreign net operating losses for which realization is not certain. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period change, or if objective negative evidence in the form of cumulative losses is no longer present and additional weight may be given to subjective evidence such as our projections for growth.

Due to the one-time transition tax on the deemed repatriation of post-1986 undistributed foreign subsidiary earnings and profits, all previously unremitted earnings for which no U.S. deferred tax liability had been accrued have now been subjected to U.S. federal income tax. To the extent we repatriate these earnings to the United States, we estimate we will not incur significant additional taxes related to such amounts, however our estimates are provisional and subject to further analysis.

Reconciliation of U.S. Federal Statutory Income Tax Rate to Effective Income Tax Rate

A reconciliation of amounts computed by applying the federal statutory income tax rate to income before income taxes to total income tax expense is as follows:

	Year Ended December 31,		
	2017	2016	2015
	(In thousands)		
Income tax expense at the federal statutory rate of 35%	\$ 145,867	\$ 96,810	\$ 324,087
Foreign tax rate differential	(81,509)	(66,947)	(162,784)
Unrecognized tax benefits and related interest	27,690	33,170	33,362
Change in valuation allowance	3,686	(13,924)	27,320
Return to provision true-ups	686	(14,420)	(8,875)
Pay-to-play penalties	—	—	(11,222)
Acquisition related costs	1,554	1,611	12,545
Federal research and development credit	(16,000)	(15,000)	(11,500)
trivago stock-based-compensation	5,011	16,956	—
Excess tax benefits related to stock-based compensation	(59,668)	(39,751)	—
Tax Act transition tax	144,167	—	—
U.S. statutory tax rate change	(158,286)	—	—
Other, net	32,207	16,810	281
Income tax expense	<u>\$ 45,405</u>	<u>\$ 15,315</u>	<u>\$ 203,214</u>

Our effective tax rate in 2017, 2016 and 2015 was lower than the 35% federal statutory income tax rate due to earnings in foreign jurisdictions outside of the United States, primarily Switzerland, where the statutory income tax rate is lower. In addition, excess tax benefits relating to share-based payments also decrease our effective tax rate in 2017 and 2016.

The increase in our effective tax rate for 2017 compared to 2016 was primarily due to one-time tax benefits in the prior year period including release of a valuation allowance and return to provision true-ups, as well as an increase in losses generated in foreign jurisdictions at tax rates below the 35% federal statutory rate. The effects of the provisional income inclusion for the deemed repatriation transition tax pursuant to the Tax Act were negated by the benefit of the provisional remeasurement of our net deferred tax liability.

Uncertain Tax Positions

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows:

	2017	2016	2015
	(In thousands)		
Balance, beginning of year	\$ 220,532	\$ 171,177	\$ 110,561
Increases to tax positions related to the current year	35,211	42,877	33,880
Increases to tax positions related to prior years	3,544	8,124	26,219
Decreases to tax positions related to prior years	(1,069)	(2,262)	—
Reductions due to lapsed statute of limitations	(2,783)	(4,688)	(2,525)
Settlements during current year	(1,213)	—	(100)
Interest and penalties	6,697	5,304	3,142
Balance, end of year	<u>\$ 260,919</u>	<u>\$ 220,532</u>	<u>\$ 171,177</u>

As of December 31, 2017, we had \$261 million of gross unrecognized tax benefits, \$155 million of which, if recognized, would affect the effective tax rate. As of December 31, 2016, we had \$221 million of gross unrecognized tax benefits, \$181 million of which, if recognized, would affect the effective tax rate.

As of December 31, 2017 and 2016, total gross interest and penalties accrued was \$22 million and \$15 million, respectively. We recognized interest (benefit) expense in 2017, 2016 and 2015 of \$7 million, \$5 million and \$3 million in connection with our unrecognized tax benefits.

The Company is routinely under audit by federal, state, local and foreign income tax authorities. These audits include questioning the timing and the amount of income and deductions, and the allocation of income and deductions among various tax jurisdictions. The Internal Revenue Service ("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, 2017, for the Expedia, Inc. & Subsidiaries group, statute of limitations for tax years 2009 through 2016 remain open to examination in the federal jurisdiction and most state jurisdictions. For the HomeAway and Orbitz groups, 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.

During first quarter of 2017, the IRS issued proposed adjustments related to transfer pricing with our foreign subsidiaries for our 2009 to 2010 audit cycle. The proposed adjustments would increase our U.S. taxable income by \$105 million, which would result in federal tax expense of approximately \$37 million, subject to interest. We do not agree with the position of the IRS and are formally protesting the IRS position.

NOTE 12 — Redeemable Non-controlling Interests

We have non-controlling interests in majority owned entities, which are carried at fair value as the non-controlling interests contained certain rights, whereby we could acquire and the minority shareholders could sell to us the additional shares of the companies. A reconciliation of redeemable non-controlling interest for the years ended December 31, 2017, 2016 and 2015 is as follows:

	Year Ended December 31,		
	2017	2016	2015
	(In thousands)		
Balance, beginning of the period	\$ —	\$ 658,478	\$ 560,073
Acquisition of redeemable non-controlling interest	19,618	—	6,829
Purchase of subsidiary shares at fair value	—	(7,054)	—
Net income (loss) attributable to non-controlling interests	2,535	(22,286)	(15,417)
Fair value adjustments	—	848,885	188,579
Currency translation adjustments	—	(89,436)	(90,244)
Other	181	(7,611)	8,658
Transfer to non-redeemable non-controlling interest	—	(1,380,976)	—
Balance, end of period	\$ 22,334	\$ —	\$ 658,478

The fair value of the redeemable non-controlling interest was determined based on a blended analysis of the present value of future discounted cash flows and market value approach ("Level 3" on the fair value hierarchy). Our significant estimates in the discounted cash flow model included our weighted average cost of capital as well as long-term growth and profitability of the business. Our significant estimates in the market value approach included identifying similar companies with comparable business factors and assessing comparable revenue and operating multiples in estimating the fair value of the business.

In connection with the acquisition of our majority ownership interests in trivago in 2013, we entered into a shareholders agreement with trivago's founders that contains certain put/call rights whereby we could cause the founders to sell to us, and the founders could cause us 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, we and the founders agreed not to exercise our 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 initial public offering, we owned 63.5% of trivago. In conjunction with the initial public offering, 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, we adjusted the fair value of our redeemable non-controlling interest to reflect the estimated fair value immediately prior to the offering. We 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 offering, and as of December 31, 2016, our ownership interest and voting interest was approximately 59.7% and 64.7% of trivago N.V. and its subsidiaries.

NOTE 13 — Stockholders' Equity

Common Stock and Class B Common Stock

Our authorized common stock consists of 1.6 billion shares of common stock with par value of \$0.0001 per share, and 400 million shares of Class B common stock with par value of \$0.0001 per share. Both classes of common stock qualify for and share equally in dividends, if declared by our Board of Directors, and generally vote together on all matters. Common stock is entitled to 1 vote per share and Class B common stock is entitled to 10 votes per share. Holders of common stock, voting as a single, separate class are entitled to elect 25% of the total number of directors. Class B common stockholders may, at any time, convert their shares into common stock, on a one for one share basis. Upon conversion, the Class B common stock is retired and is not available for reissue. In the event of liquidation, dissolution, distribution of assets or winding-up of Expedia, Inc., the holders of both classes of common stock have equal rights to receive all the assets of Expedia, Inc. after the rights of the holders of the preferred stock, if any, have been satisfied.

Preferred Stock

As of December 31, 2017 and 2016, we have no preferred stock outstanding.

