HCA Holdings, Inc.
Form 10-K
February 22, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 1-11239

HCA Holdings, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware **(State or Other Jurisdiction of** **Incorporation or Organization)**	**27-3865930** **(I.R.S. Employer** **Identification No.)**
One Park Plaza **Nashville, Tennessee** **(Address of Principal Executive Offices)**	**37203** **(Zip Code)**

Registrant s telephone number, including area code: (615) 344-9551

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, $0.01 Par Value	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

As of January 31, 2017, there were 370,153,000 outstanding shares of the Registrant s common stock. As of June 30, 2016, the aggregate market value of the common stock held by nonaffiliates was approximately $23.234 billion. For purposes of the foregoing calculation only, Hercules Holding II and the Registrant s directors and executive officers have been deemed to be affiliates.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s definitive proxy materials for its 2017 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

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PART I

Item 1. ***Business***

General

HCA Holdings, Inc. is one of the leading health care services companies in the United States. At December 31, 2016, we operated 170 hospitals, comprised of 166 general, acute care hospitals; three psychiatric hospitals; and one rehabilitation hospital. In addition, we operated 118 freestanding surgery centers. Our facilities are located in 20 states and England.

The terms Company, HCA, we, our or us, as used herein and unless otherwise stated or indicated by context, refer to HCA Holdings, Inc. ar affiliates. The term affiliates means direct and indirect subsidiaries of HCA Holdings, Inc. and partnerships and joint ventures in which such subsidiaries are partners. The terms facilities or hospitals refer to entities owned and operated by affiliates of HCA, and the term employees refers to employees of affiliates of HCA.

Our primary objective is to provide a comprehensive array of quality health care services in the most cost-effective manner possible. Our general, acute care hospitals typically provide a full range of services to accommodate such medical specialties as internal medicine, general surgery, cardiology, oncology, neurosurgery, orthopedics and obstetrics, as well as diagnostic and emergency services. Outpatient and ancillary health care services are provided by our general, acute care hospitals, freestanding surgery centers, freestanding emergency care facilities, urgent care facilities, walk-in clinics, diagnostic centers and rehabilitation facilities. Our psychiatric hospitals provide a full range of mental health care services through inpatient, partial hospitalization and outpatient settings.

Our common stock is traded on the New York Stock Exchange (symbol HCA). Through our predecessors, we commenced operations in 1968. The Company was incorporated in Delaware in October 2010. Our principal executive offices are located at One Park Plaza, Nashville, Tennessee 37203, and our telephone number is (615) 344-9551.

Available Information

We file certain reports with the Securities and Exchange Commission (the SEC), including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. The public may read and copy any materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. We are an electronic filer, and the SEC maintains an Internet site at http://www.sec.gov that contains the reports, proxy and information statements and other information we file electronically. Our website address is www.hcahealthcare.com. Please note that our website address is provided as an inactive textual reference only. We make available free of charge, through our website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports filed or furnished pursuant to Section 13 or 15(d) of the Exchange Act, as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. The information provided on our website is not part of this report, and is therefore not incorporated by reference unless such information is specifically referenced elsewhere in this report.

Our Code of Conduct is available free of charge upon request to our Corporate Secretary, HCA Holdings, Inc., One Park Plaza, Nashville, Tennessee 37203.

Business Strategy

We are committed to providing the communities we serve with high quality, cost-effective health care while growing our business, increasing our profitability and creating long-term value for our stockholders. To achieve these objectives, we align our efforts around the following growth agenda:

grow our presence in existing markets;

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achieve industry-leading performance in clinical and satisfaction measures;

recruit and employ physicians to meet the need for high quality health services;

continue to leverage our scale and market positions to enhance profitability; and

pursue a disciplined development strategy.

Health Care Facilities

We currently own, manage or operate hospitals, freestanding surgery centers, freestanding emergency care facilities, urgent care facilities, walk-in clinics, diagnostic and imaging centers, radiation and oncology therapy centers, comprehensive rehabilitation and physical therapy centers, physician practices and various other facilities.

At December 31, 2016, we owned and operated 166 general, acute care hospitals with 43,778 licensed beds. Most of our general, acute care hospitals provide medical and surgical services, including inpatient care, intensive care, cardiac care, diagnostic services and emergency services. The general, acute care hospitals also provide outpatient services such as outpatient surgery, laboratory, radiology, respiratory therapy, cardiology and physical therapy. Each hospital has an organized medical staff and a local board of trustees or governing board, made up of members of the local community.

At December 31, 2016, we operated three psychiatric hospitals with 412 licensed beds. Our psychiatric hospitals provide therapeutic programs including child, adolescent and adult psychiatric care, adolescent and adult alcohol and drug abuse treatment and counseling.

We also operate outpatient health care facilities, which include freestanding ambulatory surgery centers (ASCs), freestanding emergency care facilities, urgent care facilities, walk-in clinics, diagnostic and imaging centers, comprehensive rehabilitation and physical therapy centers, radiation and oncology therapy centers, physician practices and various other facilities. These outpatient services are an integral component of our strategy to develop comprehensive health care networks in select communities. Most of our ASCs are operated through partnerships or limited liability companies, with majority ownership of each partnership or limited liability company typically held by a general partner or member that is an affiliate of HCA.

Certain of our affiliates provide a variety of management services to our health care facilities, including patient safety programs, ethics and compliance programs, national supply contracts, equipment purchasing and leasing contracts, accounting, financial and clinical systems, governmental reimbursement assistance, construction planning and coordination, information technology systems and solutions, legal counsel, human resources services and internal audit services.

Sources of Revenue

Hospital revenues depend upon inpatient occupancy levels, the medical and ancillary services ordered by physicians and provided to patients, the volume of outpatient procedures and the charges or payment rates for such services. Charges and reimbursement rates for inpatient services vary significantly depending on the type of payer, the type of service (e.g., medical/surgical, intensive care or psychiatric) and the geographic location of the hospital. Inpatient occupancy levels fluctuate for various reasons, many of which are beyond our control.

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We receive payments for patient services from the federal government under the Medicare program, state governments under their respective Medicaid or similar programs, managed care plans (including plans offered through the American Health Benefit Exchanges (Exchanges)), private insurers and directly from patients. Our revenues from third-party payers, the uninsured and other for the years ended December 31, 2016, 2015 and 2014 are summarized in the following table (dollars in millions):

	Years Ended December 31,					
	2016	**Ratio**	**2015**	**Ratio**	**2014**	**Ratio**
Medicare	**$ 8,895**	**21.4%**	$ 8,654	21.8%	$ 8,354	22.6%
Managed Medicare	**4,355**	**10.5**	4,133	10.4	3,614	9.8
Medicaid	**1,597**	**3.8**	1,705	4.3	1,848	5.0
Managed Medicaid	**2,478**	**6.0**	2,234	5.6	1,923	5.2
Managed care and other insurers	**23,441**	**56.5**	21,882	55.2	20,066	54.4
International (managed care and other insurers)	**1,195**	**2.9**	1,295	3.3	1,311	3.6
	41,961	**101.1**	39,903	100.6	37,116	100.6
Uninsured	**1,135**	**2.7**	1,927	4.9	1,494	4.0
Other	**1,651**	**4.0**	1,761	4.4	1,477	4.0
Revenues before provision for doubtful accounts	**44,747**	**107.8**	43,591	109.9	40,087	108.6
Provision for doubtful accounts	**(3,257)**	**(7.8)**	(3,913)	(9.9)	(3,169)	(8.6)
Revenues	**$ 41,490**	**100.0%**	$ 39,678	100.0%	$ 36,918	100.0%

Medicare is a federal program that provides certain hospital and medical insurance benefits to persons age 65 and over, some disabled persons, persons with end-stage renal disease and persons with Lou Gehrig s Disease. Medicaid is a federal-state program, administered by the states, which provides hospital and medical benefits to qualifying individuals who are unable to afford health care. All of our general, acute care hospitals located in the United States are eligible to participate in Medicare and Medicaid programs. Amounts received under Medicare and Medicaid programs are generally significantly less than established hospital gross charges for the services provided.

Our hospitals generally offer discounts from established charges to certain group purchasers of health care services, including private insurance companies, employers, health maintenance organizations (HMOs), preferred provider organizations (PPOs) and other managed care plans, including plans offered through the Exchanges. These discount programs generally limit our ability to increase revenues in response to increasing costs. See Item 1, Business Competition. Patients are generally not responsible for the total difference between established hospital gross charges and amounts reimbursed for such services under Medicare, Medicaid, HMOs, PPOs and other managed care plans, but are responsible to the extent of any exclusions, deductibles or coinsurance features of their coverage. The amount of such exclusions, deductibles and coinsurance continues to increase. Collection of amounts due from individuals is typically more difficult than from governmental or third-party payers. We provide discounts to uninsured patients who do not qualify for Medicaid or charity care under our charity care policy. In implementing our uninsured discount policy, we may attempt to provide assistance to uninsured patients to help determine whether they may qualify for Medicaid, other federal or state assistance or charity care under our charity care policy. If an uninsured patient does not qualify for these programs, the uninsured discount is applied.

Medicare

In addition to the reimbursement reductions and adjustments discussed below, the Budget Control Act of 2011 (the BCA) requires automatic spending reductions to reduce the federal deficit, including Medicare spending reductions of up to 2% per fiscal year, with a uniform percentage reduction across all Medicare programs. The Centers for Medicare & Medicaid Services (CMS) began imposing a 2% reduction on Medicare claims in April 1, 2013. These reductions have been extended through 2025.

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Inpatient Acute Care

Under the Medicare program, we receive reimbursement under a prospective payment system (PPS) for general, acute care hospital inpatient services. Under the hospital inpatient PPS, fixed payment amounts per inpatient discharge are established based on the patient s assigned Medicare severity diagnosis-related group (MS-DRG). MS-DRGs classify treatments for illnesses according to the estimated intensity of hospital resources necessary to furnish care for each principal diagnosis. MS-DRG weights represent the average resources for a given MS-DRG relative to the average resources for all MS-DRGs. MS-DRG payments are adjusted for area wage differentials. Hospitals, other than those defined as new, receive PPS reimbursement for inpatient capital costs based on MS-DRG weights multiplied by a geographically adjusted federal rate. When the cost to treat certain patients falls well outside the normal distribution, providers typically receive additional outlier payments.

MS-DRG rates are updated, and MS-DRG weights are recalibrated, using cost-relative weights each federal fiscal year (which begins October 1). The index used to update the MS-DRG rates (the market basket) gives consideration to the inflation experienced by hospitals and entities outside the health care industry in purchasing goods and services. The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (collectively, the Health Reform Law), provides for annual decreases to the market basket, including reductions of 0.75% for each of federal fiscal years 2017, 2018 and 2019. For each federal fiscal year, the Health Reform Law provides for the annual market basket update to be further reduced by a productivity adjustment based on the Bureau of Labor Statistics (BLS) 10-year moving average of changes in specified economy-wide productivity. In addition, the American Taxpayer Relief Act of 2012 requires negative documentation and coding adjustments for four years beginning in federal fiscal year 2014. CMS estimated in 2016 that, over the four years, these documentation and coding adjustments will reduce Medicare inpatient PPS payments by $11.2 billion. A decrease in payment rates or an increase in rates that is below the increase in our costs may adversely affect our results of operations.

For federal fiscal year 2016, CMS increased the MS-DRG rate by 0.9%. This increase reflected a 2.4% market basket increase, the 0.2% reduction required by the Health Reform Law, a negative 0.5% productivity adjustment, and a negative 0.8% prospective documentation and coding adjustment. For federal fiscal year 2017, CMS increased the MS-DRG rate by 0.95%. This increase reflects a 2.7% market basket increase, the 0.75% reduction required by the Health Reform Law, a negative 0.3% productivity adjustment, and a prospective reduction of 1.5% for documentation and coding. It also reflects a positive adjustment of approximately 0.8% to remove the effects of prior adjustments intended to offset the estimated increase in inpatient PPS expenditures resulting from the Medicare program s two midnight rule.

Under the two midnight rule, services provided to Medicare beneficiaries are only payable as inpatient hospital services when there is a reasonable expectation that the hospital care is medically necessary and will be required across two midnights, absent unusual circumstances. Stays expected to need less than two midnights of hospital care are subject to medical review on a case-by-case basis. Quality Improvement Organizations (QIOs) are handling the reviews of short inpatient stays and refer claim denials to Medicare Administrative Contractors (MACs) for payment adjustments. Providers that exhibit persistent noncompliance with the two midnight rule may be referred to a Recovery Audit Contractor (RAC).

CMS has implemented, or is implementing, a number of programs and requirements intended to transform Medicare from a passive payer to an active purchaser of quality goods and services. For example, hospitals that do not successfully participate in the Hospital Inpatient Quality Reporting Program are subject to an additional 0.25% reduction of the market basket update. Hospitals that do not demonstrate meaningful use of electronic health records (EHRs) are subject to an additional 0.75% reduction of the market basket update in federal fiscal year 2017.

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Medicare does not allow an inpatient hospital discharge to be assigned to a higher paying MS-DRG if a selected hospital acquired condition (HAC) was not present on admission and it is the only condition resulting in the assignment of the higher paying MS-DRG. In this situation, the case is paid as though the secondary diagnosis was not present. There are currently 14 categories of conditions on the list of HACs. In addition, CMS has established three National Coverage Determinations that prohibit Medicare reimbursement for erroneous surgical procedures performed on an inpatient or outpatient basis. Pursuant to the Health Reform Law, the 25% of hospitals with the worst risk-adjusted HAC rates in the designated performance period receive a 1% reduction in their inpatient PPS Medicare payments.

The Health Reform Law also provides for reduced payments to hospitals based on readmission rates. Each federal fiscal year inpatient payments are reduced if a hospital experiences excess readmissions within the 30-day time period from the date of discharge for conditions designated by CMS. For federal fiscal year 2017, CMS has designated seven conditions, including heart attack, pneumonia and total hip arthroplasty. Hospitals with what CMS defines as excess readmissions for these conditions receive reduced payments for all inpatient discharges, not just discharges relating to the conditions subject to the excess readmission standard. The amount by which payments are reduced is determined by comparing the hospital s performance for each condition using three years of discharge data to a risk-adjusted national average, subject to a cap established by CMS. The reduction in payments to hospitals with excess readmissions can be up to 3% for federal fiscal 2015 and subsequent years. Each hospital s performance is publicly reported by CMS.

The Health Reform Law additionally establishes a hospital value-based purchasing program to further link payments to quality and efficiency. For federal fiscal year 2017 and subsequent years, CMS will reduce the inpatient PPS payment amount for all discharges by 2.00%. The total amount collected from these reductions is pooled and used to fund payments to reward hospitals that meet certain quality performance standards established by CMS. CMS scores each hospital based on achievement (relative to other hospitals) and improvement ranges (relative to the hospital s own past performance) for each applicable performance standard. Because the Health Reform Law provides that the pool will be fully distributed, hospitals that meet or exceed the quality performance standards receive greater reimbursement under the value-based purchasing program than they would have otherwise. Hospitals that do not achieve the necessary quality performance receive reduced Medicare inpatient hospital payments. Hospitals are scored on a number of individual measures that are categorized into four domains: clinical care; efficiency and cost reduction; safety and patient and caregiver experience of care. CMS estimates that $1.8 billion will be available to hospitals as incentive payments in federal fiscal year 2017 under the value-based purchasing program.

Historically, the Medicare program has set aside 5.10% of Medicare inpatient payments to pay for outlier cases. For federal fiscal year 2016, CMS established an outlier threshold of $22,539, and for federal fiscal year 2017, CMS increased the outlier threshold to $23,573.

Outpatient

CMS reimburses hospital outpatient services (and certain Medicare Part B services furnished to hospital inpatients who have no Part A coverage) on a PPS basis. CMS uses fee schedules to pay for physical, occupational and speech therapies, durable medical equipment, clinical diagnostic laboratory services, nonimplantable orthotics and prosthetics, freestanding surgery center services and services provided by independent diagnostic testing facilities.

Hospital outpatient services paid under PPS are classified into groups called ambulatory payment classifications (APCs). Services for each APC are similar clinically and in terms of the resources they require. A payment rate is established for each APC. Depending on the services provided, a hospital may be paid for more than one APC for a patient visit. The APC payment rates are updated for each calendar year. The Health Reform Law provides for annual reductions of 0.75% to the market basket update in calendar years 2017, 2018 and 2019. For each calendar year, the Health Reform Law provides for the annual market basket update to be further reduced by a productivity adjustment based on the BLS 10-year moving average of changes in specified economy-wide productivity. For calendar year 2016, CMS decreased APC payment rates by an estimated 0.4%, which represented the market basket update of 2.4%, a negative 0.5% productivity adjustment and the negative 0.2% adjustment required by the Health Reform Law. The rate also reflected other payment adjustments, including a 2.0% reduction to address what CMS viewed as inflated payments in past years for laboratory tests packaged with payments for hospital outpatient services. For calendar year 2017, CMS has issued a final rule that it estimates will result in a 1.7% increase in payments for hospital outpatient services. The change is based on a market basket increase of 2.7%, a negative 0.3% productivity adjustment and the negative 0.75% adjustment required by the Health Reform Law, along with other payment adjustments. CMS requires hospitals to submit quality data relating to outpatient care to avoid receiving a 2% reduction to the market basket update under the outpatient PPS.

Rehabilitation

CMS reimburses inpatient rehabilitation facilities (IRFs) on a PPS basis. Under the IRF PPS, patients are classified into case mix groups based upon impairment, age, comorbidities (additional diseases or disorders from which the patient suffers) and functional capability. IRFs are paid a predetermined amount per discharge that reflects the patient s case mix group and is adjusted for area wage levels, low-income patients, rural areas and high-cost outliers. The Health Reform Law also provides for reductions to the market basket update, including annual reductions of 0.75% in federal fiscal years 2017, 2018 and 2019. For each federal fiscal year, the Health Reform Law provides for the annual market basket update to be further reduced by a productivity adjustment based on the BLS 10-year moving average of changes in specified economy-wide productivity. For federal fiscal year 2016, CMS updated inpatient rehabilitation rates 1.8%, which reflected a new inpatient rehabilitation-specific 2.4% market basket increase, a negative 0.5% productivity adjustment, a 0.2% reduction required by the Health Reform Law and a 0.1% increase to aggregate payments due to updating the outlier threshold. For federal fiscal year 2017, CMS increased inpatient rehabilitation payment rates by an estimated 1.9%, which reflects an increase of 2.7% to the IRF-specific market basket, a negative 0.3% productivity adjustment, the 0.75% reduction required by the Health Reform Law, among other payment adjustments. In addition, CMS requires IRFs to report quality measures to avoid receiving a 2% reduction to the market basket update.

In order to qualify for classification as an IRF, at least 60% of a facility s inpatients during the most recent 12-month CMS-defined review period must have required intensive rehabilitation services for one or more of 13 specified conditions. IRFs must also meet additional coverage criteria, including patient selection and care requirements relating to pre-admission screenings, post-admission evaluations, ongoing coordination of care and involvement of rehabilitation physicians. A facility that fails to meet the 60% threshold, or other criteria to be classified as an IRF, will be paid under either the acute care hospital inpatient or outpatient PPS, which generally provide for lower payment amounts. As of December 31, 2016, we had one rehabilitation hospital and 53 hospital rehabilitation units.

Psychiatric

Inpatient hospital services furnished in psychiatric hospitals and psychiatric units of general, acute care hospitals and critical access hospitals are reimbursed on a PPS basis (the IPF PPS), which is based upon a per diem payment, with adjustments to account for certain patient and facility characteristics. The IPF PPS contains an outlier policy for extraordinarily costly cases and an adjustment to a facility s base payment if it maintains a full-service emergency department. CMS has established the IPF PPS payment rate in a manner intended to be budget neutral. The rehabilitation, psychiatric and long-term care market basket update is used to update the IPF PPS. The Health Reform Law also provides for reductions to the market basket update, including reductions of 0.2% in federal fiscal year 2017 and 0.75% in federal fiscal years 2018, 2019 and 2020. For each payment year, the Health Reform Law provides for the annual market basket update to be further reduced by a productivity adjustment based on the BLS 10-year moving average of changes in specified economy-wide productivity. For federal fiscal year 2016, CMS increased inpatient psychiatric payment rates by 1.5%, which reflected a new

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inpatient psychiatric-specific market basket increase of 2.4%, reduced by a 0.5% productivity adjustment and by 0.2% as required by the Health Reform Law, along with other payment adjustments. For federal fiscal year 2017, CMS increased inpatient psychiatric payment rates by an estimated 2.2%, which reflects an increase of 2.8% to the inpatient psychiatric-specific market basket, reduced by a 0.3% productivity adjustment and by 0.2% as required by the Health Reform Law, among other payment adjustments. Inpatient psychiatric facilities are required to report quality measures to CMS to avoid receiving a 2% reduction to the market basket update. As of December 31, 2016, we had three psychiatric hospitals and 54 hospital psychiatric units.

Ambulatory Surgery Centers

CMS reimburses ASCs using a predetermined fee schedule. Reimbursements for ASC overhead costs are limited to no more than the overhead costs paid to hospital outpatient departments under the Medicare hospital outpatient PPS for the same procedure. If CMS determines that a procedure is commonly performed in a physician s office, the ASC reimbursement for that procedure is limited to the reimbursement allowable under the Medicare Part B Physician Fee Schedule, with limited exceptions. All surgical procedures, other than those that pose a significant safety risk or generally require an overnight stay, are payable as ASC procedures. From time to time, CMS considers expanding the services that may be performed in ASCs, which may result in more Medicare procedures that historically have been performed in hospitals being moved to ASCs, reducing surgical volume in our hospitals. Also, more Medicare procedures that historically have been performed in ASCs may be moved to physicians offices. Commercial third-party payers may adopt similar policies. For each federal fiscal year, the Health Reform Law provides for an annual reduction to the ASC payment system by a productivity adjustment based on the BLS 10-year moving average of changes in specified economy-wide productivity. For calendar year 2016, CMS increased ASC payments by 0.3%, which included a consumer price index update of 0.8% and a negative 0.5% productivity adjustment. For calendar year 2017, CMS issued a final rule that provides for a 1.9% increase in ASC payments, which reflects a consumer price index update of 2.2% and a negative 0.3% productivity adjustment. In addition, CMS has established a quality reporting program for ASCs under which ASCs that fail to report on specified quality measures will receive a 2% reduction in reimbursement.

Physician Services

Physician services are reimbursed under the physician fee schedule (PFS) system, under which CMS has assigned a national relative value unit (RVU) to most medical procedures and services that reflects the various resources required by a physician to provide the services relative to all other services. While RVUs for various services may change in a given year, any alterations are required by statute to be virtually budget neutral, such that total payments made under the PFS may not differ by more than $20 million from what payments would have been if adjustments were not made. The Protecting Access to Medicare Act of 2014 (PAMA) provides for annual reductions in PFS expenditures resulting from adjustments to relative values of misvalued codes. Each RVU is calculated based on a combination of work required in terms of time and intensity of effort for the service, practice expense (overhead) attributable to the service and malpractice insurance expense attributable to the service. These three elements are each modified by a geographic adjustment factor to account for local practice costs and are then aggregated. Under the Medicare Access and CHIP Reauthorization Act of 2015 (MACRA), the PFS reimbursement rate will increase 0.5% each calendar year through 2019.

In addition, MACRA required the establishment of the Quality Payment Program (QPP), a payment methodology intended to reward high-quality patient care. Beginning in 2017, physicians and certain other health care clinicians are required to participate in of one of two QPP tracks. Under both tracks, performance data collected in 2017 will affect Medicare payments in 2019. CMS expects to transition increasing financial risk to providers as the QPP evolves. The Advanced Alternative Payment Model (APM) track makes incentive payments available for participation in specific innovative payment models approved by CMS. Providers may earn a 5% Medicare incentive payment between 2019 and 2024 and will be exempt from the reporting requirements and payment adjustments imposed under the Merit-Based Incentive Payment System (MIPS) if the provider has sufficient participation (based on percentage of payments or patients) in an Advanced APM.

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Alternatively, providers may participate in the MIPS track. Providers electing this option initially may receive payment incentives or be subject to payment reductions of up to 4% of the provider s Medicare payments based on their performance with respect to clinical quality, resource use, clinical improvement activities, and meaningful use of EHRs. The adjustment percentage will increase incrementally, up to 9%, by 2022. MIPS will consolidate components of three existing physician incentive programs: the Physician Quality Reporting System, the Physician Value-Based Payment Modifier, and the Medicare EHR Incentive Program.

Other

Under PPS, the payment rates are adjusted for the area differences in wage levels by a factor (wage index) reflecting the relative wage level in the geographic area compared to the national average wage level and taking into account occupational mix. The redistributive impact of wage index changes is not anticipated to have a material financial impact for 2017.

Medicare reimburses hospitals for a portion (65%) of bad debts resulting from deductible and coinsurance amounts that are uncollectable from Medicare beneficiaries.

CMS has implemented contractor reform whereby CMS competitively bids the Medicare fiscal intermediary and Medicare carrier functions to 12 MACs, which are geographically assigned and service both Part A and Part B providers within a given jurisdiction. While chain providers had the option of having all hospitals use one home office MAC, we chose to use the MACs assigned to the geographic areas in which our hospitals are located. CMS periodically re-solicits bids, and the MAC servicing a geographic area can change as a result of the bid competition. MAC transition periods can impact claims processing functions and the resulting cash flow.

CMS contracts with third parties to promote the integrity of the Medicare program through reviews of quality concerns and detections and corrections of improper payments. QIOs, for example, are groups of physicians and other health care quality experts that work on behalf of CMS to ensure that Medicare pays only for goods and services that are reasonable and necessary and that are provided in the most appropriate setting. Under the RAC program, CMS contracts with RACs on a contingency basis to conduct post-payment reviews to detect and correct improper payments in the fee-for-service Medicare program. CMS awarded new RAC contracts in 2016, although the original RACs will remain under contract with CMS until 2018 for administrative purposes. The compensation for the RACs is based on their review of claims submitted to Medicare for billing compliance, including correct coding and medical necessity, and the amount of overpayments and underpayments they identify. CMS limits the number of claims that RACs may audit by limiting the number of records that RACs may request from hospitals based on each provider s claim denial rate for the previous year. CMS has implemented the RAC program on a permanent, nationwide basis, but has not yet expanded the RAC program as required by the Health Reform Law.

We have established policies and procedures to respond to the RAC requests and payment denials. Payment recoveries resulting from RAC reviews and denials are appealable through administrative and judicial processes, and we pursue reversal of adverse determinations at appropriate appeal levels. We incur additional costs related to responding to RAC requests and denials, including costs associated with responding to requests for records and pursuing the reversal of payment denials and losses associated with overpayments that are not reversed upon appeal. Currently, there are significant delays in the assignment of new Medicare appeals to Administrative Law Judges. Depending upon changes to and the growth of RAC programs and our success in appealing claims in future periods, our cash flows and results of operations could be negatively impacted.

Managed Medicare

Under the Managed Medicare program, the federal government contracts with private health plans to provide members with Medicare Part A, Part B and Part D benefits. Managed Medicare plans can be structured as HMOs, PPOs or private fee-for-service plans. The Medicare program allows beneficiaries to choose enrollment in certain managed Medicare plans. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 increased reimbursement to managed Medicare plans and expanded Medicare beneficiaries health care options. The Health Reform Law reduced, on a gradual basis through 2017, premium payments to managed Medicare plans such that CMS managed care per capita premium payments generally approximate traditional Medicare costs. In addition, the Health Reform Law requires managed Medicare plans to keep annual administrative costs lower than 15% of annual premium revenue. The Health Reform Law also implements fee payment adjustments based on service benchmarks and quality ratings. The economic environment and changing health reform efforts may result in reduced premium payments from CMS, which may lead to increased beneficiary premiums or limits on benefits which, in turn, may cause decreased enrollment in such plans.

Medicaid

Medicaid programs are funded jointly by the federal government and the states and are administered by states under approved plans. Most state Medicaid program payments are made under a PPS or are based on negotiated payment levels with individual hospitals. Medicaid reimbursement is often less than a hospital s cost of services. The Health Reform Law, as enacted, requires states to expand Medicaid coverage to all individuals under age 65 with incomes up to 133% of the federal poverty level (FPL) and to apply a 5% income disregard to the eligibility standard, so that eligibility is effectively extended to those with incomes up to 138% of the FPL. However, states may opt out of the expansion without losing existing federal Medicaid funding. A number of states, including Texas and Florida, have opted out of the Medicaid expansion. Some of the states that opted out of the Medicaid expansion provisions are evaluating alternatives such as waiver plans to extend or replace existing supplemental payment programs. However, the future of the Medicaid expansion is uncertain as a result of the 2016 federal elections.

Because most states must operate with balanced budgets and because the Medicaid program is often the state s largest program, states can be expected to adopt or consider adopting legislation designed to reduce their Medicaid expenditures. Budgetary pressures have, in recent years, resulted and likely will continue to result in decreased spending, or decreased spending growth, for Medicaid programs in many states. Certain states in which we operate have adopted broad-based provider taxes to fund the non-federal share of Medicaid programs. Many states have also adopted, or are considering, legislation designed to reduce coverage, enroll Medicaid recipients in managed care programs and/or impose additional taxes on hospitals to help finance or expand the states Medicaid systems. However, for children, the Health Reform Law, as enacted, requires states to at least maintain Medicaid eligibility standards established prior to the enactment of the law until October 1, 2019.

Federal funds under the Medicaid program may not be used to reimburse providers for medical assistance provided to treat certain provider-preventable conditions. Each state Medicaid program must deny payments to providers for the treatment of health care-acquired conditions designated by CMS as well as other provider-preventable conditions that may be designated by the state.