Share Repurchases

During 2012, 2010, and 2006, our Board of Directors, or the Executive Committee, acting on behalf of the Board of Directors, authorized a repurchase of up to 20 million outstanding shares of our common stock during each of the respective years and during 2015 authorized a repurchase of up to 10 million shares of our common stock for a total of 70 million shares. Shares repurchased under the authorized programs were as follows:

	Year Ended December 31,		
	2017	2016	2015
Number of shares repurchased	2.3 million	4.0 million	0.5 million
Average price per share	\$ 127.04	\$ 109.64	\$ 85.27
Total cost of repurchases (in millions) ⁽¹⁾	\$ 294	\$ 436	\$ 45

(1) Amount excludes transaction costs.

As of December 31, 2017, 4.9 million shares remain authorized for repurchase under the 2015 authorization with no fixed termination date for the repurchases.

Dividends on our Common Stock

In 2017, 2016 and 2015, the Executive Committee, acting on behalf of the Board of Directors, declared and paid the following dividends:

	Declaration Date	Dividend Per Share	Record Date	Total Amount (in thousands)	Payment Date
Year ended December 31, 2017:					
	February 7, 2017	\$ 0.28	March 9, 2017	\$ 42,247	March 30, 2017
	April 26, 2017	0.28	May 25, 2017	42,438	June 15, 2017
	July 26, 2017	0.30	August 24, 2017	45,578	September 14, 2017
	October 25, 2017	0.30	November 16, 2017	45,512	December 7, 2017
Year ended December 31, 2016:					
	February 8, 2016	\$ 0.24	March 10, 2016	\$ 36,174	March 30, 2016
	April 26, 2016	0.24	May 26, 2016	35,773	June 16, 2016
	July 27, 2016	0.26	August 25, 2016	39,062	September 15, 2016
	October 24, 2016	0.26	November 17, 2016	39,150	December 8, 2016
Year ended December 31, 2015:					
	February 4, 2015	\$ 0.18	March 10, 2015	\$ 22,895	March 26, 2015
	April 29, 2015	0.18	May 28, 2015	23,096	June 18, 2015
	July 29, 2015	0.24	August 27, 2015	31,182	September 17, 2015
	October 29, 2015	0.24	November 19, 2015	31,354	December 10, 2015

In addition, in February 2018, the Executive Committee, acting on behalf of the Board of Directors, declared a quarterly cash dividend of \$0.30 per share of outstanding common stock payable on March 28, 2018 to the stockholders of record as of the close of business on March 8, 2018. Future declarations of dividends are subject to final determination by our Board of Directors.

Accumulated Other Comprehensive Income (Loss)

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

	December 31,	
	2017	2016
	(In thousands)	
Foreign currency translation adjustments, net of tax ⁽¹⁾	\$ (142,255)	\$ (280,426)
Net unrealized gain (loss) on available for sale securities, net of tax ⁽²⁾	(6,678)	27
Accumulated other comprehensive loss	<u>\$ (148,933)</u>	<u>\$ (280,399)</u>

- (1) Foreign currency translation adjustments, net of tax, includes foreign currency transaction losses at December 31, 2017 of \$45 million (\$71 million before tax) and foreign currency transaction gains at December 31, 2016 of \$16 million (\$25 million before tax) associated with our 2.5% Notes. The 2.5% Notes are Euro-denominated debt designated as hedges of certain of our Euro-denominated net assets. See NOTE 2 — Significant Accounting Policies for more information.
- (2) The net unrealized loss on available for sale securities before tax at December 31, 2017 was \$9 million.

Non-redeemable Non-controlling Interests

As of December 31, 2017, 2016 and 2015, our ownership interest in AirAsia-Expedia was approximately 75%. As of December 31, 2017 and 2016, our ownership interest in trivago was approximately 59.6% and 59.7%. Prior to our sale of eLong on May 22, 2015, our ownership interest in eLong was approximately 62.4%. Amounts paid in excess of the respective non-controlling interest were recorded to additional paid-in capital. The following table shows the effects of the changes in non-controlling interest on our equity for the respective periods, in thousands:

	2017	2016	2015
Net income attributable to Expedia, Inc.	\$ 377,964	\$ 281,848	\$ 764,465
Transfers (to) from the non-controlling interest due to:			
Net decrease in Expedia, Inc.'s paid-in capital related to trivago IPO	—	(32,141)	—
Net increase (decrease) in Expedia, Inc.'s paid-in capital for newly issued eLong shares and other equity activity	—	—	(4,198)
Other	2,649	—	—
Net transfers from non-controlling interest	2,649	(32,141)	(4,198)
Change from net income attributable to Expedia, Inc. and transfers from non-controlling interest	\$ 380,613	\$ 249,707	\$ 760,267

NOTE 14 — Earnings Per Share

Basic Earnings Per Share

Basic earnings per share was calculated for the years ended December 31, 2017, 2016 and 2015 using the weighted average number of common and Class B common shares outstanding during the period excluding restricted stock and stock held in escrow.

Diluted Earnings Per Share

For the years ended December 31, 2017, 2016 and 2015, we computed diluted earnings per share using (i) the number of shares of common stock and Class B common stock used in the basic earnings per share calculation as indicated above (ii) if dilutive, the incremental common stock that we would issue upon the assumed exercise of stock options and stock warrants and the vesting of RSUs using the treasury stock method, and (iii) other stock-based commitments.

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

	Year Ended December 31,		
	2017	2016	2015
	(In thousands, except per share data)		
Net income attributable to Expedia, Inc.	\$ 377,964	\$ 281,848	\$ 764,465
Earnings per share attributable to Expedia, Inc. available to common stockholders:			
Basic	\$ 2.49	\$ 1.87	\$ 5.87
Diluted	2.42	1.82	5.70
Weighted average number of shares outstanding:			
Basic	151,619	150,367	130,159
Dilutive effect of:			
Options to purchase common stock	4,218	3,874	3,685
Other dilutive securities	548	276	174
Diluted	156,385	154,517	134,018

Outstanding stock awards that have been excluded from the calculations of diluted earnings per share attributable to common stockholders because their effect would have been antidilutive were approximately four million for 2017, seven million for 2016, and two million for 2015.

The earnings per share amounts are the same for common stock and Class B common stock because the holders of each class are legally entitled to equal per share distributions whether through dividends or in liquidation.

NOTE 15 — Restructuring and Related Reorganization Charges

In connection with activities to centralize and optimize certain operations as well as migrate technology platforms in the prior years, primarily related to previously disclosed acquisitions, we recognized \$17 million, \$56 million and \$105 million in restructuring and related reorganization charges during 2017, 2016 and 2015. The charges were primarily related to employee severance and benefits, including severance amounts under pre-existing written plans and contracts Orbitz had with its employees and incremental retention compensation for exiting employees as well as stock-compensation charges for acceleration of replacement awards pursuant to certain employment agreements. Based on current plans, which are subject to change, and excluding any possible future acquisition integrations, we do not expect material restructuring charges in 2018.