Congress has expanded the federal government s involvement in fighting fraud, waste and abuse in the Medicaid program through the Medicaid Integrity Program. CMS employs private contractors, referred to as Medicaid Integrity Contractors (MICs), to perform post-payment audits of Medicaid claims and identify overpayments. In addition to MICs, several other contractors and state Medicaid agencies have increased their review activities. The Health Reform Law increases federal funding for the Medicaid Integrity Program and expands the RAC program s scope to include Medicaid claims by requiring all states to enter into contracts with RACs to audit payments to Medicaid providers.

Managed Medicaid

Managed Medicaid programs enable states to contract with one or more entities for patient enrollment, care management and claims adjudication. The states usually do not relinquish program responsibilities for financing, eligibility criteria and core benefit plan design. We generally contract directly with one of the designated entities,

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usually a managed care organization. The provisions of these programs are state-specific. Many states direct managed care plans to pass through supplemental payments to designated providers, independent of services rendered, to ensure consistent funding of providers that serve large numbers of low-income patients. In 2016, CMS began limiting these pass-through payments to Medicaid managed plans and will ultimately prohibit such payments by 2027.

Enrollment in managed Medicaid plans has increased in recent years, as state governments seek to control the cost of Medicaid programs. However, general economic conditions in the states in which we operate may require reductions in premium payments to these plans, which may reduce enrollment in these plans.

Accountable Care Organizations and Bundled Payment Initiatives

An Accountable Care Organization (ACO) is a network of providers and suppliers that work together to invest in infrastructure and redesign delivery processes to attempt to achieve high quality and efficient delivery of services. Promoting accountability and coordination of care, ACOs are intended to produce savings as a result of improved quality and operational efficiency. ACOs that achieve quality performance standards established by HHS are eligible to share in a portion of the amounts saved by the Medicare program. There are several types of ACO programs, including the Medicare Shared Savings Program (MSSP), which was established pursuant to the Health Reform Law, and the Next Generation ACO Model.

The Center for Medicare & Medicaid Innovation (CMMI) is responsible for establishingw Roman" SIZE="2"> (6,637)

Other

2,669 3,921

Changes in operating assets and liabilities, net of effects from acquisitions:

Accounts receivable

(150,834) (71,836)

Prepaid expenses and other current assets

(28,227) (18,389)

Accounts payable, merchant

173,020 64,299

Accounts payable, other, accrued expenses and other current liabilities

27,043 (2,248)

Deferred merchant bookings

778,409 802,457

Deferred revenue

9,085 1,673

Net cash provided by operating activities from continuing operations

881,089 847,816

Investing activities:

Capital expenditures, including internal-use software and website development

(87,156) (50,814)

Purchases of investments

(598,127) (293,190)

Sales and maturities of investments

245,244 240,641

Acquisitions, net of cash acquired

(540,489)

Net settlement of foreign currency forwards

5,808 6,637

Other, net

(1,031)

Net cash used in investing activities from continuing operations

(974,720) (97,757)

Financing activities:

Purchases of treasury stock

(117,672) (198,164)

Proceeds from issuance of treasury stock

25,273

Payment of dividends to stockholders

(17,983) (12,204)

Proceeds from exercise of equity awards

20,410 31,801

Excess tax benefit on equity awards

19,379 7,492

Other, net

(7,758) (4,176)

Net cash used in financing activities from continuing operations

(78,351) (175,251)

Net cash provided by (used in) continuing operations

(171,982) 574,808

Net cash used in discontinued operations

(7,607)

Effect of exchange rate changes on cash and cash equivalents

(38,381) 16,173

Net increase (decrease) in cash and cash equivalents

(210,363) 583,374

Cash and cash equivalents at beginning of period

1,293,161 689,134

Cash and cash equivalents at end of period

$1,082,798 $1,272,508

Supplemental cash flow information

Cash paid for interest from continuing operations

$41,468 $42,667

Income tax payments (refunds), net from continuing operations

2,552 (17,231)

See accompanying notes.

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Notes to Consolidated Financial Statements

March 31, 2013

(Unaudited)

Note 1 Basis of Presentation

Description of Business

Expedia, Inc. and its subsidiaries provide travel products and services to leisure and corporate travelers in the United States and abroad as well as various media and advertising offerings to travel and non-travel advertisers. These travel products and services are offered through a diversified portfolio of brands including: Expedia.com®, Hotels.com®, Hotwire.com , Expedia® Affiliate Network, Classic Vacations, Expedia Local Expert, Egencia , Expedia® CruiseShipCenters®, eLong , Inc. (eLong), Venere Net SpA (Venere) and trivago GmbH (trivago). In addition, many of these brands have related international points of sale. We refer to Expedia, Inc. and its subsidiaries collectively as Expedia, the Company, us, we and our in these consolidated financial statements.

TripAdvisor Spin-Off

On December 20, 2011, following the close of trading on the Nasdaq Stock Market, we completed the spin-off of TripAdvisor, Inc. (TripAdvisor), which consisted of the domestic and international operations previously associated with our TripAdvisor Media Group, to Expedia stockholders. We refer to this transaction as the spin-off. As a result of the spin-off, we were required to redeem the $400 million aggregate principal amount of 8.5% senior notes due 2016 (the 8.5% Notes), which were legally extinguished in the first quarter of 2012. Accordingly, the results of operations, financial condition and cash flows of TripAdvisor as related to the 8.5% Notes extinguishment have been presented as discontinued operations for all periods presented.

Basis of Presentation

These accompanying financial statements present our results of operations, financial position and cash flows on a consolidated basis. The unaudited consolidated financial statements include Expedia, Inc., our wholly-owned subsidiaries, and entities we control, or in which we have a variable interest and are the primary beneficiary of expected cash profits or losses. We have eliminated significant intercompany transactions and accounts.

We have prepared the accompanying unaudited consolidated financial statements in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial reporting. We have included all adjustments necessary for a fair presentation of the results of the interim period. These adjustments consist of normal recurring items. Our interim unaudited consolidated financial statements are not necessarily indicative of results that may be expected for any other interim period or for the full year. These interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2012, previously filed with the Securities and Exchange Commission.

Accounting Estimates

We use estimates and assumptions in the preparation of our interim unaudited consolidated financial statements in accordance with GAAP. Our estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of our interim unaudited consolidated financial statements. These estimates and assumptions also affect the reported amount of net income or loss during any period. Our actual financial results could differ significantly from these estimates. The significant estimates underlying our interim unaudited consolidated financial statements include revenue recognition; recoverability of current and long-lived assets, intangible assets and goodwill; income and transactional taxes, such as potential settlements related to occupancy and excise taxes; loss contingencies; loyalty program liabilities; stock-based compensation and accounting for derivative instruments.

Notes to Consolidated Financial Statements (Continued)

Reclassifications

We have reclassified certain amounts related to our prior period results to conform to our current period presentation.

Seasonality

We generally experience seasonal fluctuations in the demand for our travel products and services. For example, traditional leisure travel bookings are generally the highest in the first three quarters as travelers plan and book their spring, summer and holiday travel. The number of bookings typically decreases in the fourth quarter. Because revenue in our merchant business is generally recognized when the travel takes place rather than when it is booked, revenue typically lags bookings by several weeks or longer. The seasonal revenue impact is exacerbated with respect to income by the more stable nature of our fixed costs. As a result, revenue and income are typically the lowest in the first quarter and highest in the third quarter.

Note 2 Acquisitions and Dispositions

Business Acquisitions. On March 8, 2013, we completed the purchase of a 63% equity position (61.6% on a fully diluted basis) in trivago GmbH, a leading hotel metasearch company based in Germany. trivago was acquired because of the quality and strength of its product and brand and our belief that the company will continue to scale as it expands globally. In conjunction with the acquisition, we paid 434 million in cash, or approximately $564 million based on March 8, 2013 exchange rates, of which $554 million was paid to the shareholders of trivago and $10 million was used to settle a portion of an employee compensation plan. In addition, we agreed to issue 875,200 shares of Expedia, Inc. common stock to certain employee stockholders in five equal increments on or about each of the first through fifth anniversaries of the acquisition. The number of shares of Expedia common stock was calculated based on the aggregate value of 43 million using a thirty-day trailing average of closing trading prices and exchange rates prior to acquisition. Also in conjunction with the acquisition, we replaced certain employee stock-based awards of the acquiree, which related to pre-combination service, for an acquisition date fair value of $15 million.

As a result of the acquisition, we expensed $66 million to acquisition-related and other on the consolidated statements of operations, which included approximately $57 million in stock-based compensation related to the issuance of the 875,200 shares of common stock as the issuance was determined separate from the business combination and was not contingent upon any future service or other certain event except the passage of time as well as approximately $10 million for the amount paid to settle a portion of the employee compensation plan of trivago, which was considered separate from the business combination. Acquisition-related costs were expensed as incurred and were not significant.

The aggregate purchase price consideration was $570 million, which included the cash paid to shareholders of trivago of $554 million as well as $15 million for replaced employee stock-based awards of the acquiree. The purchase price was allocated to the fair value of assets acquired and liabilities assumed as follows, in thousands:

Goodwill	$ 637,135
Intangible assets with indefinite lives	220,416
Intangible assets with definite lives(1)	136,697
Net assets(2)	15,078
Deferred tax liabilities	(111,508)
Redeemable noncontrolling interest	(343,984)
Total	$ 553,834

(1) Acquired definite-lived intangible assets primarily consist of technology, partner relationship and non-compete agreement assets and have estimated useful lives of between 3 and 7 years with a weighted average life of 3.7 years.
(2) Includes cash acquired of $13 million.

The value of the replaced employee stock-based awards of the acquiree was included in the purchase price allocation with a corresponding offset to redeemable noncontrolling interest, because the replacement awards were issued in subsidiary stock.

Notes to Consolidated Financial Statements (Continued)

The goodwill of $637 million is primarily attributed to assembled workforce, operating synergies and potential expansion into other global markets. The goodwill has been allocated to the Leisure segment and is not expected to be deductible for tax purposes.

The fair value of the 37% noncontrolling interest was estimated to be $344 million at the time of acquisition based on the fair value per share, excluding the control premium which was paid to certain shareholders in order to obtain control. In addition, the purchase agreement contains certain put/call rights whereby we may acquire and the minority shareholders of trivago may sell to us 50% and 100% of the minority shares of the company at fair value during the first quarter of 2016 and 2018, respectively. As the noncontrolling interest is redeemable at the option of the minority holders, we classified the balance as redeemable noncontrolling interest with future changes in the fair value above the initial basis recorded as charges or credits to retained earnings (or additional paid-in capital in absence of retained earnings). The put/call arrangement includes certain rollover provisions that, if triggered, would cause the minority shares to be treated as though they become mandatorily redeemable, and to be reclassified as a liability at the time such trigger becomes certain to occur.

Business combination accounting is preliminary and subject to revision while we accumulate all relevant information regarding the fair values of the net assets acquired, and any change to the fair value of net assets acquired would be expected to lead to a corresponding change to the amount of goodwill recorded on a retroactive basis.

Trivago s results of operations have been included in our consolidated results from the transaction closing date forward. Pro forma results of operations have not been presented as such pro forma financial information would not be materially different from historical results.

Discontinued Operations. On December 20, 2011, we completed the spin-off of TripAdvisor, Inc. and, as a result of the spin-off, recorded to discontinued operations a loss in the first quarter of 2012 to extinguish our 8.5% Notes. See below for a full description of the extinguishment. Financial data for the discontinued operations for the three months ended March 31, 2012 was as follows, in thousands:

Revenue	$
Loss before income taxes	(37,568)
Provision for income taxes	13,679
Net loss attributable to discontinued operations	$ (23,889)
Loss per share:	
Basic	$ (0.18)
Diluted	(0.17)
Shares used in computing loss per share:	
Basic	133,202
Diluted	139,306

The indenture governing our $400 million aggregate principal amount of 8.5% Notes contained certain covenants that could have restricted implementation of the spin-off. On December 20, 2011, prior to consummation of the spin-off, we gave Notice of Redemption to the bondholders, the effect of which was the bonds became due and payable on the redemption date at the redemption price. The redemption date was defined as 30 days after the Notice of Redemption was given. The 8.5% Notes were fully redeemed on January 19, 2012, the redemption date, for approximately $450 million. In connection with the redemption, we incurred a pre-tax loss from early extinguishment of debt of approximately $38 million (or $24 million net of tax), which included an early redemption premium of $33 million and the write-off of $5 million of unamortized debt issuance and discount costs. This loss was recorded within discontinued operations in the first quarter of 2012, as that was the period in which the bonds were legally extinguished.

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Notes to Consolidated Financial Statements (Continued)

Note 3 Fair Value Measurements

Financial assets measured at fair value on a recurring basis as of March 31, 2013 are classified using the fair value hierarchy in the table below:

	Total	Level 1 (In thousands)	Level 2
Assets			
Cash equivalents:			
Money market funds	$ 228,346	$ 228,346	$
Time deposits	155,764		155,764
Restricted cash:			
Time deposits	9,887		9,887
Derivatives:			
Foreign currency forward contracts	3,542		3,542
Investments:			
Time deposits	874,463		874,463
Corporate debt securities	239,479		239,479
Total assets	$ 1,511,481	$ 228,346	$ 1,283,135

Financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2012 are classified using the fair value hierarchy in the table below:

	Total	Level 1 (In thousands)	Level 2
Assets			
Cash equivalents:			
Money market funds	$ 677,523	$ 677,523	$
Time deposits	89,084		89,084
Restricted cash:			
Time deposits	9,855		9,855
Investments:			
Time deposits	525,533		525,533
Corporate debt securities	245,477		245,477
Total assets	$ 1,547,472	$ 677,523	$ 869,949
Liabilities			
Derivatives:			
Foreign currency forward contracts	$ 3,290	$	$ 3,290

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 March 31, 2013 and December 31, 2012, our cash and cash equivalents consisted primarily of prime institutional money market funds with maturities of 90 days or less, time deposits as well as bank account balances.

We invest in investment grade corporate debt securities all of which are classified as available for sale. As of March 31, 2013, we had $132 million of short-term and $108 million of long-term available for sale investments and the amortized cost basis of the investments approximated their fair value with gross unrealized gains of $2 million and gross unrealized losses of less than $1 million. As of December 31, 2012, we had $119 million of short-term and $126 million of long-term available for sale investments and the amortized cost basis of these investments approximated their fair value with gross unrealized gains of $2 million and gross unrealized losses of less than $1 million.

Notes to Consolidated Financial Statements (Continued)

We also hold time deposit investments with financial institutions. Time deposits with original maturities of less than 90 days are classified as cash equivalents and those with remaining maturities of less than one year are classified as short-term investments. Additionally, we have time deposits classified as restricted cash to fulfill the requirement of an aviation authority of a certain foreign country to protect against the potential non-delivery of travel services in that country. Of the total time deposit investments, $278 million and $274 million as of March 31, 2013 and December 31, 2012 related to balances held by our majority-owned subsidiaries.