The following table summarizes the restructuring and related reorganization activity for 2015, 2016 and 2017:

	Employee Severance and Benefits	Stock-based Compensation	Other	Total
	(In thousands)			
Accrued liability as of January 1, 2015	\$ 10,117	\$ —	\$ 13,658	\$ 23,775
Charges	66,255	32,749	5,867	104,871
Payments	(29,388)	—	(18,408)	(47,796)
Non-cash items	(1,095)	(32,749)	6	(33,838)
Accrued liability as of December 31, 2015	45,889	—	1,123	47,012
Charges	39,477	12,690	3,740	55,907
Payments	(66,442)	—	(4,932)	(71,374)
Non-cash items	(774)	(12,690)	343	(13,121)
Accrued liability as of December 31, 2016	18,150	—	274	18,424
Charges	8,380	—	8,358	16,738
Payments	(19,005)	—	(7,722)	(26,727)
Non-cash items	810	—	69	879
Accrued liability as of December 31, 2017	\$ 8,335	\$ —	\$ 979	\$ 9,314

NOTE 16 — Other Income (Expense)
Other, net

The following table presents the components of other, net:

	For the Year Ended December 31,		
	2017	2016	2015
	(In thousands)		
Foreign exchange rate gains (losses), net	\$ (45,614)	\$ (15,244)	\$ 24,787
Non-controlling interest basis adjustment	1,678	—	77,400
Loss on investments, net	(14,318)	(12,117)	—
Equity gains (losses) in unconsolidated affiliates	232	(1,490)	(13)
Other	(2,777)	(2,829)	10,912
Total	\$ (60,799)	\$ (31,680)	\$ 113,086

NOTE 17 — Commitments and Contingencies
Letters of Credit, Purchase Obligations and Guarantees

We have commitments and obligations that include purchase obligations, guarantees and LOCs, which could potentially require our payment in the event of demands by third parties or contingent events. The following table presents these commitments and obligations as of December 31, 2017:

	Total	By Period			
		Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
		(In thousands)			
Purchase obligations	\$ 409,802	\$ 256,834	\$ 152,968	\$ —	\$ —
Guarantees	135,053	120,278	14,775	—	—
Letters of credit	42,419	25,653	11,103	169	5,494
	\$ 587,274	\$ 402,765	\$ 178,846	\$ 169	\$ 5,494

Our purchase obligations represent the minimum obligations we have under agreements with certain of our vendors. These minimum obligations are less than our projected use for those periods. Payments may be more than the minimum obligations based on actual use.

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

Our LOCs consist of stand-by LOCs, underwritten by a group of lenders, which we primarily issue for certain regulatory purposes as well as to certain hotel properties to secure our 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, 2017, 2016 and 2015.

Lease Commitments

We have contractual obligations in the form of operating leases for office space and related office equipment for which we record the related expense on a monthly basis. Certain leases contain periodic rent escalation adjustments and renewal options. Rent expense related to such leases is recorded on a straight-line basis. Operating lease obligations expire at various dates with the latest maturity in 2031. For the years ended December 31, 2017, 2016 and 2015, we recorded rental expense of \$168 million, \$147 million and \$109 million.

The following table presents our estimated future minimum rental payments under operating leases with noncancelable lease terms that expire after December 31, 2017, in thousands:

<u>Year ending December 31,</u>	
2018	\$ 138,785
2019	121,017
2020	103,695
2021	79,192
2022	72,901
2023 and thereafter	333,792
	<u>\$ 849,382</u>

Legal Proceedings

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

Litigation Relating to Occupancy Taxes. Ninety-six lawsuits have been filed by cities, counties and states involving hotel occupancy and other taxes. Sixteen lawsuits are currently active. These lawsuits are in various stages and we continue to defend against the claims made in them vigorously. With respect to the principal claims in these matters, we believe that the statutes or ordinances at issue do not apply to the services we provide and, therefore, that we do not owe the taxes that are claimed to be owed. We believe that the statutes or ordinances at issue generally impose occupancy and other taxes on entities that own, operate or control hotels (or similar businesses) or furnish or provide hotel rooms or similar accommodations. To date, forty-two 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-eight dismissals were based on a finding that we and the other defendants were not subject to the local hotel occupancy tax ordinance or that the local government lacked standing to pursue their claims. As a result of this litigation and other attempts by certain jurisdictions to levy such taxes, we have established a reserve for the potential settlement of issues related to hotel occupancy and other taxes, consistent with applicable accounting principles and in light of all current facts and circumstances, in the amount of \$43 million and \$71 million as of December 31, 2017 and 2016, respectively. It is also reasonably possible that amounts paid in connection with these issues could include up to an additional \$56 million related to tax, interest and penalties in one jurisdiction. Our settlement reserve is based on our best estimate of probable losses and the ultimate resolution of these contingencies may be greater or less than the liabilities recorded. An estimate for a reasonably possible loss or range of loss in excess of the amount reserved or disclosed cannot be made. Changes to the settlement reserve are included within legal reserves, occupancy tax and other in the consolidated statements of operations.

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

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

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 we had previously expensed the pay-to-play payments in prior periods, we 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. The Hawaii tax court has scheduled trial on the agency hotel and car rental matters for February 4, 2019. On December 29, 2017, the defendant online travel companies filed a motion for partial summary judgment. The Department of Taxation has asked the tax court to stay proceedings in the agency hotel and car rental case pending a decision by the Hawaii Supreme Court in the merchant model car rental case addressed below. The defendants have opposed that request. On February 5, 2018, the tax court granted the motion to stay.

Final assessments by the Hawaii Department of Taxation for general exercise taxes against the Expedia companies, including Orbitz, relating to merchant car rental transactions during the years 2000 to 2014 are also under review in the Hawaii tax courts. With respect to merchant model car rental transactions at issue for the tax years 2000 through 2013, the Hawaii tax court held on August 5, 2016 that general excise tax is due on the online travel companies’ services to facilitate car rentals. The court further ruled that for merchant model car rentals in Hawaii, the online travel companies are required to pay general excise tax on the total amount paid by consumers, with no credit for tax amounts already remitted by car rental companies to the State of Hawaii for tax years 2000 through 2013, thus resulting in a double tax on the amount paid by consumers to car rental companies for the rental of the vehicle. The court, however, ruled that when car rentals are paid for as part of a vacation package, tax is only due once on the amount paid by consumers to the car rental company for the rental of the vehicle. In addition, the court ruled that the online travel companies are required to pay interest and certain penalties on the amounts due. On April 25, 2017, the court entered a stipulated order and final judgment. On May 15, 2017, the Expedia companies paid

under protest the full amount claimed due, or approximately \$16.7 million, as a condition of appeal. The parties filed notices of cross-appeal from the order. The appeals have been transferred to the Hawaii Supreme Court and oral argument on the merchant car appeals is scheduled for April 5, 2018. 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, we were required to "pay-to-play" and paid \$48 million in advance of litigation relating to occupancy tax proceedings with the city of San Francisco. 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, California Litigation*. The stay is now lifted and the appeal is proceeding.

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

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

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

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

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

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

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

Booking.com by way of an infringement decision to remove certain clauses from its contracts with German hotels. Booking.com has appealed the decision and the appeal was heard by the Higher Regional Court Düsseldorf on February 8, 2017. Those proceedings remain ongoing.

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

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

The Directorate General for Competition, Consumer Affairs and Repression of Fraud (the "DGCCRF"), a directorate of the French Ministry of Economy and Finance with authority over unfair trading practices, brought a lawsuit in France against Expedia entities objecting to certain parity clauses in contracts between Expedia entities and French hotels. In May 2015, the French court ruled that certain of the parity provisions in certain contracts that were the subject of the lawsuit were not in compliance with French commercial law, but imposed no fine and no injunction. The DGCCRF appealed the decision and, on June 21, 2017, the Paris Court of Appeal published a judgment overturning the decision. The court annulled parity clauses contained in the agreements at issue, ordered Expedia to amend its contracts, and imposed a fine. Expedia has appealed the decision. The appeal will not stay payment of the fine and we have recorded a related reserve.

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

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

Legislative bodies in France (July 2015), Austria (December 2016) and Italy (August 2017) have also adopted new domestic anti-parity clause legislation. Expedia believes each of these pieces of legislation violates both EU and national legal principles and therefore, Expedia has challenged these laws at the European Commission.

A motion requesting the Swiss government to take action on narrow price parity has been adopted in the Swiss parliament. Moreover, in Belgium, the government is also reviewing narrow parity provisions. 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. In late 2016, Expedia resolved the concerns of the Australia and New Zealand NCAs based on implementation of the waivers substantially similar to those provided to accommodation providers in Europe (on September 1, 2016 in Australia and on October 28, 2016 in New Zealand). More recently, however, the Australian NCA indicated that it has reopened its investigation. Expedia is in ongoing discussions with a limited number of NCAs in other countries in relation to its contracts with hotels. Expedia is currently unable to predict the impact the

implementation of the waivers both in Europe and elsewhere will have on Expedia's business, on investigations or inquiries by NCAs in other countries, or on industry practice more generally.