Derivative instruments are carried at fair value on our consolidated balance sheets. We use foreign currency forward contracts to economically hedge certain merchant revenue exposures and in lieu of holding certain foreign currency cash for the purpose of economically hedging our foreign currency-denominated operating liabilities. Our goal in managing our foreign exchange risk is to reduce, to the extent practicable, our potential exposure to the changes that exchange rates might have on our earnings, cash flows and financial position. Our foreign currency forward contracts are typically short-term and, as they do not qualify for hedge accounting treatment, we classify the changes in their fair value in other, net. As of March 31, 2013, we were party to outstanding forward contracts hedging our liability and revenue exposures with a total net notional value of $458 million. We had a net forward asset of $4 million as of March 31, 2013 recorded in prepaid expenses and other current assets and a net forward liability of $3 million as of December 31, 2012 recorded in accrued expenses and other current liabilities. We recorded $13 million and $1 million in net gains from foreign currency forward contracts during the three months ended March 31, 2013 and 2012.

Note 4 Debt

The following table sets forth our outstanding debt:

	March 31, 2013	December 31, 2012
	(In thousands)	
7.456% senior notes due 2018	$ 500,000	$ 500,000
5.95% senior notes due 2020, net of discount	749,361	749,345
Long-term debt	$ 1,249,361	$ 1,249,345

Long-term Debt

Our $500 million in registered senior unsecured notes outstanding at March 31, 2013 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. The 7.456% Notes are repayable in whole or in part on August 15, 2013, at the option of the holders of such 7.456% Notes, at 100% of the principal amount plus accrued interest. As of March 31, 2013, the 7.456% Notes have been classified as long-term debt as we have the ability to draw on our long-term revolving credit facility described below in the event the 7.456% Notes were redeemed at the option of the holders. Separately from the holder option, 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 March 31, 2013 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.

The 7.456% and 5.95% Notes (collectively the Notes) are senior unsecured obligations guaranteed by certain domestic Expedia subsidiaries and rank equally in right of payment with all of our existing and future unsecured and unsubordinated obligations. For further information, see Note 11 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. Accrued interest related to the Notes was $10 million and $31 million as of March 31, 2013 and December 31, 2012.

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Notes to Consolidated Financial Statements (Continued)

The approximate fair value of 7.456% Notes was approximately $599 million and $598 million as of March 31, 2013 and December 31, 2012, and the approximate fair value of 5.95% Notes was approximately $832 million as of both March 31, 2013 and December 31, 2012. These fair values were based on quoted market prices in less active markets (Level 2 inputs).

Credit Facility

Expedia, Inc. maintains a $1 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 November 2017. As of March 31, 2013 and December 31, 2012, 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 150 basis points and the commitment fee on undrawn amounts at 20 basis points as of March 31, 2013. The facility contains covenants including maximum leverage and minimum interest coverage ratios.

The amount of stand-by letters of credit (LOC) issued under the facility reduces the credit amount available. As of March 31, 2013 and December 31, 2012, there was $22 million and $25 million of outstanding stand-by LOCs issued under the facility.

Note 5 Stockholders Equity

Dividends on our Common Stock

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

Declaration Date	Dividend Per Share	Record Date	Total Amount (in thousands)	Payment Date
February 5, 2013	$ 0.13	March 11, 2013	$ 17,983	March 28, 2013
February 9, 2012	$ 0.09	March 12, 2012	$ 12,204	March 30, 2012

In addition, on April 24, 2013, the Executive Committee, acting on behalf of the Board of Directors, declared a quarterly cash dividend of $0.13 per share of outstanding common stock payable on June 19, 2013 to stockholders of record as of the close of business on May 30, 2013. Future declarations of dividends are subject to final determination by our Board of Directors.

Share Repurchases

In April 2012, 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. There is no fixed termination date for the repurchases. During the three months ended March 31, 2013, we repurchased, through open market transactions, 1.7 million shares under this authorization for a total cost of $111 million, excluding transaction costs, representing an average repurchase price of $63.87 per share. As of March 31, 2013, 16.3 million shares remain authorized for repurchase under the 2012 authorization. Subsequent to the end of first quarter of 2013, we repurchased an additional 0.3 million shares for a total cost $16 million, excluding transaction costs, representing an average purchase price of $61.80 per share.

Stock-based Awards

Stock-based compensation expense relates primarily to expense for stock options and restricted stock units (RSUs). As of March 31, 2013, we had stock-based awards outstanding representing approximately 19 million shares of our common stock consisting of options to purchase approximately 18 million shares of our common stock with a weighted average exercise price of $34.25 and weighted average remaining life of 5.1 years and approximately 1 million RSUs.

Annual employee stock-based award grants typically occur during the first quarter of each year. During the three months ended March 31, 2013, we granted approximately 4 million stock options. The fair value of the stock options granted during

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Notes to Consolidated Financial Statements (Continued)

the three months ended March 31, 2013 was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

Risk-free interest rate	0.70%
Expected volatility	44.96%
Expected life (in years)	4.08
Dividend yield	0.79%
Weighted-average estimated fair value of options granted	$ 22.19

Employee Stock Purchase Plan

During the first quarter of 2013, we announced our 2013 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. The first three-month exercise period begins on June 1, 2013 and eligible employees are allowed to contribute up to 10% of their base compensation. We have reserved 1.5 million shares of our common stock for issuance under the ESPP.

Note 6 Earnings Per Share

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

	Three months ended March 31,	
	2013	2012
	(In thousands, except per share data)	
Income (loss) from continuing operations attributable to Expedia, Inc.	$ (104,226)	$ 20,608
Earnings (loss) per share from continuing operations attributable to Expedia, Inc. available to common stockholders:		
Basic	$ (0.77)	$ 0.15
Diluted	(0.77)	0.15
Weighted average number of shares outstanding:		
Basic	135,641	133,202
Dilutive effect of:		
Options to purchase common stock		3,443
Other dilutive securities		2,661
Diluted	135,641	139,306

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 7 Income Taxes

We determine our provision for income taxes for interim periods using an estimate of our annual effective rate. We record any changes to the estimated annual rate in the interim period in which the change occurs, including discrete tax items. Our effective tax rate benefit of 10.0% for the three months ended March 31, 2013 was lower than the effective tax rate of 19.5% for the three months ended March 31, 2012. The change was primarily due to non-deductible stock-based compensation recorded in relation to the trivago acquisiton and non-deductible penalties included in the Hawaii pay-to-play assessments, disclosed below in Note 8 Commitments and Contingencies, both of which lowered our effective tax rate benefit on our pre-tax losses for the current quarter.

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Notes to Consolidated Financial Statements (Continued)

Note 8 Commitments and Contingencies

Legal Proceedings

In the ordinary course of business, we are a party to various lawsuits. Management does not expect these lawsuits to have a material impact on the liquidity, results of operations, or financial condition of Expedia. We also evaluate other potential contingent matters, including value-added tax, federal excise 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 Hotel Occupancy Taxes. Eighty-three lawsuits have been filed by cities, counties and states involving hotel occupancy taxes. Forty-two 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 ordinances at issue do not apply to the services we provide, namely the facilitation of hotel reservations, and, therefore, that we do not owe the taxes that are claimed to be owed. We believe that the 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, thirty-three 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 dismissals were based on a finding that we and the other defendants were not subject to the local hotel occupancy tax ordinance or that the local government lacked standing to pursue their claims. As a result of this litigation and other attempts by certain jurisdictions to levy such taxes, we have established a reserve for the potential settlement of issues related to hotel occupancy taxes, consistent with applicable accounting principles and in light of all current facts and circumstances, in the amount of $34 million as of March 31, 2013 and $35 million as of December 31, 2012. This reserve is based on our best estimate of probable losses and the ultimate resolution of these contingencies may be greater or less than the liabilities recorded. An estimate for a reasonably possible loss or range of loss in excess of the amount reserved cannot be made. Changes to these settlement reserves are included within legal reserves, occupancy tax and other in the consolidated statements of operations.

In connection with various occupancy tax audits and assessments, certain jurisdictions may assert that taxpayers are required to pay any assessed taxes prior to being allowed to contest or litigate the applicability of the ordinances, which is referred to as pay-to-play. These jurisdictions may attempt to require that we pay any assessed taxes prior to being allowed to contest or litigate the applicability of the tax ordinance. 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, plus interest.

During 2009, we expensed $48 million related to monies paid in advance of litigation in occupancy tax proceedings with the city of San Francisco. The city of San Francisco 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 travel companies, including $22 million against Expedia, Hotels.com and Hotwire. The additional assessments, including the prepayment of such assessments, have been contested by the online companies. The city has agreed, subject to documentation, that this assessment may be placed under a bond and not paid, and may proceed to a legal challenge. During 2010, we expensed $3 million related to monies paid in advance of litigation in occupancy tax proceedings with the city of Santa Monica; these funds were returned to us by the city in December 2011 in exchange for a letter of credit. The online travel companies subsequently prevailed in the litigation and the letter of credit in favor of the city has been voided. Hotels.com is currently under audit by the State of Texas and there is a pay-to-play requirement to challenge an adverse audit result in court.

Notes to Consolidated Financial Statements (Continued)

Litigation Relating to Other Taxes. On November 7, 2012, the parties filed cross motions for summary judgment on the issue of whether the online travel companies are liable for payment of Hawaii s General Excise Tax. On January 11, 2013, the court held that the online travel companies owed General Excise Tax on the total amount paid by a customer for the online travel companies services and the charge for the hotel room. The court ruled that the online travel companies are obligated to remit past Hawaii general excise taxes with interest, which the Director of Taxation has claimed totals $110 million, comprised of $78 million relating to tax liability from January 2000 to December 2011 and $32 million in interest from January 2000 to December 2012 for Expedia, Hotels.com and Hotwire (the Expedia Subsidiaries). On March 15, 2013, the court assessed penalties against the online travel companies. Under this ruling the state is seeking penalties and interest of $60 million against the Expedia Subsidiaries, representing 50% of the tax liability plus interest thereon. On March 28, 2013, the online travel companies filed a petition for mandamus to the Hawaii Supreme Court requesting that the court reverse the trial court s ruling that online travel companies must remit tax on gross bookings and therefore subject the hotel s charge for the room to double taxation. On April 22, 2013, the Hawaii Supreme Court denied the online travel companies petition for mandamus. The case will now proceed on appeal. The state has dismissed without prejudice its common law claims for recovery of taxes.

We strongly believe that the court ruling regarding the General Excise Tax is contrary to the plain language of the ordinances at issue as well as prior Hawaiian Supreme Court decisions, previous positions taken by the Hawaii Director of Taxation, and an opinion by the Attorney General of the State of Hawaii. We intend to vigorously pursue our rights on appeal. The state is seeking to require us to pay an amount equal to the taxes, penalties and interest prior to appealing the court s ruling. Payment of these amounts, if any, is not an admission that we believe we are subject to the taxes in question. To the extent our appeal is successful in reducing or eliminating the assessed amounts, the State of Hawaii would be required to repay such amounts, plus interest. During the year ended December 31, 2012, we accrued $110 million, and during the three months ended March 31, 2013, we accrued an additional $60 million, in accrued expenses and other current liabilities, which represents our best estimate of the probable amount that we will be required to pay prior to appealing the court s ruling. It is also reasonably possible that we will incur amounts in excess of the amounts accrued, which we estimate could be up to $22 million. The ultimate resolution of these contingencies may be greater or less than the liabilities recorded and our estimates of possible additional assessments.

Matters Relating to Hotel Booking Practices. On July 31, 2012, the United Kingdom Office of Fair Trading (OFT) issued a Statement of Objections alleging that Expedia, Booking.com B.V. and InterContinental Hotels Group PLC (IHG) have infringed European Union and United Kingdom competition law in relation to the online supply of hotel room accommodations. The Statement of Objections alleges that Expedia and Booking.com entered into separate agreements with IHG that restricted each online travel company s ability to discount the price of IHG hotel rooms. The OFT limited its investigation to a small number of companies, but has stated that the investigation is likely to have wider implications for the industry within the United Kingdom.

The Statement of Objections does not constitute a finding of infringement and all parties have the opportunity to respond. If the OFT maintains its objections after the companies responses, the OFT can issue a final decision. In such a case a final decision would be issued at the earliest in 2014. An appeal of an adverse OFT decision is to the English courts but may involve a reference on matters of European Union law to the European Court of Justice. We are unable at this time to predict the outcome of the OFT proceeding and any appeal. In addition, a number of competition authorities in other European countries have initiated investigations in relation to certain contractual arrangements between hotels and online travel companies, including Expedia. These investigations differ in relation to the parties involved and the precise nature of the concerns.

Since August 20, 2012, thirty-four putative class action lawsuits, which refer to the OFT s Statement of Objections, have been initiated in the United States by consumer plaintiffs alleging claims against the online travel companies, including Expedia, and several major hotel chains for alleged resale price maintenance for online hotel room reservations, including but not limited to violation of the Sherman Act, state antitrust laws, state consumer protection statutes and common law tort claims, such as unjust enrichment. The parties moved before the Judicial Panel on Multi-District Litigation for consolidation of the cases. On December 11, 2012, the Panel issued an order consolidating and transferring the cases to Judge Boyle in the United States District Court for the Northern District of Texas.

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Notes to Consolidated Financial Statements (Continued)

Note 9 Related Party Transactions

TripAdvisor, Inc. In connection with the spin-off, we entered into various agreements with TripAdvisor, a related party due to common ownership, including, among others, a separation agreement, a tax sharing agreement, an employee matters agreement and a transition services agreement. In addition, we will continue to work with TripAdvisor pursuant to various commercial agreements between subsidiaries of Expedia, on the one hand, and subsidiaries of TripAdvisor, on the other hand. During the three months ended March 31, 2013 and 2012, we recognized approximately $2 million of revenue in both periods and expensed approximately $61 million and $51 million related to these various agreements with TripAdvisor. Net amounts payable to TripAdvisor were $38 million and $24 million as of March 31, 2013 and December 31, 2012 and were primarily included in accounts payable, other on the consolidated balance sheet.

Liberty Interactive Corporation. During the three months ended March 31, 2013, we issued 467,672 shares of common stock from treasury stock to Liberty Interactive Corporation (Liberty) at a price per share of $54.04 and an aggregate value of approximately $25 million pursuant to and in accordance with the preemptive rights as detailed by the Amended and Restated Governance Agreement with Liberty dated as of December 20, 2011.

IAC/InterActiveCorp. In February 2013, Expedia and IAC completed the purchase of an aircraft in which each company has a 50% ownership interest. We paid $23 million (50% of the total purchase price), which was recorded in long-term investments and other assets on the consolidated balance sheets as of March 31, 2013 and in capital expenditures on the consolidated statement of cash flows during the three months ended March 31, 2013. The aircraft is expected to be available for use by both companies in the third quarter of 2013.