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

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

NOTE 18 — Related Party Transactions

Liberty. Mr. Diller is the Chairman and Senior Executive of Expedia. Subject to the terms of an Amended and Restated Stockholders Agreement between Liberty Expedia Holdings, Inc. ("Liberty Expedia Holdings") and Mr. Diller, as amended as of November 4, 2016, Mr. Diller also holds an irrevocable proxy to vote shares of Expedia common stock and Class B common stock beneficially owned by Liberty Expedia Holdings (the "Diller Proxy"), which proxy has been assigned by Mr. Diller to Liberty Expedia Holdings as described below.

On November 4, 2016, Liberty Interactive Corporation ("Liberty Interactive") redeemed a portion of the outstanding shares of its Liberty Ventures common stock in exchange for all of the outstanding shares of Liberty Expedia Holdings, which at that time was a wholly owned subsidiary of Liberty Interactive (the "Liberty Split-Off"). At the time of the Liberty Split-Off, Liberty Expedia Holdings' assets included all of Liberty Interactive's interest in Expedia. Pursuant to a Transaction Agreement among Mr. Diller, Liberty Interactive, Liberty Expedia Holdings, John C. Malone and Leslie Malone, dated as of March 24, 2016 and amended and restated effective as of September 22, 2016, at the time of the Liberty Split-Off, for a period ending not later than May 4, 2018 (i) Mr. Diller assigned the Diller Proxy to Liberty Expedia Holdings (the "Diller Assignment") and (ii) Mr. and Mrs. Malone granted Mr. Diller an irrevocable proxy to vote all shares of Liberty Expedia Holdings Series A common stock and Series B common stock beneficially owned by them upon completion of the Liberty Split-Off or thereafter (the "Malone Proxy"), in each case, subject to certain limitations. As a result, by virtue of the voting power associated with the Malone Proxy, the governance structure at Liberty Expedia Holdings and Mr. Diller's continuing position as Chairman of Expedia's Board of Directors, Mr. Diller indirectly controls Expedia until the termination or expiration of the Diller Assignment and Malone Proxy, at which point (and by virtue of the termination of the Diller Assignment), unless the Diller Assignment and Malone Proxy terminate as a result of Mr. Diller's death or disability, Mr. Diller will have the power to vote directly all shares of Expedia Common Stock and Class B Common Stock beneficially owned by Liberty Expedia Holdings.

In connection with the then-pending Liberty Split-Off, on March 24, 2016, Liberty Interactive and Liberty Expedia Holdings entered into a Reimbursement Agreement with Expedia pursuant to which Liberty Interactive and Liberty Expedia Holdings agreed to reimburse Expedia, up to a specified cap, for certain costs and expenses resulting from the Liberty Split-Off and the above-described proxy arrangements that may be incurred by Expedia with respect to Expedia's \$1.5 billion unsecured revolving credit facility and Expedia's 7.456% Notes maturing in 2018 and 5.95% Notes maturing in 2020 (as amended and restated as of September 22, 2016, the "Reimbursement Agreement").

On September 30, 2016, Expedia received consents from the holders of more than a majority of the aggregate principal amount of its 5.95% Notes and entered into a supplemental indenture to amend the indenture governing its 5.95% Notes to conform the definition of "Permitted Holders" to the definition employed in Expedia's 2.5% Notes, 4.5% Notes and 5.0% Notes, including by specifying that "Permitted Holders" include certain entities succeeding to the interest of Liberty Interactive in Expedia. During 2016, Liberty Interactive reimbursed Expedia approximately \$4 million for the cost of the consent solicitation pursuant to the terms of the Reimbursement Agreement.

The Reimbursement Agreement constitutes Expedia's sole and exclusive remedy with respect to any claim arising out of any potential change of control under any contract, debt instrument, agreement or other similar instrument resulting, directly or indirectly, from the Liberty Split-Off or the above-described proxy arrangements entered into in connection with the Liberty Split-Off. On January 3, 2017, other than those provisions relating to Expedia's remedies described above and certain administrative provisions, the Reimbursement Agreement terminated in accordance with its terms upon the non-occurrence within the 60 day-period following the Liberty Split-Off of certain reimbursement triggers.

During 2015, we issued 264,841 shares of common stock from treasury stock to Liberty Interactive at a price per share of \$85.24 and an aggregate value of approximately \$23 million pursuant to and in accordance with the preemptive rights as detailed by the Governance Agreement with Liberty Interactive.

IAC/InterActiveCorp. In addition to serving as our Chairman and Senior Executive, Mr. Diller also serves as Chairman of the Board of Directors and Senior Executive at IAC. The Company and Expedia are related parties since they are under common control, given that Mr. Diller serves as Chairman 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 as well as one aircraft that was held-for-sale as of December 31, 2017. We share equally in fixed and nonrecurring costs for the planes; direct operating costs are pro-rated based on actual usage. As of December 31, 2017 and 2016, the net basis in our ownership interest in the planes was \$40 million and \$30 million recorded in long-term investments and other assets. In 2017, 2016 and 2015, operating and maintenance costs paid directly to the jointly-owned subsidiary for the airplanes were nominal.

NOTE 19 — Segment Information

We have four reportable segments: Core OTA, trivago, HomeAway and Egencia. In addition, eLong was a reportable segment through its disposal on May 22, 2015. Our Core OTA segment, which consists of the aggregation of operating segments, provides a full range of travel and advertising services to our worldwide customers through a variety of brands including: Expedia.com and Hotels.com in the United States and localized Expedia and Hotels.com websites throughout the world, Orbitz, CheapTickets, ebookers, Expedia Affiliate Network, Hotwire.com, Travelocity, Wotif Group, CarRentals.com, Classic Vacations and SilverRail Technologies, Inc. Our trivago segment generates advertising revenue primarily from sending referrals to online travel companies and travel service providers from its hotel metasearch websites. Our HomeAway segment operates an online marketplace for the vacation rental industry. Our Egencia segment provides managed travel services to corporate customers worldwide.

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

Our segment disclosure includes intersegment revenues, which primarily consist of advertising and media services provided by our trivago segment to our Core OTA segment. These intersegment transactions are recorded by each segment at amounts that approximate fair value as if the transactions were between third parties, and therefore, impact segment performance. However, the revenue and corresponding expense are eliminated in consolidation. The elimination of such intersegment transactions is included within Corporate and Eliminations in the table below. In addition, when HomeAway properties are booked through our Core OTA websites and vice versa, the segments split the third-party revenue for management and segment reporting purposes with the majority of the third-party revenue residing with the website marketing the property or room.

Corporate and Eliminations also includes unallocated corporate functions and expenses. In addition, we record amortization of intangible assets and any related impairment, as well as stock-based compensation expense, restructuring and related reorganization charges, legal reserves, occupancy tax and other, and other items excluded from segment operating performance in Corporate and Eliminations. Such amounts are detailed in our segment reconciliation below. Included with eLong's standalone financial statements for 2015 (through its disposal on May 22, 2015) was approximately \$20 million of stock-based compensation and intangible amortization.

The following tables present our segment information for 2017, 2016 and 2015. As a significant portion of our property and equipment is not allocated to our operating segments and depreciation is not included in our segment measure, we do not report the assets by segment as it would not be meaningful. We do not regularly provide such information to our chief operating decision makers.

	Year ended December 31, 2017					
	Core OTA	trivago	HomeAway	Egencia	Corporate & Eliminations	Total
	(In thousands)					
Third-party revenue	\$ 7,880,597	\$ 752,352	\$ 906,469	\$ 520,426	\$ —	\$10,059,844
Intersegment revenue	—	413,855	—	—	(413,855)	—
Revenue	<u>\$ 7,880,597</u>	<u>\$ 1,166,207</u>	<u>\$ 906,469</u>	<u>\$ 520,426</u>	<u>\$ (413,855)</u>	<u>\$10,059,844</u>
Adjusted EBITDA	\$ 2,068,405	\$ 5,439	\$ 201,810	\$ 94,265	\$ (657,414)	\$ 1,712,505
Depreciation	(309,842)	(9,182)	(40,211)	(41,077)	(213,787)	(614,099)
Amortization of intangible assets	—	—	—	—	(275,445)	(275,445)
Stock-based compensation	—	—	—	—	(149,350)	(149,350)
Legal reserves, occupancy tax and other	—	—	—	—	(25,412)	(25,412)
Restructuring and related reorganization charges	—	—	—	—	(16,738)	(16,738)
Realized (gain) loss on revenue hedges	(6,323)	—	—	—	—	(6,323)
Operating income (loss)	<u>\$ 1,752,240</u>	<u>\$ (3,743)</u>	<u>\$ 161,599</u>	<u>\$ 53,188</u>	<u>\$ (1,338,146)</u>	<u>625,138</u>
Other expense, net						(208,374)
Income before income taxes						416,764
Provision for income taxes						(45,405)
Net income						371,359
Net loss attributable to non-controlling interests						6,605
Net income attributable to Expedia, Inc.						<u><u>\$ 377,964</u></u>

	Year ended December 31, 2016					
	Core OTA	trivago	HomeAway	Egencia	Corporate & Eliminations	Total
	(In thousands)					
Third-party revenue	\$ 7,083,620	\$ 538,479	\$ 689,186	\$ 462,279	\$ —	\$ 8,773,564
Intersegment revenue	—	297,318	—	—	(297,318)	—
Revenue	<u>\$ 7,083,620</u>	<u>\$ 835,797</u>	<u>\$ 689,186</u>	<u>\$ 462,279</u>	<u>\$ (297,318)</u>	<u>\$ 8,773,564</u>
Adjusted EBITDA	<u>\$ 1,965,987</u>	<u>\$ 34,826</u>	<u>\$ 175,402</u>	<u>\$ 80,625</u>	<u>\$ (641,168)</u>	<u>\$ 1,615,672</u>
Depreciation	(255,778)	(7,145)	(17,842)	(31,340)	(164,956)	(477,061)
Amortization of intangible assets	—	—	—	—	(317,141)	(317,141)
Impairment of intangible assets	—	—	—	—	(34,890)	(34,890)
Stock-based compensation	—	—	—	—	(242,417)	(242,417)
Legal reserves, occupancy tax and other	—	—	—	—	(26,498)	(26,498)
Restructuring and related reorganization charges, excluding stock-based compensation	—	—	—	—	(43,217)	(43,217)
Realized (gain) loss on revenue hedges	(12,746)	—	—	—	—	(12,746)
Operating income (loss)	<u>\$ 1,697,463</u>	<u>\$ 27,681</u>	<u>\$ 157,560</u>	<u>\$ 49,285</u>	<u>\$ (1,470,287)</u>	<u>461,702</u>
Other expense, net						(185,102)
Income before income taxes						276,600
Provision for income taxes						(15,315)
Net income						261,285
Net loss attributable to non-controlling interests						20,563
Net income attributable to Expedia, Inc.						<u>\$ 281,848</u>

	Year ended December 31, 2015						
	Core OTA	trivago	HomeAway ⁽¹⁾	Egencia	eLong ⁽²⁾	Corporate & Eliminations	Total
	(In thousands)						
Third-party revenue	\$ 5,877,213	\$ 333,024	\$ 20,222	\$ 400,115	\$ 41,743	\$ —	\$ 6,672,317
Intersegment revenue	—	214,632	—	—	—	(214,632)	—
Revenue	<u>\$ 5,877,213</u>	<u>\$ 547,656</u>	<u>\$ 20,222</u>	<u>\$ 400,115</u>	<u>\$ 41,743</u>	<u>\$ (214,632)</u>	<u>\$ 6,672,317</u>
Adjusted EBITDA	\$ 1,600,042	\$ 2,856	\$ 4,011	\$ 68,116	\$ (62,167)	\$ (509,747)	\$ 1,103,111
Depreciation	(189,318)	(2,113)	(742)	(24,394)	(3,263)	(116,850)	(336,680)
Amortization of intangible assets	—	—	—	—	—	(156,458)	(156,458)
Impairment of intangible assets	—	—	—	—	—	(7,207)	(7,207)
Stock-based compensation	—	—	—	—	—	(178,068)	(178,068)
Legal reserves, occupancy tax and other	—	—	—	—	—	104,587	104,587
Restructuring and related reorganization charges, excluding stock-based compensation	—	—	—	—	—	(72,122)	(72,122)
Realized (gain) loss on revenue hedges	(43,597)	—	—	—	—	—	(43,597)
Operating income (loss)	<u>\$ 1,367,127</u>	<u>\$ 743</u>	<u>\$ 3,269</u>	<u>\$ 43,722</u>	<u>\$ (65,430)</u>	<u>\$ (935,865)</u>	<u>413,566</u>
Other income, net							<u>512,396</u>
Income before income taxes							925,962
Provision for income taxes							(203,214)
Net income							722,748
Net loss attributable to non-controlling interests							41,717
Net income attributable to Expedia, Inc.							<u><u>\$ 764,465</u></u>

(1) Includes results since our acquisition of HomeAway on December 15, 2015.

(2) Includes results through our disposal of eLong on May 22, 2015.

Revenue by Services

The following table presents revenue by groups of services for the years ended December 31, 2017, 2016 and 2015.

	Year Ended December 31,		
	2017	2016	2015
	(In thousands)		
Lodging ⁽¹⁾	\$ 6,851,171	\$ 6,020,668	\$ 4,638,481
Advertising and media	1,072,656	807,383	565,704
Air	783,573	777,696	566,123
Other ⁽²⁾	1,352,444	1,167,817	902,009
Total revenue	<u>\$ 10,059,844</u>	<u>\$ 8,773,564</u>	<u>\$ 6,672,317</u>

- (1) During the first quarter of 2017, we began disclosing lodging revenue, which includes both hotel accommodations as well as alternative accommodations primarily made through HomeAway.
- (2) Other includes car rental, insurance, destination services, cruise and fee revenue related to our corporate travel business, among other revenue streams, none of which are individually material.

Geographic Information

The following table presents revenue by geographic area, the United States and all other countries, based on the geographic location of our websites or points of sale with the exception of trivago, which has all been allocated to Germany, the location of its corporate headquarters, for the years ended December 31, 2017, 2016 and 2015. No sales to an individual country other than the United States accounted for more than 10% of revenue for the presented years.

	Year Ended December 31,		
	2017	2016	2015
	(In thousands)		
Revenue			
United States	\$ 5,534,466	\$ 5,036,539	\$ 3,703,302
All other countries	4,525,378	3,737,025	2,969,015
	<u>\$ 10,059,844</u>	<u>\$ 8,773,564</u>	<u>\$ 6,672,317</u>

The following table presents property and equipment, net for the United States and all other countries, as of December 31, 2017 and 2016:

	As of December 31,	
	2017	2016
	(In thousands)	
Property and equipment, net		
United States	\$ 1,330,808	\$ 1,217,952
All other countries	244,450	176,952
	<u>\$ 1,575,258</u>	<u>\$ 1,394,904</u>

NOTE 20 — Valuation and Qualifying Accounts

The following table presents the changes in our valuation and qualifying accounts. Other reserves primarily include our accrual of the cost associated with purchases made on our website related to the use of fraudulent credit cards “charged-back” due to payment disputes and cancellation fees.