Note 10 Segment Information

We have two reportable segments: Leisure and Egencia. Our Leisure 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, Expedia Affiliate Network, Hotwire.com, Venere, eLong, trivago and Classic Vacations. Our Egencia segment provides managed travel services to corporate customers in North America, Europe, and the Asia Pacific region.

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 Leisure and Egencia segments includes allocations of certain expenses, primarily cost of revenue and facilities, and our Leisure 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. Our allocation methodology is periodically evaluated and may change.

Corporate 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 charges, legal reserves, occupancy tax and other, and other items excluded from segment operating performance in Corporate. Such amounts are detailed in our segment reconciliation below.

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Notes to Consolidated Financial Statements (Continued)

The following tables present our segment information for the three months ended March 31, 2013 and 2012. As a significant portion of our property and equipment is not allocated to our operating segments and depreciation is not included in our segment measure, we do not report the assets by segment as it would not be meaningful. We do not regularly provide such information to our chief operating decision makers.

	Three months ended March 31, 2013			
	Leisure	Egencia	Corporate	Total
	(In thousands)			
Revenue	$ 923,848	$ 88,519	$	$ 1,012,367
Adjusted EBITDA	$ 178,098	$ 12,128	$ (85,098)	$ 105,128
Depreciation	(23,061)	(3,697)	(22,108)	(48,866)
Amortization of intangible assets			(12,570)	(12,570)
Stock-based compensation			(75,078)	(75,078)
Legal reserves, occupancy tax and other			(61,558)	(61,558)
Acquistion-related and other			(9,829)	(9,829)
Realized gain on revenue hedges	(2,855)			(2,855)
Operating income (loss)	$ 152,182	$ 8,431	$ (266,241)	(105,628)
Other expense, net				(13,643)
Loss from continuing operations before income taxes				(119,271)
Provision for income taxes				11,903
Loss from continuing operations				(107,368)
Discontinued operations, net of taxes				
Net loss				(107,368)
Net loss attributable to noncontrolling interests				3,142
Net loss attributable to Expedia, Inc.				$ (104,226)

	Three months ended March 31, 2012			
	Leisure	Egencia	Corporate	Total
	(In thousands)			
Revenue	$ 763,813	$ 52,675	$	$ 816,488
Adjusted EBITDA	$ 171,222	$ 9,902	$ (79,306)	$ 101,818
Depreciation	(15,692)	(2,006)	(16,616)	(34,314)
Amortization of intangible assets			(3,422)	(3,422)
Stock-based compensation			(16,951)	(16,951)
Legal reserves, occupancy tax and other			276	276
Realized loss on revenue hedges	1,276			1,276
Operating income (loss)	$ 156,806	$ 7,896	$ (116,019)	48,683
Other expense, net				(21,856)
Income from continuing operations before income taxes				26,827
Provision for income taxes				(5,240)

Income from continuing operations		21,587
Discontinued operations, net of taxes		(23,889)
Net loss		(2,302)
Net income attributable to noncontrolling interests		(979)
Net loss attributable to Expedia, Inc.	$	(3,281)

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Notes to Consolidated Financial Statements (Continued)

Note 11 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 OPERATION

Three months ended March 31, 2013

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated
Revenue	$	$ 850,099	$ 167,135	$ (4,867)	$ 1,012,367
Costs and expenses:					
Cost of revenue		195,480	54,422	679	250,581
Selling and marketing		355,966	145,783	(5,594)	496,155
Technology and content		98,963	39,317	3	138,283
General and administrative		57,629	34,702	45	92,376
Amortization of intangible assets		1,313	11,257		12,570
Legal reserves, occupancy tax and other		61,558			61,558
Acquistion-related and other			66,472		66,472
Intercompany (income) expense, net		162,444	(162,444)		
Operating loss		(83,254)	(22,374)		(105,628)
Other income (expense):					
Equity in pre-tax losses of consolidated subsidiaries	(93,275)	(38,328)		131,603	
Other, net	(20,883)	2,967	4,273		(13,643)
Total other income (expense), net	(114,158)	(35,361)	4,273	131,603	(13,643)
Loss before income taxes	(114,158)	(118,615)	(18,101)	131,603	(119,271)
Provision for income taxes	9,932	26,705	(24,734)		11,903
Net loss	(104,226)	(91,910)	(42,835)	131,603	(107,368)
Net loss attributable to noncontrolling interests			3,142		3,142
Net loss attributable to Expedia, Inc.	$ (104,226)	$ (91,910)	$ (39,693)	$ 131,603	$ (104,226)
Comprehensive loss attributable to Expedia, Inc.	$ (104,226)	$ (92,126)	$ (63,541)	$ 131,603	$ (128,290)

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Notes to Consolidated Financial Statements (Continued)

CONDENSED CONSOLIDATING STATEMENT OF OPERATION

Three months ended March 31, 2012

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated
Revenue	$	$ 723,520	$ 94,672	$ (1,704)	$ 816,488
Costs and expenses:					
Cost of revenue		169,097	30,678	323	200,098
Selling and marketing		281,048	98,141	(2,117)	377,072
Technology and content		82,733	26,197	(19)	108,911
General and administrative		51,725	26,744	109	78,578
Amortization of intangible assets		1,760	1,662		3,422
Legal reserves, occupancy tax and other		(276)			(276)
Intercompany (income) expense, net		142,747	(142,747)		
Operating income (loss)		(5,314)	53,997		48,683
Other income (expense):					
Equity in pre-tax earnings of consolidated subsidiaries	32,344	34,162		(66,506)	
Other, net	(20,806)	(137)	(913)		(21,856)
Total other income (expense), net	11,538	34,025	(913)	(66,506)	(21,856)
Income before income taxes	11,538	28,711	53,084	(66,506)	26,827
Provision for income taxes	9,070	4,319	(18,629)		(5,240)
Income from continuing operations	20,608	33,030	34,455	(66,506)	21,587
Discontinued operations, net of taxes	(23,889)				(23,889)
Net income (loss)	(3,281)	33,030	34,455	(66,506)	(2,302)
Net income attributable to noncontrolling interests			(979)		(979)
Net income (loss) attributable to Expedia, Inc.	$ (3,281)	$ 33,030	$ 33,476	$ (66,506)	$ (3,281)
Comprehensive income (loss) attributable to Expedia, Inc.	$ (3,281)	$ 33,791	$ 47,057	$ (66,506)	$ 11,061

CONDENSED CONSOLIDATING BALANCE SHEET

March 31, 2013

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated
ASSETS					
Total current assets	$ 147,888	$ 3,526,996	$ 147,425	$ (841,438)	$ 2,980,871
Investment in subsidiaries	4,224,101	1,134,987		(5,359,088)	

Intangible assets, net		633,540	530,288		1,163,828
Goodwill		2,436,533	1,205,565		3,642,098
Other assets, net	4,611	471,610	169,402		645,623
TOTAL ASSETS	$ 4,376,600	$ 8,203,666	$ 2,052,680	$ (6,200,526)	$ 8,432,420
LIABILITIES AND STOCKHOLDERS EQUITY					
Total current liabilities	$ 857,008	$ 3,559,520	$ 409,217	$ (841,438)	$ 3,984,307
Long-term debt	1,249,361				1,249,361
Other liabilities		412,662	515,859		928,521
Stockholders equity	2,270,231	4,231,484	1,127,604	(5,359,088)	2,270,231
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 4,376,600	$ 8,203,666	$ 2,052,680	$ (6,200,526)	$ 8,432,420

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Notes to Consolidated Financial Statements (Continued)

CONDENSED CONSOLIDATING BALANCE SHEET

December 31, 2012

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated
ASSETS					
Total current assets	$ 137,942	$ 2,674,496	$ 675,026	$ (872,962)	$ 2,614,502
Investment in subsidiaries	4,277,954	1,188,871		(5,466,825)	
Intangible assets, net		634,853	186,566		821,419
Goodwill		2,436,533	579,137		3,015,670
Other assets, net	4,790	473,439	155,375		633,604
TOTAL ASSETS	$ 4,420,686	$ 7,408,192	$ 1,596,104	$ (6,339,787)	$ 7,085,195
LIABILITIES AND STOCKHOLDERS EQUITY					
Total current liabilities	$ 781,953	$ 2,708,755	$ 364,565	$ (872,962)	$ 2,982,311
Long-term debt	1,249,345				1,249,345
Other liabilities		415,465	48,686		464,151
Stockholders equity	2,389,388	4,283,972	1,182,853	(5,466,825)	2,389,388
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 4,420,686	$ 7,408,192	$ 1,596,104	$ (6,339,787)	$ 7,085,195

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Three months ended March 31, 2013

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (In thousands)	Consolidated
Operating activities:				
Net cash provided by operating activities from continuing operations	$	$ 285,940	$ 595,149	$ 881,089
Investing activities:				
Capital expenditures, including internal-use software and website development		(57,350)	(29,806)	(87,156)
Purchases of investments		(532,019)	(66,108)	(598,127)
Sales and maturities of investments		166,023	79,221	245,244
Acquisitions, net of cash acquired			(540,489)	(540,489)
Other, net		5,808		5,808
Net cash used in investing activities from continuing operations		(417,538)	(557,182)	(974,720)
Financing activities:				
Purchases of treasury stock	(117,672)			(117,672)

Proceeds from issuance of treasury stock	25,273			25,273
Transfers (to) from related parties	70,918	(70,918)		
Other, net	21,481	(7,750)	317	14,048
Net cash provided by (used in) financing activities from continuing operations		(78,668)	317	(78,351)
Net cash provided by (used in) continuing operations		(210,266)	38,284	(171,982)
Effect of exchange rate changes on cash and cash equivalents		(37,808)	(573)	(38,381)
Net decrease (increase) in cash and cash equivalents		(248,074)	37,711	(210,363)
Cash and cash equivalents at beginning of period		1,007,156	286,005	1,293,161
Cash and cash equivalents at end of period	$	$ 759,082	$ 323,716	$ 1,082,798

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Notes to Consolidated Financial Statements (Continued)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Three months ended March 31, 2012

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
		(In thousands)		
Operating activities:				
Net cash provided by operating activities from continuing operations	$	$ 832,140	$ 15,676	$ 847,816
Investing activities:				
Capital expenditures, including internal-use software and website development		(41,917)	(8,897)	(50,814)
Purchases of investments		(226,114)	(67,076)	(293,190)
Sales and maturities of investments		196,501	44,140	240,641
Other, net		6,637	(1,031)	5,606
Net cash used in investing activities from continuing operations		(64,893)	(32,864)	(97,757)
Financing activities:				
Purchases of treasury stock	(198,164)			(198,164)
Transfers (to) from related parties	171,176	(171,176)		
Other, net	26,988	(4,190)	115	22,913
Net cash provided by (used in) financing activities from continuing operations		(175,366)	115	(175,251)
Net cash provided by (used in) continuing operations		591,881	(17,073)	574,808
Net cash used in discontinued operations		(7,607)		(7,607)
Effect of exchange rate changes on cash and cash equivalents		13,153	3,020	16,173
Net increase (decrease) in cash and cash equivalents		597,427	(14,053)	583,374
Cash and cash equivalents at beginning of period		357,252	331,882	689,134
Cash and cash equivalents at end of period	$	$ 954,679	$ 317,829	$ 1,272,508

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

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect the views of our management regarding current expectations and projections about future events and are based on currently available information. Actual results could differ materially from those contained in these forward-looking statements for a variety of reasons, including, but not limited to, those discussed in our Annual Report on Form 10-K for the year ended December 31, 2012, Part I, Item 1A, Risk Factors, as well as those discussed elsewhere in this report. Other unknown or unpredictable factors also could have a material adverse effect on our business, financial condition and results of operations. Accordingly, readers should not place undue reliance on these forward-looking statements. The use of words such as anticipates, estimates, expects, intends, plans and believes, among others, ge identify forward-looking statements; however, these words are not the exclusive means of identifying such statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. These forward-looking statements are inherently subject to uncertainties, risks and changes in circumstances that are difficult to predict. We are not under any obligation to, and do not intend to, publicly update or review any of these forward-looking statements, whether as a result of new information, future events or otherwise, even if experience or future events make it clear that any expected results expressed or implied by those forward-looking statements will not be realized. Please carefully review and consider the various disclosures made in this report and in our other reports filed with the Securities and Exchange Commission (SEC) that attempt to advise interested parties of the risks and factors that may affect our business, prospects and results of operations.

The information included in this management s discussion and analysis of financial condition and results of operations should be read in conjunction with our consolidated financial statements and the notes included in this Quarterly Report, and the audited consolidated financial statements and notes and Management s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2012.

Overview

Expedia, Inc. 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. We have created a global travel marketplace used by a broad range of leisure and corporate travelers, offline retail travel agents and travel service providers. We make 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. We also offer travel and non-travel advertisers access to a potential source of incremental traffic and transactions through our various media and advertising offerings.

Our portfolio of brands includes Expedia.com®, Hotels.com®, Hotwire.com™, Expedia Affiliate Network (EAN), Classic Vacations, Expedia Local Expert™, Expedia® CruiseShipCenters®, Egencia™, eLong™, Venere Net SpA (Venere) and trivago GmbH (trivago), a leading hotel metasearch company based in Germany acquired during the first quarter of 2013. In addition, many of these brands have related international points of sale. For additional information about our portfolio of brands, see Portfolio of Brands in Part I, Item 1, Business, in our Annual Report on Form 10-K for the year ended December 31, 2012.

All percentages within this section are calculated on actual, unrounded numbers.

Trends

The travel industry, including offline agencies, online agencies and other suppliers of travel products and services, has historically been characterized by intense competition, as well as rapid and significant change. Generally, 2012 represented a year of gradual improvement for the travel industry. However, natural disasters, such as Hurricane Sandy that impacted the northeast United States, ongoing sovereign debt and economic issues in several European countries as well as uncertainty regarding the U.S. debt ceiling and sequestration, all contribute to a somewhat uncertain forward environment for the travel industry.

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Online Travel

Increased usage and familiarity with the internet have driven rapid growth in online penetration of travel expenditures. According to PhoCusWright, an independent travel, tourism and hospitality research firm, in 2012, approximately 59% of U.S. leisure, unmanaged and corporate travel expenditures occur online, compared with approximately 44% of European travel. Online penetration in the emerging markets, such as Asia Pacific and Latin American regions are estimated to be approximately 20%, lagging behind that of Europe. These penetration rates have increased over the past few years, and are expected to continue growing. This significant growth has attracted many competitors to online travel. This competition has intensified in recent years, and the industry is expected to remain highly competitive for the foreseeable future. In addition to the growth of online travel agencies, airlines and lodging companies have aggressively pursued direct online distribution of their products and services, and supplier growth outpaced online agency growth for several years. Competitive entrants such as metasearch companies, including Kayak.com (which entered into a merger agreement with Priceline.com in November 2012) and trivago.com (in which Expedia acquired a majority ownership interest in March 2013), have in some cases been able to introduce differentiated features and content compared with the legacy online travel agency companies. In addition, models, such as daily deals and private sale sites have also begun proliferating. We have a number of daily deals offered on our retail websites as well as a partnership with Groupon called Groupon Getaways with Expedia. Finally, we have seen increased interest in the online travel industry from search engine companies as evidenced by recent innovations and proposed and actual acquisitions by companies such as Google and Microsoft.

The online travel industry has also seen the development of alternative business models and variations in the timing of payment by travelers and to suppliers, which in some cases place pressure on historical business models. In particular, the agency hotel model has seen rapid adoption in Europe. Expedia has both a merchant and an agency hotel offer for our hotel supply partners and we expect our use of these models to continue to evolve. During 2012, Expedia introduced the Expedia Traveler Preference program to hotel suppliers in the United States and Europe and is now in the process of rolling the program out globally. ETP offers travelers the choice of whether to pay Expedia at the time of booking or pay the hotel at the time of stay.

Intense competition has also historically led to aggressive marketing spend by the travel suppliers and intermediaries, and a meaningful reduction in our overall marketing efficiencies and operating margins. We manage our selling and marketing spending on a brand basis at the local or regional level, making decisions in each market that we think are appropriate based on the relative growth opportunity, the expected returns and the competitive environment. In certain cases, particularly in emerging markets, we are pursuing and expect to continue to pursue long-term growth opportunities for which our marketing efficiency is lower than that for our consolidated business but for which we still believe the opportunity to be attractive.

Hotel

We generate the majority of our revenue through the marketing and distribution of hotel rooms (stand-alone and package bookings). Our relationships and negotiated total economics with our hotel supply partners have remained broadly stable in the past few years. We have, however, implemented new customer loyalty and discount programs and have eliminated or reduced some fees in that timeframe and, as such, the margin of revenue we earn per booking has declined. In addition, the introduction of ETP could negatively impact the margin of revenue we earn per booking in the future.

Since our hotel supplier agreements are generally negotiated on a percentage basis, any increase or decrease in average daily rates (ADRs) has an impact on the revenue we earn per room night. Over the course of the last two years, occupancies and ADRs in the lodging industry have generally improved in a gradually improving overall travel environment. Currently occupancy rates are near 2007 peaks and there is very little new, net hotel supply being added in the U.S. lodging market with large chains focusing their development opportunities in international markets. This may help hoteliers with their objective of continuing to grow their ADRs and could lead to pressure in negotiations with hoteliers and may ultimately lead to pressure on terms for us and our OTA competitors. In international markets, hotel supply is being added at a much faster rate as hotel owners and operators try to take advantage of opportunities in faster growing regions such as China and India, among others. We have had success adding supply to our marketplace with more than 205,000 hotels on our global websites, including eLong, as of the end of the first quarter of 2013. In addition, our room night growth has been healthy, with room nights growing 18% in 2011, 27% in 2012 and 28% for the first quarter of 2013. ADRs for rooms booked on Expedia sites grew 5% in 2011, declined 2% in 2012, and were essentially flat for the first quarter of 2013.

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Air

The airline sector in particular has historically experienced significant turmoil. In recent years, there has been increased air carrier consolidation, generally resulting in lower overall capacity and higher fares. In addition, air carriers have made significant efforts to keep seat capacity relatively low in order to ensure that demand for seats remains high and that flights are as full as possible. Reduced seating capacities are generally negative for Expedia as there is less air supply available on our websites, and in turn less opportunity to facilitate hotel rooms, car rental and other services on behalf of air travelers. Ticket prices on Expedia sites were essentially flat for the first quarter of 2013 and increased 4% and 11% in 2012 and 2011. We are encountering pressure on air remuneration as certain supply agreements renew, and as air carriers and GDS intermediaries re-negotiate their long-term agreements. In addition, some U.S. air carriers introduced various incentives for customers to book directly with the carrier versus via online travel agencies. Examples of these incentives include lower fees, advance seat assignments and greater earning potential for frequent flier miles.

In part as a result of sharply rising average ticket prices, our ticket volumes decreased by 8% in 2011 after having grown by 11% in 2010. Air ticket volumes grew 9% for the first quarter of 2013 and 7% in 2012, largely due to the acquisition of VIA Travel.

From a product perspective, over 70% of our revenue comes from transactions involving the booking of hotel reservations, with approximately 10% of our revenue derived from the sale of airline tickets. We believe that the hotel product is the most profitable of the products we distribute and represents our best overall growth opportunity.

Growth Strategy

Product Innovation. Each of our leading brands was a pioneer in online travel and has been responsible for driving key innovations in the space over the past two decades. They each operate a dedicated technology team, which drives innovations that make researching and shopping for travel increasingly easier and helps customers find and book the best possible travel options. In the past several years, we made key investments in technology, including significant development of our technological platforms that makes it possible for us to deliver innovations at a faster pace. For example, we launched our new Hotels.com global platform in the first quarter of 2010, enabling us to significantly increase the innovation cycle for that brand. Since then, we have been successful in improving conversion and driving much faster growth rates for the Hotels.com brand. We are in the midst of a similar transformation for Brand Expedia, having rolled out its new hotel platform in the second half of 2011, followed by the air platform rollout during the first half of 2012 and the new package platform in the first quarter of 2013.

Global Expansion. Our Expedia, Hotels.com, Egencia, EAN, and Hotwire brands operate both domestically and through international points of sale, including in Europe, Asia Pacific, Canada and Latin America. We own a majority share of eLong, which is the second largest online travel company in China. We also own Venere, a European brand, which focuses on marketing hotel rooms in Europe. Egencia, our corporate travel business, operates in 55 countries around the world and continues to expand, including its 2012 acquisition of VIA Travel. We also partner in a 50/50 joint venture with AirAsia a low cost carrier serving the Asia-Pacific region to jointly grow an online travel agency business. Although the results for the joint venture are not consolidated in our financial statements, we consider this business to be a key part of our Asia Pacific strategy. In 2012, approximately 41% of our worldwide gross bookings and 45% of worldwide revenue were international up from 22% for both worldwide gross bookings and revenue in 2005. In the first quarter of 2013, 44% of our worldwide gross bookings and 45% of worldwide revenue were international. We have a stated goal of driving more than half of our revenue through international points of sale.

During the three months ended March 31, 2013, we completed our majority acquisition of trivago, GmbH (trivago), a Dusseldorf, Germany-based leading hotel metasearch company featuring price comparison from over 600,000 hotels on over 150 booking sites worldwide. Officially launched in 2005, trivago is already one of the best known travel brands in Europe. trivago will continue to operate independently, and plans to rapidly grow revenue through global expansion.

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In expanding our global reach, we leverage significant investments in technology, operations, brand building, supplier relationships and other initiatives that we have made since the launch of Expedia.com in 1996. We intend to continue leveraging these investments when launching additional points of sale in new countries, introducing new website features, adding supplier products and services including new business model offerings, as well as proprietary and user-generated content for travelers.

Our scale of operations enhances the value of technology innovations we introduce on behalf of our travelers and suppliers. We believe that our size and scale affords the company the ability to negotiate competitive rates with our supply partners, provide breadth of choice and travel deals to our traveling customers through an increasingly larger supply portfolio and creates opportunities for new value added offers for our customers such as our loyalty programs. The size of Expedia s worldwide traveler base makes our sites an increasingly appealing channel for travel suppliers to reach customers. In addition, the sheer size of our user base and search query volume allows us to test new technology very quickly in order to determine which innovations are most likely to improve the travel research and booking process, and then roll those features out to our worldwide audience in order to drive improvements to conversion.

New Channel Penetration. Today, the vast majority of online travel bookings are generated through typical desktop and laptop computers. However, technological innovations and developments are creating new opportunities including travel bookings made through mobile devices. In the past few years, each of our brands made significant progress creating new mobile websites and mobile/tablet applications that are receiving strong reviews and solid download trends. In 2010, we bought a leading travel application company called Mobiata® which is responsible for several top travel applications, such as FlightTrack™, FlightTrack Pro™ and FlightBoard™, and is now integrated into Brand Expedia. We believe mobile bookings present an opportunity for incremental growth as they are typically completed within one day of the travel or stay which is a much shorter booking window than we have historically experienced via more traditional online booking methods. During the last year, customers behaviors and preferences on tablet devices began to show differences from trends seen on smartphones. For example, the booking window on a smartphone typically is much shorter than the emerging trend on the tablet device and historical average on a desktop or laptop. We have a stated goal of booking 20% of our transactions through mobile devices before the end of 2014.

Virtually all of our leisure brands continue to conduct experiments with daily deals and social media as part of our efforts to drive business through new distribution channels. We believe daily deals may represent incremental travel bookings as it typically represents an impulse purchase compared to historical travel purchasing activity which tends to be a highly considered and deliberate transaction. In addition, we anticipate the importance of social media channels to consumers and to our industry to increase over time. It is our intention to grow our social efforts alongside this trend.

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 holiday travel. The number of bookings typically decreases in the fourth quarter. Because revenue in the merchant business is generally recognized when the travel takes place rather than when it is booked, revenue typically lags bookings by several weeks or longer. The seasonal revenue impact is exacerbated with respect to income by the more stable nature of our fixed costs. As a result, revenue and income are typically the lowest in the first quarter and highest in the third quarter. The continued growth of our international operations or a change in our product mix may influence the typical trend of the seasonality in the future.

Critical Accounting Policies and Estimates

Critical accounting policies and estimates are those that we believe are important in the preparation of our consolidated financial statements because they require that we use judgment and estimates in applying those policies. We prepare our

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consolidated financial statements and accompanying notes in accordance with generally accepted accounting principles in the United States (GAAP). Preparation of the consolidated financial statements and accompanying notes requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements as well as revenue and expenses during the periods reported. We base our estimates on historical experience, where applicable, and on other assumptions that we believe are reasonable under the circumstances. Actual results may differ from our estimates under different assumptions or conditions.

There are certain critical estimates that we believe require significant judgment in the preparation of our consolidated financial statements. We consider an accounting estimate to be critical if:

- It requires us to make an assumption because information was not available at the time or it included matters that were highly uncertain at the time we were making the estimate; and

- Changes in the estimate or different estimates that we could have selected may have had a material impact on our financial condition or results of operations.

For additional information about our critical accounting policies and estimates, see the disclosure included in our Annual Report on Form 10-K for the year ended December 31, 2012.

Occupancy Taxes

We are currently involved in forty-two lawsuits brought by or against states, cities and counties over issues involving the payment of hotel occupancy taxes. We continue to defend these lawsuits vigorously. With respect to the principal claims in these matters, we believe that the ordinances at issue do not apply to the services we provide, namely the facilitation of hotel reservations, and, therefore, that we do not owe the taxes that are claimed to be owed. We believe that the 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.

Recent developments include:

- *City of Los Angeles, Litigation.* On April 18, 2013, the trial court held that the online travel companies are not liable to remit hotel occupancy taxes to the city of Los Angeles.

- *San Antonio, Texas Litigation.* On April 4, 2013, the court entered a final judgment holding the online travel companies liable for hotel occupancy taxes to counties and cities in the statewide class.

- *City of Gallup, New Mexico Litigation.* On March 29, 2013, the court denied the city of Gallup s claim that the online travel companies collected taxes that have not been remitted to the city and dismissed the city s remaining claims in the case. On April 2, 2013, the court entered final judgment dismissing all claims against the online travel companies with prejudice.

- *Nassau County, New York Litigation.* On April 11, 2013, the court granted plaintiff s motion for class certification.

- *City of San Francisco Litigation.* On February 6, 2013, the court held that the online travel companies are not liable to remit hotel occupancy taxes to the city of San Francisco.

Leon County, Florida et al. Litigation. On February 23, 2013, the court of appeals affirmed the trial court decision in the Leon County, Florida litigation that online travel companies are not liable for hotel occupancy taxes.

Denver, Colorado Litigation. On March 12, 2013, the trial court held that the online travel companies are liable for hotel occupancy taxes to the city and county of Denver, but held that taxes may not be collected for periods prior to April 2007 due to the bar of the statute of limitations.

State of Wyoming Litigation. On February 28, 2013, the Wyoming Board of Equalization ruled that the online travel companies are liable for sales tax on their online services to the State of Wyoming. The online travel companies have appealed. The Wyoming District Court has certified the appeal to the Wyoming Supreme Court, which has not yet determined whether it will hear the appeal directly or require the District Court to hear it first.

City of Fargo, North Dakota Litigation. On February 25, 2013, the city of Fargo, North Dakota brought an action in North Dakota state court against a number of online travel companies, including Expedia, Hotels.com and Hotwire.

City of Warrenville, Illinois Litigation. On April 5, 2013, a number of Illinois municipalities filed a putative class action in Illinois federal court against a number of online travel companies, including Expedia, Hotels.com and Hotwire.

For additional information on these and other legal proceedings, see Part II, Item 1, Legal Proceedings.

We have established a reserve for the potential settlement of issues related to hotel occupancy tax litigation, consistent with applicable accounting principles and in light of all current facts and circumstances, in the amount of $34 million as of March 31, 2013, which includes amounts expected to be paid in connection with the developments described above, and $35 million as of December 31, 2012.

Certain jurisdictions may require us to pay tax assessments, including occupancy tax assessments, prior to contesting any such assessments. This requirement is commonly referred to as pay-to-play. Payment of these amounts is not an admission by the taxpayer that it believes it is subject to such taxes. During 2009, we expensed $48 million related to monies paid in advance of litigation in occupancy tax proceedings with the city of San Francisco. The city of San Francisco has 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 $22 million against Expedia, Hotels.com and Hotwire. The additional assessments, including the prepayment of such assessments, have been contested by the online travel companies. The city has agreed, subject to documentation, that this second assessment need not be paid and may be placed under a bond. During 2010, we expensed $3 million related to monies paid in advance of litigation in occupancy tax proceedings in the city of Santa Monica; these funds were returned to us by the city in December 2011 in exchange for a letter of credit. The online travel companies subsequently prevailed in the litigation and the letter of credit in favor of the city has been voided. Hotels.com is currently under audit by the State of Texas and there is a pay-to-play requirement to challenge an adverse audit result in court.

We do not believe that the amounts we retain as compensation are subject to the cities hotel occupancy tax ordinances. 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, plus interest. However, any significant pay-to-play payment or litigation loss could negatively impact our liquidity.

Certain jurisdictions, including the states of New York, North Carolina and Minnesota, the city of New York, and the District of Columbia, have enacted legislation seeking to tax online travel company services as part of sales taxes for hotel occupancy. We are currently remitting taxes to the city of New York, the state of New York, the state and local jurisdictions of South Carolina, the State of Minnesota, the District of Columbia, and the state and local jurisdictions of Georgia.