Description	Balance at Beginning of Period	Charges to Earnings	Charges to Other Accounts ⁽¹⁾	Deductions	Balance at End of Period
(In thousands)					
2017					
Allowance for doubtful accounts	\$ 25,278	\$ 18,567	\$ 598	\$ (13,747)	\$ 30,696
Other reserves	24,493				22,368
2016					
Allowance for doubtful accounts	\$ 27,035	\$ 12,191	\$ (2,554)	\$ (11,394)	\$ 25,278
Other reserves	29,959				24,493
2015					
Allowance for doubtful accounts	\$ 13,760	\$ 11,513	\$ 10,309	\$ (8,547)	\$ 27,035
Other reserves	25,258				29,959

(1) Charges to other accounts primarily relates to amounts acquired through acquisitions and net translation adjustments.

NOTE 21 — Quarterly Financial Information (Unaudited)

	Three Months Ended			
	December 31	September 30	June 30	March 31
	(In thousands, except per share data)			
Year ended December 31, 2017				
Revenue	\$ 2,319,208	\$ 2,965,848	\$ 2,586,052	\$ 2,188,736
Operating income (loss)	113,475	481,728	102,768	(72,833)
Net income (loss) attributable to Expedia, Inc.	55,159	352,238	56,689	(86,122)
Basic earnings (loss) per share ⁽¹⁾	\$ 0.36	\$ 2.32	\$ 0.37	\$ (0.57)
Diluted earnings (loss) per share ⁽¹⁾	0.35	2.23	0.36	(0.57)
Year ended December 31, 2016				
Revenue	\$ 2,092,829	\$ 2,580,905	\$ 2,195,869	\$ 1,903,961
Operating income (loss) ⁽²⁾	147,186	386,152	25,662	(97,298)
Net income (loss) attributable to Expedia, Inc. ⁽²⁾	79,457	279,331	31,649	(108,589)
Basic earnings (loss) per share ⁽¹⁾	\$ 0.53	\$ 1.86	\$ 0.21	\$ (0.72)
Diluted earnings (loss) per share ⁽¹⁾	0.51	1.81	0.21	(0.72)

- (1) Earnings per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share may not equal the total computed for the year.
- (2) During the fourth quarter of 2016, we recognized a \$33 million impairment charge related to indefinite lived intangible assets.

NOTE 22 — Guarantor and Non-Guarantor Supplemental Financial Information

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

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
Year Ended December 31, 2017

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
	(In thousands)				
Revenue	\$ —	\$ 7,661,878	\$ 2,817,310	\$ (419,344)	\$ 10,059,844
Costs and expenses:					
Cost of revenue	—	1,342,847	430,662	(16,978)	1,756,531
Selling and marketing	—	3,714,710	1,985,541	(402,419)	5,297,832
Technology and content	—	991,291	395,504	(8)	1,386,787
General and administrative	—	408,949	266,951	61	675,961
Amortization of intangible assets	—	181,778	93,667	—	275,445
Legal reserves, occupancy tax and other	—	25,412	—	—	25,412
Restructuring and related reorganization charges	—	4,924	11,814	—	16,738
Intercompany (income) expense, net	—	695,328	(695,328)	—	—
Operating income	—	296,639	328,499	—	625,138
Other income (expense):					
Equity in pre-tax earnings of consolidated subsidiaries	493,013	336,300	—	(829,313)	—
Other, net	(179,541)	(59,547)	30,714	—	(208,374)
Total other income, net	313,472	276,753	30,714	(829,313)	(208,374)
Income before income taxes	313,472	573,392	359,213	(829,313)	416,764
Provision for income taxes	64,492	(67,406)	(42,491)	—	(45,405)
Net income	377,964	505,986	316,722	(829,313)	371,359
Net loss attributable to non-controlling interests	—	846	5,759	—	6,605
Net income attributable to Expedia, Inc.	<u>\$ 377,964</u>	<u>\$ 506,832</u>	<u>\$ 322,481</u>	<u>\$ (829,313)</u>	<u>\$ 377,964</u>
Comprehensive income attributable to Expedia, Inc.	<u>\$ 509,430</u>	<u>\$ 698,106</u>	<u>\$ 563,978</u>	<u>\$ (1,262,084)</u>	<u>\$ 509,430</u>

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
Year Ended December 31, 2016

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Revenue	\$ —	\$ 6,807,279	\$ 2,267,516	\$ (301,231)	\$ 8,773,564
Costs and expenses:					
Cost of revenue	—	1,263,828	346,200	(13,330)	1,596,698
Selling and marketing	—	3,071,762	1,583,993	(288,338)	4,367,417
Technology and content	—	903,444	331,230	345	1,235,019
General and administrative	—	429,015	249,185	92	678,292
Amortization of intangible assets	—	248,634	68,507	—	317,141
Impairment of intangibles	—	—	34,890	—	34,890
Legal reserves, occupancy tax and other	—	26,498	—	—	26,498
Restructuring and related reorganization charges	—	30,322	25,585	—	55,907
Intercompany (income) expense, net	—	656,273	(656,273)	—	—
Operating income	—	177,503	284,199	—	461,702
Other income (expense):					
Equity in pre-tax earnings of consolidated subsidiaries	383,883	286,016	—	(669,899)	—
Other, net	(162,455)	(21,206)	(1,441)	—	(185,102)
Total other income (expense), net	221,428	264,810	(1,441)	(669,899)	(185,102)
Income before income taxes	221,428	442,313	282,758	(669,899)	276,600
Provision for income taxes	60,420	(50,168)	(25,567)	—	(15,315)
Net income	281,848	392,145	257,191	(669,899)	261,285
Net loss attributable to non-controlling interests	—	—	20,563	—	20,563
Net income attributable to Expedia, Inc.	\$ 281,848	\$ 392,145	\$ 277,754	\$ (669,899)	\$ 281,848
Comprehensive income attributable to Expedia, Inc.	\$ 280,297	\$ 373,649	\$ 238,299	\$ (611,948)	\$ 280,297

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
Year Ended December 31, 2015

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries ⁽¹⁾	Eliminations	Consolidated
	(In thousands)				
Revenue	\$ —	\$ 5,194,549	\$ 1,682,677	\$ (204,909)	\$ 6,672,317
Costs and expenses:					
Cost of revenue	—	1,009,785	308,463	(8,689)	1,309,559
Selling and marketing	—	2,347,919	1,230,059	(196,892)	3,381,086
Technology and content	—	584,560	245,495	189	830,244
General and administrative	—	373,162	200,268	483	573,913
Amortization of intangible assets	—	58,524	97,934	—	156,458
Impairment of intangible assets	—	—	7,207	—	7,207
Legal reserves, occupancy tax and other	—	(104,587)	—	—	(104,587)
Restructuring and related reorganization charges	—	76,422	28,449	—	104,871
Intercompany (income) expense, net	—	742,010	(742,010)	—	—
Operating income	—	106,754	306,812	—	413,566
Other income (expense):					
Equity in pre-tax earnings of consolidated subsidiaries	839,779	870,108	—	(1,709,887)	—
Gain on sale of business	—	—	508,810	—	508,810
Other, net	(119,451)	64,576	58,461	—	3,586
Total other income, net	720,328	934,684	567,271	(1,709,887)	512,396
Income before income taxes	720,328	1,041,438	874,083	(1,709,887)	925,962
Provision for income taxes	44,137	(194,251)	(53,100)	—	(203,214)
Net income	764,465	847,187	820,983	(1,709,887)	722,748
Net loss attributable to non-controlling interests	—	—	41,717	—	41,717
Net income attributable to Expedia, Inc.	\$ 764,465	\$ 847,187	\$ 862,700	\$ (1,709,887)	\$ 764,465
Comprehensive income attributable to Expedia, Inc.	\$ 763,202	\$ 822,898	\$ 742,132	\$ (1,709,887)	\$ 618,345

(1) Includes results through our disposal of eLong on May 22, 2015.

CONDENSED CONSOLIDATING BALANCE SHEET
December 31, 2017

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
ASSETS					
Total current assets	\$ 358,251	\$ 3,493,392	\$ 2,263,166	\$ (575,220)	\$ 5,539,589
Investment in subsidiaries	10,265,237	4,249,014	—	(14,514,251)	—
Intangible assets, net	—	1,735,988	572,548	—	2,308,536
Goodwill	—	6,366,378	1,862,487	—	8,228,865
Other assets, net	5,056	1,677,397	775,421	(19,236)	2,438,638
TOTAL ASSETS	<u>\$ 10,628,544</u>	<u>\$ 17,522,169</u>	<u>\$ 5,473,622</u>	<u>\$ (15,108,707)</u>	<u>\$ 18,515,628</u>
LIABILITIES AND STOCKHOLDERS' EQUITY					
Total current liabilities	\$ 750,922	\$ 6,797,895	\$ 905,093	\$ (575,220)	\$ 7,878,690
Long-term debt, excluding current maturities	3,749,054	—	—	—	3,749,054
Other long-term liabilities	—	494,134	262,084	(19,236)	736,982
Redeemable non-controlling interests	—	9,673	12,661	—	22,334
Stockholders' equity	6,128,568	10,220,467	4,293,784	(14,514,251)	6,128,568
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 10,628,544</u>	<u>\$ 17,522,169</u>	<u>\$ 5,473,622</u>	<u>\$ (15,108,707)</u>	<u>\$ 18,515,628</u>

CONDENSED CONSOLIDATING BALANCE SHEET
December 31, 2016

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(In thousands)		
ASSETS					
Total current assets	\$ 293,759	\$ 2,535,711	\$ 1,829,191	\$ (1,208,410)	\$ 3,450,251
Investment in subsidiaries	9,536,273	3,410,687	—	(12,946,960)	—
Intangible assets, net	—	1,921,519	525,133	—	2,446,652
Goodwill	—	6,392,479	1,549,544	—	7,942,023
Other assets, net	4,107	1,608,218	331,818	(5,523)	1,938,620
TOTAL ASSETS	\$ 9,834,139	\$ 15,868,614	\$ 4,235,686	\$ (14,160,893)	\$ 15,777,546
LIABILITIES AND STOCKHOLDERS' EQUITY					
Total current liabilities	\$ 981,700	\$ 5,733,755	\$ 620,153	\$ (1,208,410)	\$ 6,127,198
Long-term debt, excluding current maturities	3,159,336	—	—	—	3,159,336
Other long-term liabilities	—	629,634	173,798	(5,523)	797,909
Stockholders' equity	5,693,103	9,505,225	3,441,735	(12,946,960)	5,693,103
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 9,834,139	\$ 15,868,614	\$ 4,235,686	\$ (14,160,893)	\$ 15,777,546

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Year Ended December 31, 2017

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
	(In thousands)			
Operating activities:				
Net cash provided by operating activities	\$ —	\$ 1,310,451	\$ 488,703	\$ 1,799,154
Investing activities:				
Capital expenditures, including internal-use software and website development	—	(546,679)	(163,651)	(710,330)
Purchases of investments	—	(1,221,821)	(589,534)	(1,811,355)
Sales and maturities of investments	—	875,497	220,907	1,096,404
Acquisitions, net of cash acquired	—	(169,836)	(803)	(170,639)
Transfers (to) from related parties	—	(5,031)	5,031	—
Other, net	—	6,657	6,873	13,530
Net cash used in investing activities	—	(1,061,213)	(521,177)	(1,582,390)
Financing activities:				
Proceeds from issuance of long-term debt, net of debt issuance costs	989,600	—	—	989,600
Purchases of treasury stock	(312,089)	—	—	(312,089)
Payment of dividends to stockholders	(175,775)	—	—	(175,775)
Proceeds from exercise of equity awards and employee stock purchase plan	228,187	—	894	229,081
Withholding taxes for stock option exercises	(5,398)	—	(3,665)	(9,063)
Changes in controlled subsidiaries, net	—	—	(18,137)	(18,137)
Transfers (to) from related parties	(724,525)	605,047	119,478	—
Other, net	—	(14,909)	(1,194)	(16,103)
Net cash provided by financing activities	—	590,138	97,376	687,514
Effect of exchange rate changes on cash and cash equivalents	—	36,052	109,588	145,640
Net increase in cash and cash equivalents	—	875,428	174,490	1,049,918
Cash and cash equivalents at beginning of year	—	425,471	1,371,340	1,796,811
Cash and cash equivalents at end of year	\$ —	\$ 1,300,899	\$ 1,545,830	\$ 2,846,729

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Year Ended December 31, 2016

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
	(In thousands)			
Operating activities:				
Net cash provided by operating activities	\$ —	\$ 940,191	\$ 624,143	\$ 1,564,334
Investing activities:				
Capital expenditures, including internal-use software and website development	—	(635,534)	(113,814)	(749,348)
Purchases of investments	—	—	(45,352)	(45,352)
Sales and maturities of investments	—	37,830	23,105	60,935
Acquisitions, net of cash acquired	—	—	(777)	(777)
Transfers (to) from related parties	—	(172,731)	172,731	—
Proceeds from sale of business, net of cash divested and disposal costs	—	—	67,088	67,088
Other, net	—	(50,029)	(838)	(50,867)
Net cash provided by (used in) investing activities	—	(820,464)	102,143	(718,321)
Financing activities:				
Proceeds from issuance of long-term debt, net of debt issuance costs	(2,093)	—	—	(2,093)
Payment of HomeAway Convertible Notes	—	(401,424)	—	(401,424)
Purchases of treasury stock	(455,746)	—	—	(455,746)
Payment of dividends to stockholders	(150,159)	—	—	(150,159)
Proceeds from exercise of equity awards and employee stock purchase plan	141,043	—	—	141,043
Withholding taxes for stock option exercises	(1,282)	—	—	(1,282)
Changes in controlled subsidiaries, net	—	—	208,016	208,016
Transfers (to) from related parties	468,511	(118,179)	(350,332)	—
Other, net	(274)	(1,484)	(27,216)	(28,974)
Net cash used in financing activities	—	(521,087)	(169,532)	(690,619)
Effect of exchange rate changes on cash and cash equivalents	—	(14,865)	(20,017)	(34,882)
Net increase (decrease) in cash and cash equivalents	—	(416,225)	536,737	120,512
Cash and cash equivalents at beginning of year	—	841,696	834,603	1,676,299
Cash and cash equivalents at end of year	\$ —	\$ 425,471	\$ 1,371,340	\$ 1,796,811

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Year Ended December 31, 2015