Other Tax Litigation

Hawaii Tax Court Litigation (General Excise Tax). On November 7, 2012, the parties filed cross motions for summary judgment on the issue of whether the online travel companies are liable for payment of Hawaii s General Excise Tax. On January 11, 2013, the court held that the online travel companies owed past General Excise Tax on the total amount paid by a customer for the online travel companies services and the charge for the hotel room. The court ruled that the online travel companies are obligated to remit past Hawaii general excise taxes with interest, which the Director of Taxation has claimed totals $110 million, comprised of $78 million relating to tax liability from January 2000 to December 2011 and $32 million in interest from January 2000 to December 2012 for Expedia, Hotels.com and Hotwire (the Expedia Subsidiaries). On March

15, 2013, the court assessed penalties against the online travel companies. Under this ruling the state is seeking penalties and interest of $60 million against the Expedia Subsidiaries, representing 50% of the tax liability plus interest thereon. On March 28, 2013, the online travel companies filed a petition for mandamus to the Hawaii Supreme Court requesting that the court reverse the trial court s ruling that online travel companies must remit tax on gross bookings and therefore subject the hotel s charge for the room to double taxation. On April 22, 2013, the Hawaii Supreme Court denied the online travel companies petition for mandamus. The case will now proceed on appeal. The state has dismissed without prejudice its common law claims for recovery of taxes.

During the year ended December 31, 2012, we accrued $110 million and during the three months ended March 31, 2013, we accrued an additional $60 million, which is our best estimate of the probable amount we will pay prior to appealing the court s ruling. It is also reasonably possible that we incur amounts in excess of the amounts accrued, which we estimate could be up to $22 million. The ultimate resolution of these contingencies may be greater or less than the liabilities recorded and our estimate of possible additional assessments.

Segments

We have two reportable segments: Leisure and Egencia. Our Leisure segment 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, EAN, Hotwire.com, Venere, eLong, trivago and Classic Vacations. Our Egencia segment provides managed travel services to corporate customers in North America, Europe, and the Asia Pacific region.

Operating Metrics

Our operating results are affected by certain metrics, such as gross bookings and revenue margin, which we believe are necessary for understanding and evaluating us. Gross bookings represent the total retail value of transactions booked for both agency and merchant transactions, recorded at the time of booking reflecting the total price due for travel by travelers, including taxes, fees and other charges, and are generally reduced for cancellations and refunds. As travelers have increased their use of the internet to book travel arrangements, we have generally seen our gross bookings increase, reflecting the growth in the online travel industry, our organic market share gains and our business acquisitions. Revenue margin is defined as revenue as a percentage of gross bookings.

Gross Bookings and Revenue Margin

	Three months ended March 31, 2013	Three months ended March 31, 2012	% Change
	($ in millions)		
Gross Bookings			
Leisure	$ 8,664	$ 7,666	13%
Egencia	1,117	755	48%
Total gross bookings	$ 9,781	$ 8,421	16%
Revenue Margin			
Leisure	10.7%	10.0%	
Egencia	7.9%	7.0%	
Total revenue margin	10.4%	9.7%	

The increase in worldwide gross bookings for the three months ended March 31, 2013, as compared to the same period in 2012, was primarily due to a 28% increase in hotel room nights and a 9% increase in air tickets sold.

The increase in revenue margin for the three months ended March 31, 2013, as compared to the same period in 2012, was primarily due to a favorable mix shift to our higher margin products, including hotel and metasearch, partially offset by mix shifts within our hotel product.

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Results of Operations

Revenue

	Three months ended March 31, 2013	2012	% Change
	($ in millions)		
Revenue by Segment			
Leisure	$ 924	$ 763	21%
Egencia	88	53	68%
Total revenue	$ 1,012	$ 816	24%

Revenue increased for the three months ended March 31, 2013, compared to the same period in 2012, primarily due to an increase in worldwide hotel revenue within our Leisure segment. Acquisitions since the first quarter of 2012 added approximately 5.5% to year-over-year growth in total revenue for the three months ended March 31, 2013.

Worldwide hotel revenue increased 24% for the three months ended March 31, 2013, compared to the same period in 2012. The increase was primarily due to a 28% increase in room nights stayed, partially offset by a 3% decrease in revenue per room night. Revenue per room night decreased primarily due to changes in our hotel product mix, of which mix shift to Asia-Pacific remains a significant component. The decline was partially offset by higher ADRs in other regions.

Worldwide air revenue increased 14% for the three months ended March 31, 2013, compared to the same period in 2012, due to a 9% increase in air tickets sold and a 5% increase in revenue per air ticket. The increase in air ticket sold was due to the VIA Travel acquisition. Revenue per air ticket increased due to variable incentives from suppliers.

The remaining worldwide revenue, other than hotel and air discussed above, increased by 29% for the three months ended March 31, 2013, compared to the same period in 2012, primarily due to an increase in fees related to our corporate travel business and hotel metasearch revenue.

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

	Three months ended March 31, 2013	2012	% Change
	($ in millions)		
Revenue by Business Model			
Merchant	$ 733	$ 603	22%
Agency	233	182	28%
Advertising and media	46	31	47%
Total revenue	$ 1,012	$ 816	24%

Merchant revenue increased for the three months ended March 31, 2013, compared to the same period in 2012, due to the increase in merchant hotel revenue primarily driven by an increase in room nights stayed.

Agency revenue increased for the three months ended March 31, 2013, compared to the same period in 2012, due to the growth in agency hotel as well as our corporate travel business as a result of the VIA Travel acquisition.

Advertising and media revenue increased for the three months ended March 31, 2013, compared to the same period in 2012, primarily due to our acquisition of trivago.

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Cost of Revenue

	Three months ended March 31, 2013	2012	% Change
	($ in millions)		
Customer operations	$ 122	$ 97	25%
Credit card processing	81	62	31%
Data center and other	48	41	18%
Total cost of revenue	$ 251	$ 200	25%
% of revenue	24.8%	24.5%	

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

During the three months ended March 31, 2013, the increase in cost of revenue expense was primarily driven by an increase of $25 million in customer operations expenses, of which higher headcount costs related to our VIA Travel acquisition as well as our global customer organizations accounted for approximately 80% of the total increase. In addition, higher net credit card processing costs, including fraud, related to our merchant bookings drove an additional $19 million increase.

Selling and Marketing

	Three months ended March 31, 2013	2012	% Change
	($ in millions)		
Direct costs	$ 381	$ 282	35%
Indirect costs	115	95	21%
Total selling and marketing	$ 496	$ 377	32%
% of revenue	49.0%	46.2%	

Selling and marketing expense primarily relates to direct costs, including traffic generation costs from search engines and internet portals, television, radio and print spending, private label and affiliate program commissions, public relations and other costs. The remainder of the expense relates to indirect costs, including personnel and related overhead in our global supply organization, Egencia and various Leisure brands and stock-based compensation costs.

Selling and marketing expenses increased $119 million during the three months ended March 31, 2013, compared to the same period in 2012, driven by $99 million of direct costs increases, of which online, offline marketing and mobile download spend at Brand Expedia, Hotels.com and trivago as well as higher affiliate marketing expenses at EAN accounted for approximately 80% of the total increase, as well as higher personnel expenses of $20 million driven by additional headcount from the trivago acquisition as well as our supply organization, Egencia and other Leisure brands. The trivago acquisition added approximately 4% to year-on-year selling and marketing expense growth for the first quarter of 2013.

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Technology and Content

	Three months ended March 31, 2013	2012	% Change
	($ in millions)		
Personnel and overhead	$ 78	$ 61	28%
Depreciation and amortization of technology assets	36	23	58%
Other	24	25	(3%)
Total technology and content	$ 138	$ 109	27%
% of revenue	13.7%	13.3%	

Technology and content expense includes product development and content expense, as well as information technology costs to support our infrastructure, back-office applications and overall monitoring and security of our networks, and is principally comprised of personnel and overhead, depreciation and amortization of technology assets including hardware, and purchased and internally developed software, and other costs including licensing and maintenance expense and stock-based compensation.

The increase of $29 million in technology and content expense during the three months ended March 31, 2013, compared to the same period in 2012, was primarily due to increased personnel costs of $17 million for increased headcount to support key technology projects for Brand Expedia, our corporate technology function and supply organization as well as increased depreciation and amortization of technology assets of $13 million.

General and Administrative

	Three months ended March 31, 2013	2012	% Change
	($ in millions)		
Personnel and overhead	$ 60	$ 50	20%
Professional fees and other	32	29	14%
Total general and administrative	$ 92	$ 79	18%
% of revenue	9.1%	9.6%	

General and administrative expense consists primarily of personnel-related costs, including our executive leadership, finance, legal and human resource functions as well as fees for external professional services including legal, tax and accounting, and other costs including stock-based compensation.

The $13 million increase in general and administrative expense during the three months ended March 31, 2013, compared to the same period in 2012, was due primarily to higher personnel expenses of $10 million, of which additional headcount drove approximately 60% of the total increase. Acquisitions added approximately 7% to year-over-year general and administrative expense growth for the first quarter of 2013.

Amortization of Intangible Assets

	Three months ended March 31, 2013	2012	% Change
	($ in millions)		
Amortization of intangible assets	$ 13	$ 3	267%

% of revenue	1.2%	0.4%

The increase in amortization of intangible assets during the three months ended March 31, 2013 was due to amortization related to new business acquistions, including VIA Travel in April 2012 and trivago in March 2013. In addition, amortization for the three months ended March 31, 2012 included an approximate $2 million reduction related to a change in the estimated value of contingent purchase consideration for one of our prior acquisitions.

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Legal Reserves, Occupancy Tax and Other

Legal reserves, occupancy tax and other consists of changes in our reserves for court decisions and the potential and final settlement of issues related to hotel occupancy taxes, expenses recognized related to monies paid in advance of occupancy tax proceedings (pay-to-play) as well as certain other legal reserves.

Legal reserves, occupancy tax and other was an expense of $62 million for the three months ended March 31, 2013 compared to a gain of less than $1 million for the three months ended March 31, 2012. For the three months ended March 31, 2013, we recognized approximately $60 million for amounts expected to be paid in advance of litigation related to penalties and interest in connection with Hawaii s general excise tax litigation.

Acquisition-related and other

During the first quarter of 2013, we recorded approximately $57 million of stock-based compensation to acquisition-related and other expense in connection with the trivago acquisition as well as $10 million related to the upfront consideration paid to settle a portion of an employee compensation plan of trivago. For additional information, see Note 2 Acquisitions and Dispositions in the notes to the consolidated financial statements.

Operating Income (Loss)

	Three months ended March 31, 2013	2012	% Change
	($ in millions)		
Operating income (loss)	$ (106)	$ 49	(317%)
% of revenue	(10.4%)	6.0%	

Operating income decreased for the three months ended March 31, 2013, compared to the same period in 2012, primarily increases in operating expenses in excess of revenue as described above, including the charges related to the Hawaii general excise tax litigation and acquisition-related and other expenses in the current period, partially offset by the growth in revenue.

Interest Income and Expense

	Three months ended March 31, 2013	2012	% Change
	($ in millions)		
Interest income	$ 6	$ 6	3%
Interest expense	(22)	(21)	2%

Interest income and interest expense was consistent for the three months ended March 31, 2013, compared to the same period in 2012.

Other, Net

Other, net changed to income of $2 million for the three months ended March 31, 2013 from a loss of $6 million for the three months ended March 31, 2012 primarily due to net foreign exchange rate gains of $3 million in the current period compared to net foreign exchange rate losses of $3 million in the prior period as well as $2 million in lower equity method operating losses in the current period.

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Provision for Income Taxes

	Three months ended March 31, 2013	2012	% Change
	($ in millions)		
Provision for income taxes	$ (12)	$ 5	(327%)
Effective tax rate	10.0%	19.5%	

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

Our effective tax rate benefit of 10.0% for the three months ended March 31, 2013 was lower than the 35% federal statutory rate and the effective tax rate for the three months ended March 31, 2012 primarily due to non-deductible stock-based compensation recorded in relation to the trivago acquisiton and non-deductible penalties included in the Hawaii pay-to-play assessments both of which lowered our effective tax rate benefit on our pre-tax losses for the current quarter. Our effective tax rate was 19.5% for the three months ended March 31, 2012, which was lower than the 35% federal statutory rate primarily due to estimated earnings in jurisdictions outside the United States and accruals related to uncertain tax positions, partially offset by state income taxes.

Discontinued Operations, Net of Taxes

On December 20, 2011, following the close of trading on the Nasdaq Stock Market, we completed the spin-off of TripAdvisor, Inc. (TripAdvisor), which consisted of the domestic and international operations previously associated with our TripAdvisor Media Group, to Expedia stockholders. During the three months ended March 31, 2012, we incurred a loss from early extinguishment of our 8.5% senior notes due 2016 (the 8.5% Notes) resulting directly from the spin-off of TripAdvisor. The pre-tax loss was approximately $38 million (or $24 million net of tax), which included an early redemption premium of $33 million and the write-off of $5 million of unamortized debt issuance and discount costs. This loss was recorded within discontinued operations in the first quarter of 2012, as that was the period in which the 8.5% Notes were legally extinguished.

Financial Position, Liquidity and Capital Resources

Our principal sources of liquidity are cash flows generated from operations; our cash and cash equivalents and short-term investment balances, which were $2.1 billion and $1.9 billion at March 31, 2013 and December 31, 2012, including $317 million and $309 million of cash and short-term investment balances of majority-owned subsidiaries as well as $64 million and $57 million held in foreign subsidiaries related to earnings indefinitely invested outside the United States; and our $1 billion revolving credit facility, which expires in November 2017. As of March 31, 2013, $978 million was available under the facility representing the total $1 billion facility less $22 million of outstanding stand-by letters of credit. The revolver provides capacity in excess of the outstanding balance of the 7.456% senior notes in the event of a partial or full redemption at the option of the holders in August 2013. The revolving credit facility bears interest based on the Company s credit ratings, with drawn amounts bearing interest at LIBOR plus 150 basis points, and the commitment fee on undrawn amounts at 20 basis points as of March 31, 2013.

Our credit ratings are periodically reviewed by rating agencies. In April 2011, in response to our announcement of the TripAdvisor spin-off, Moody s affirmed its Ba1 rating and changed its outlook to from positive to stable, while S&P and Fitch placed the Company s ratings on Credit Watch with negative implications and Rating Watch Negative, respectively. In October 2011, Fitch affirmed its rating at BBB- and removed the rating from Rating Watch Negative, with an outlook of stable. In December 2011, S&P affirmed the Company s BBB- rating and removed the ratings from Credit Watch, with an outlook of stable. In October 2012, Fitch affirmed its rating at BBB- with an outlook of stable. In December 2012, both S&P and Moody s indicated the Company s planned investment in trivago would not impact its credit ratings. In April 2013, Moody s affirmed its Ba1 rating with an outlook of stable. Changes in our operating results, cash flows, financial position, capital structure, financial policy or capital allocations to share repurchase, dividends, investments and acquisitions could impact the ratings assigned by the various rating agencies. Should our credit ratings be adjusted downward, we may incur higher costs to borrow and/or limited access to capital markets, which could have a material impact on our financial condition and results of operations.