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
	(In thousands)			
Operating activities:				
Net cash provided by operating activities from continuing operations	\$ —	\$ 624,327	\$ 743,718	\$ 1,368,045
Investing activities:				
Capital expenditures, including internal-use software and website development	—	(709,679)	(77,362)	(787,041)
Purchases of investments	—	(473,538)	(47,791)	(521,329)
Sales and maturities of investments	—	327,191	83,732	410,923
Acquisitions, net of cash acquired	(126,779)	(1,873,079)	(63,791)	(2,063,649)
Transfers (to) from related parties	126,779	(303,846)	177,067	—
Proceeds from sale of business, net of cash divested and disposal costs	—	—	523,882	523,882
Other, net	—	54,226	11,728	65,954
Net cash provided by (used in) investing activities	—	(2,978,725)	607,465	(2,371,260)
Financing activities:				
Proceeds from issuance of long-term debt, net of issuance costs	1,441,860	—	—	1,441,860
Purchases of treasury stock	(60,546)	—	—	(60,546)
Proceeds from issuance of treasury stock	22,575	—	—	22,575
Payment of dividends to stockholders	(108,527)	—	—	(108,527)
Proceeds from exercise of equity awards and employee stock purchase plan	96,526	—	1,190	97,716
Withholding taxes for stock option exercises	(85,033)	—	—	(85,033)
Changes in controlled subsidiaries, net	—	—	(8,518)	(8,518)
Transfers (to) from related parties	(1,396,210)	2,350,385	(954,175)	—
Other, net	89,355	(11,998)	27,315	104,672
Net cash provided by (used in) financing activities	—	2,338,387	(934,188)	1,404,199
Effect of exchange rate changes on cash and cash equivalents	—	(86,269)	(41,116)	(127,385)
Net increase (decrease) in cash and cash equivalents	—	(102,280)	375,879	273,599
Cash and cash equivalents at beginning of year	—	943,976	458,724	1,402,700
Cash and cash equivalents at end of year	<u>\$ —</u>	<u>\$ 841,696</u>	<u>\$ 834,603</u>	<u>\$ 1,676,299</u>

FRANCHISE COMPLIANCE CERTIFICATE

As you know, CruiseShipCenters USA Inc. ("Franchisor") and you are preparing to enter into a Franchise Agreement for the operation of an Expedia® CruiseShipCenters® Franchise. The purpose of this Certification is to determine whether any statements or promises were made to you, either orally or in writing that the Franchisor has not authorized and that may be untrue, inaccurate or misleading. Please review each of the following questions carefully and provide honest and complete responses to each question.

1. Have you received and personally reviewed the Franchise Agreement and each exhibit attached to it? Yes_____ No_____.
2. Do you understand all of the information contained in the Franchise Agreement and each exhibit attached to it? Yes_____ No_____.

If no, what parts of the Franchise Agreement do you not understand? (Attach additional pages, if necessary)

3. Have you received the Franchise Agreement you are to execute with all the blanks completed (other than individual or company names, addresses and dates)? Yes_____ No_____.

If so, on what date did you receive the completed Franchise Agreement?

4. Have you received and personally reviewed the Expedia® CruiseShipCenters® disclosure document that was provided to you? Yes_____ No_____.

On what date did you receive the disclosure document? _____

5. Did you sign a receipt for the disclosure document indicating the date you received it? Yes_____ No_____

6. Do you understand all of the information contained in the disclosure document? Yes_____ No_____

If no, which parts of the disclosure document do you not understand? (Attach additional pages, if necessary)

7. Have you discussed the benefits and risks of operating an Expedia® CruiseShipCenters® Franchise with an attorney, accountant or other professional advisor and do you understand those risks? Yes_____ No_____

If not, did you have the opportunity to do so? Yes_____ No_____

8. Do you understand that the success or failure of your franchise will depend in large part upon your skills and abilities, competition from other businesses, interest rates, inflation, labor and supply costs, lease and other economic and business factors? Yes_____ No_____

NOTE: QUESTIONS 9 THROUGH 15 DO NOT RELATE TO INFORMATION YOU MAY HAVE BEEN GIVEN DIRECTLY BY ANY EXISTING EXPEDIA® CRUISESHIPCENTERS® FRANCHISEES.

9. Has any employee, broker or other person speaking on behalf of Franchisor made any written or oral statement or promise concerning **the actual revenues, profits or operating costs** of an Expedia® CruiseShipCenters® franchise? Yes_____ No_____
10. Has any employee, broker or other person speaking on behalf of Franchisor made any written or oral statement or promise concerning **the amount of money you may earn** in operating the Expedia® CruiseShipCenters® franchise? Yes_____ No_____
11. Has any employee, broker or other person speaking on behalf of Franchisor made written or oral statement or promise regarding **the costs you may incur in starting** the Expedia® CruiseShipCenters® franchise that is contrary to, or different from, the information contained in the disclosure document? Yes_____ No_____
12. Has any employee, broker or other person speaking on behalf of Franchisor made any written or oral statement or promise concerning **the likelihood of success** that you should or might expect to achieve from operating an Expedia® CruiseShipCenters® franchise? Yes_____ No_____
13. Has any employee, broker or other person speaking on behalf of Franchisor made any written or oral statement, promise or agreement concerning **the advertising, marketing, training, support services or assistance that Franchisor will furnish** to you that is contrary to, or different from, the information contained in the disclosure document? Yes_____ No_____
14. Has any employee, broker or other person speaking on behalf of Franchisor made any other written or oral statement, promise or agreement relating to the Expedia® CruiseShipCenters® franchise that is contrary to, or different from, the information contained in the disclosure document? Yes_____ No_____
15. If you have answered “Yes” to any of question (9) through fifteen (14), please provide a full explanation of your answer in the following blank lines. (Attach additional pages, if necessary, and refer to them below.) If you have answered “no” to each of the foregoing questions, please leave the following lines blank.

The acknowledgment of any facts that would negate or remove from judicial review any statement, misrepresentation or action that would violate the Maryland Franchise Registration and Disclosure Law (the “Law”), or a rule or order under the Law is void with respect to claims under the Law.

YOU UNDERSTAND THAT YOUR ANSWERS ARE IMPORTANT TO US AND WE WILL RELY ON THEM.

BY SIGNING THIS CERTIFICATION, YOU ARE REPRESENTING THAT YOU HAVE RESPONDED TRUTHFULLY TO THE ABOVE QUESTIONS.

Date: _____

Franchisee

ITEM 23
RECEIPTS

EXHIBIT I

**ITEM 23
RECEIPT**

This disclosure document summarizes provisions of the Franchise Agreement and other information in plain language. Read this disclosure document and all agreements carefully. If CruiseShipCenters USA Inc. offers you a franchise, CruiseShipCenters USA Inc. must provide this disclosure document to you 14 days before you sign a binding agreement or make a payment with the franchisor or an affiliate in connection with the proposed franchise sale.

New York and Rhode Island require that we give you this disclosure document at the earlier of the first personal meeting or 10 business days before the signing of the franchise or other agreement or before making a payment to CruiseShipCenters USA Inc.

Michigan requires that we give you this disclosure document at least 10 business days before the signing of the franchise or other agreement or before making a payment to CruiseShipCenters USA Inc., whichever occurs first.

If CruiseShipCenters USA Inc. does not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and your State Administrator as set forth in Exhibit F. See Exhibit F for CruiseShipCenters USA Inc.'s agent for service of process.

| Issuance Date: March ~~31, 2017~~29, 2018

| The franchise sellers for this offering are Daniel Meyer, and Jeff Warkentin~~and Geoff Coyle~~, CruiseShipCenters USA Inc., 333 108th Avenue NE, Bellevue, Washington 98004 (425) 679-7200.

| I have received the CruiseShipCenters USA Inc. disclosure document dated March ~~31, 2017~~29, 2018 (see Exhibit A for state specific effective dates), which includes the following Exhibits:

State Specific Addendum (Exhibit A)
Franchise Agreement (Exhibit B)
Franchise Operations Manual Table of Contents (Exhibit C)
CruiseDesk® and Email Terms of Use (Exhibit D)
Franchisee Roster (Exhibit E)
State Agencies and Agents For Service Of Process (Exhibit F)
Financial Statements (Exhibit G)
Franchise Compliance Certificate (Exhibit H)
Receipt (Exhibit I)

Date

Prospective Franchisee Signature

Franchisee's Copy

Printed Name of Prospective Franchisee

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Franchise Compliance Certificate (Exhibit H)
Receipt (Exhibit I)

Date

Prospective Franchisee Signature

This copy should be completed and forwarded to:
Expedia® CruiseShipCenters®, Attn: _____

Printed Name of Prospective Franchisee