Under the merchant model, we receive cash from travelers at the time of booking and we record these amounts on our consolidated balance sheets as deferred merchant bookings. We pay our airline suppliers related to these merchant model bookings generally within a few weeks after completing the transaction, but we are liable for the full value of such transactions until the flights are completed. For most other merchant bookings, which is primarily our merchant hotel business, we generally pay after the travelers use and, in some cases, subsequent billing from the hotel suppliers. Therefore, generally we receive cash from the traveler prior to paying our supplier, and this operating cycle represents a working capital source of cash to us. As long as the merchant hotel business grows, we expect that changes in working capital related to merchant hotel transactions will positively impact operating cash flows. However, we continue to evaluate the use of the merchant model versus the agency model in each of our markets. If the merchant hotel model declines relative to our other business models that generally consume working capital such as agency hotel, managed corporate travel or media, or if there are changes to the merchant model or booking patterns which compress the time of receipts of cash from travelers to payment to suppliers, our overall working capital benefits could be reduced, eliminated, or even reversed.

For example, we recently started introducing new technology to our hotel supply partners, which will enable closer integration of the agency hotel model with our core merchant offering in the United States and Europe. Depending on relative traveler and supplier and traveler adoption rates and customer payment preferences, among other things, the introduction of ETP could negatively impact near term working capital cash balances, cash flow over time, liquidity and the margin we earn per booking.

Seasonal fluctuations in our merchant hotel bookings affect the timing of our annual cash flows. During the first half of the year, hotel bookings have traditionally exceeded stays, resulting in much higher cash flow related to working capital. During the second half of the year, this pattern reverses and cash flows are typically negative. While we expect the impact of seasonal fluctuations to continue, merchant hotel growth rates, changes to the model or booking patterns, as well as changes in the relative mix of merchant hotel transactions compared with transactions in our working capital consuming businesses, including ETP, may counteract or intensify the anticipated seasonal fluctuations.

As of March 31, 2013, we had a deficit in our working capital of $1.0 billion, compared to a deficit of $368 million as of December 31, 2012. The change in deficit was primarily due to financing and investing activities, including business acquisitions and share repurchases during the first quarter of 2013.

We continue to invest in the development and expansion of our operations. Ongoing investments include but are not limited to improvements in infrastructure, which include our servers, networking equipment and software, release improvements to our software code, platform migrations and consolidation and search engine marketing and optimization efforts. Our future capital requirements may include capital needs for acquisitions, share repurchases, dividend payments or expenditures in support of our business strategy; thus reducing our cash balance and/or increasing our debt. Our capital expenditures for full year 2013 are expected to be above 2012 spending levels.

Our cash flows are as follows:

	Three months ended March 31,		
	2013	2012	$ Change
		(In millions)	
Cash provided by (used in) continuing operations:			
Operating activities	$ 881	$ 848	$ 33
Investing activities	(975)	(98)	(877)
Financing activities	(78)	(175)	97
Net cash used in discontinued operations		(8)	8
Effect of foreign exchange rate changes on cash and cash equivalents	(38)	16	(54)

For the three months ended March 31, 2013, net cash provided by operating activities increased by $33 million primarily due to increased benefits from working capital changes.

For the three months ended March 31, 2013, cash used in investing activities increased by $877 million primarily due to our acquistion of controlling interest in trivago in March 2013 for $540 million, net of cash acquired, an increase in net purchases of investments of $300 million as well as an increase in capital expenditures of $36 million, which includes a 50% ownership interest in an aircraft for which we paid $23 million.

Cash used in financing activities for the three months ended March 31, 2013 primarily included cash paid to acquire shares of $118 million, including the repurchased shares under the 2012 authorization discussed below, and $18 million cash dividend payment, partially offset by $46 million of proceeds from the exercise of options and the issuance of treasury stock. Cash used in financing activities for the three months ended March 31, 2012 primarily included cash paid to acquire shares of $198 million, including the repurchased shares under the 2010 authorization, as well as a $12 million cash dividend payment, partially offset by $32 million of proceeds from the exercise of equity awards.

In 2010, 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. This authorization was exhausted in the second quarter of 2012. In 2012, the Executive Committee, acting on behalf of the Board of Directors, authorized an additional repurchase of up to 20 million outstanding shares of our common stock. During the three months ended March 31, 2013 and 2012, we repurchased, through open market transactions, 1.7 million and 5.8 million shares under these authorizations for a total cost of $111 million and $192 million, excluding transaction costs. As of March 31, 2013, 16.3 million shares remain authorized for repurchase under the 2012 authorization with no fixed termination date for the repurchases. Subsequent to the end of the first quarter of 2013, we repurchased an additional 0.3 million shares under the 2012 authorization for a total cost of $16 million, excluding transaction costs, representing an average repurchase price of $61.80 per share.

In the first quarter of 2013 and 2012, the Executive Committee, acting on behalf of the Board of Directors, declared and we paid a quarterly cash dividend of $0.13 and $0.09 per share of outstanding common stock. In addition, on April 24, 2013, the Executive Committee, acting on behalf of the Board of Directors, declared a quarterly cash dividend of $0.13 per share of outstanding common stock payable on June 19, 2013 to stockholders of record as of the close of business on May 30, 2013. Future declarations of dividends are subject to final determination of our Board of Directors.

The effect of foreign exchange on our cash balances denominated in foreign currency during the three months ended March 31, 2013 compared to the prior year period showed a net change of $54 million reflecting depreciation in currencies.

In connection with various occupancy and other tax audits and assessments, certain jurisdictions may assert that tax payers are required to pay any assessed taxes prior to being allowed to contest or litigate the applicability of the ordinances, which is referred to as pay to play. These jurisdictions may also attempt to require that we pay any assessed taxes prior to being allowed to contest or litigate the applicability of similar tax ordinances. 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 will continue to defend our position vigorously. As of March 31, 2013, we have accrued $170 million related to general excise tax assessments and related penalties and interest in Hawaii, of which we expect to pay $110 million on or about April 26, 2013. All amounts paid will be to the detriment of operating cash flows.

In our opinion, available cash, funds from operations and available borrowings will provide sufficient capital resources to meet our foreseeable liquidity needs. There can be no assurance, however, that the cost or availability of future borrowings, including refinancings, if any, will be available on terms acceptable to us.

Contractual Obligations, Commercial Commitments and Off-balance Sheet Arrangements

There have been no material changes outside the normal course of business to our contractual obligations and commercial commitments since December 31, 2012. Other than our contractual obligations and commercial commitments, we did not have any off-balance sheet arrangements as of March 31, 2013 or December 31, 2012.

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Certain Relationships and Related Party Transactions

For a discussion of certain relationships and related party transactions, see Note 9 Related Party Transactions in the notes to the consolidated financial statements.

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Part I. Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk Management

There has been no material changes in our market risk during the three months ended March 31, 2013. For additional information, see Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in Part II of our Annual Report on Form 10-K for the year ended December 31, 2012.

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Part I. Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures.

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the Exchange Act), our management, including our Chairman and Senior Executive, Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act). Based upon that evaluation, our Chairman and Senior Executive, Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

Changes in internal control over financial reporting.

There were no changes to our internal control over financial reporting that occurred during the quarter ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Part II. Item 1. Legal Proceedings

In the ordinary course of business, Expedia and its subsidiaries are parties to legal proceedings and claims involving property, personal injury, contract, alleged infringement of third party intellectual property rights and other claims. A discussion of certain legal proceedings can be found in the section titled Legal Proceedings, of our Annual Report on Form 10-K for the year ended December 31, 2012. The following are developments regarding such legal proceedings:

Litigation Relating to Hotel Occupancy Taxes

Actions Filed by Individual States, Cities and Counties

City of Los Angeles, Litigation. On April 18, 2013, the trial court held that the online travel companies are not liable to remit hotel occupancy taxes to the city of Los Angeles.

San Antonio, Texas Litigation. On April 4, 2013, the court entered a final judgment holding the online travel companies liable for hotel occupancy taxes to counties and cities in the statewide class.

City of Gallup, New Mexico Litigation. On March 29, 2013, the court denied the city of Gallup s claim that the online travel companies collected taxes that have not been remitted to the city and dismissed the city s remaining claims in the case. Final judgment was entered on April 2, 2013.

Nassau County, New York Litigation. On April 11, 2013, the court granted plaintiff s motion for class certification.

Branson, Missouri Litigation. On March 1, 2013, Branson filed an application to transfer to the Missouri Supreme Court.

City of San Francisco Litigation. On February 6, 2013, the court held that the online travel companies are not liable to remit hotel occupancy taxes to the city of San Francisco.

Pine Bluff, Arkansas Litigation. On February 19, 2013, the court granted plaintiffs motion for class certification.

Leon County, Florida et al. Litigation. On February 23, 2013, the court of appeals affirmed the trial court decision in the Leon County, Florida litigation that online travel companies are not liable for hotel occupancy taxes. The counties filed a Motion for Rehearing En Banc Or In The Alternative Requiring A Certification To The Florida Supreme Court Of A Question Of Great Public Interest. On April 16, 2013, the court of appeals denied the request for rehearing en banc, but granted the petition for certification to the Florida Supreme Court. The Florida Supreme Court will now decide if it will hear the case.

Florida Attorney General Litigation. On April 8, 2013, the plaintiff voluntarily dismissed the action.

McAllister Arkansas Citizen-Taxpayer Litigation. On February 26, 2013, the online travel companies filed a motion for reconsideration of the court s February 2012 denial of their motion to dismiss or, in the alternative, for judgment on the pleadings. A hearing on that motion is scheduled for April 22, 2013.

The following additional cases were filed during the first quarter of 2013:

City of Fargo, North Dakota Litigation. On February 25, 2013, the city of Fargo, North Dakota brought a lawsuit against a number of online travel companies, including Expedia, Hotels.com and Hotwire, for hotel occupancy taxes. *City of Fargo v. Expedia,* Inc., et al. (District Court, County of Cass, North Dakota). The complaint alleges claims for failure to pay taxes in violation of municipal ordinance, conversion, unjust enrichment, and injunctive relief.

City of Warrenville, Illinois Litigation. On April 5, 2013, a group of Illinois municipalities (City of Warrenville, Village of Bedford Park, City of Oakbrook Terrace, Village of Oak Lawn, Village of Orland Hills, City of Rockford and Village of Willowbrook) filed a putative class action in Illinois federal court against a number of online travel companies, including Expedia, Hotels.com and Hotwire. *City of Warrenville, et al. v. Priceline.com, Incorporated, et al.*, Case No. 1:13-cv-02586 (USDC, N. D. Ill., Eastern Division). The complaint seeks certification of a class of all Illinois municipalities (broken into four alleged subclasses) that have enacted and collect a tax on the percentage of the retail rate that each consumer occupant pays for

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Part II. Item 1. Legal Proceedings

lodging, including service costs, denominated in any manner, including but not limited to occupancy tax, a hotel or motel room tax, a use tax, a privilege tax, a hotel or motel tax, a licensing tax, an accommodations tax, a rental receipts tax, a hotel operator s tax, a hotel operator s occupation tax, or a room rental, lease or letting tax. The complaint alleges claims for relief for declaratory judgment, violations of municipal ordinances, conversion, civil conspiracy, unjust enrichment, imposition of a constructive trust, damages and punitive damages.

Notices of Audit or Tax Assessments

At various times, the Company has also received notices of audit, or tax assessments from municipalities and other taxing jurisdictions concerning our possible obligations with respect to state and local hotel occupancy or related taxes, which are listed in the section titled Legal Proceedings of our Annual Report on Form 10-K for the year ended December 31, 2012.

The Company believes that the claims discussed above lack merit and will continue to defend vigorously against them.

Actions Filed by Expedia

Broward County, Florida Litigation. On February 5, 2013, Broward County filed a notice of appeal of the trial court s decision in favor of the online travel companies.

City of Portland Litigation. A hearing on the city and county defendants motion for leave to amend their complaint is scheduled for May 6, 2013.

Denver, Colorado Litigation. On March 12, 2013, the trial court held that the online travel companies are liable for hotel occupancy taxes to the city and county of Denver, but held that taxes may not be collected for periods prior to April 2007 due to the bar of the statute of limitations.

State of Wyoming Litigation. On February 28, 2013, the Wyoming Board of Equalization ruled that the online travel companies are liable for sales tax on their online services to the State of Wyoming. The online travel companies have appealed. The Wyoming District Court has certified the appeal to the Wyoming Supreme Court, which has not yet determined whether it will hear the appeal directly or require review by the District Court first.

Other Tax Litigation

Hawaii General Excise Tax. On March 15, 2013, the court held that the online travel companies are liable for penalties. Under this ruling the state is seeking penalties and interest of $60 million against the Expedia subsidiaries, representing 50% of the tax liability plus interest thereon. On March 28, 2013, the online travel companies filed a petition for mandamus to the Hawaii Supreme Court requesting that the court reverse the trial court s ruling that online travel companies must remit tax on gross bookings and therefore subject the hotel s charge for the room to double taxation. On April 22, 2013, the Hawaii Supreme Court denied the online travel companies petition for mandamus. The case will now proceed on appeal. The state has dismissed without prejudice its common law claims for recovery of taxes.

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Part II. Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed below and in Part I, Item 1A, Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2012, which could materially affect our business, financial condition or future results. The risks described below and in our Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

Share Repurchases

During 2012, 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. A summary of the repurchase activity for the first quarter of 2013 is as follows:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under Plans or Programs
		(In thousands, expect per share data)		
January 1-31, 2013		$		18,065
February 1-28, 2013	1,000	64.42	1,000	17,065
March 1-31, 2013	740	63.14	740	16,325
Total	1,740	$ 63.87	1,740	

Subsequent to the end of the first quarter of 2013, we repurchased an additional 0.3 million shares under the 2012 authorization for a total cost of $16 million, excluding transaction costs, representing an average repurchase price of $61.80 per share.

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Part II. Item 6. Exhibits

The exhibits listed below are filed as part of this Quarterly Report on Form 10-Q.

Exhibit		Filed	Incorporated by Reference			
No.	Exhibit Description	Herewith	Form	SEC File No.	Exhibit	Filing Date
31.1	Certification of the Chairman and Senior Executive pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
31.2	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
31.3	Certification of the Chief Financial Officer pursuant Section 302 of the Sarbanes-Oxley Act of 2002	X				
32.1	Certification of the Chairman and Senior Executive pursuant Section 906 of the Sarbanes-Oxley Act of 2002	X				
32.2	Certification of the Chief Executive Officer pursuant Section 906 of the Sarbanes-Oxley Act of 2002	X				
32.3	Certification of the Chief Financial Officer pursuant Section 906 of the Sarbanes-Oxley Act of 2002	X				
101*	The following financial statements from the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, formatted in XBRL: (i) Consolidated Statements of Operations, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements.					

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Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

April 25, 2013	Expedia, Inc.
	By: /s/ MARK D. OKERSTROM Mark D. Okerstrom Chief Financial Officer

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