

TripAdvisor, Inc.  
Form 10-Q  
November 05, 2012  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from            to

Commission file number: 001-35362

**TRIPADVISOR, INC.**

(Exact name of registrant as specified in its charter)

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

**80-0743202**  
(I.R.S. Employer  
Identification No.)

**141 Needham Street**  
**Newton, MA 02464**

(Address of principal executive office) (Zip Code)

**Registrant's telephone number, including area code:**

**(617) 670-6300**

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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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

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

<b>Class</b>	<b>Outstanding Shares at October 30, 2012</b>
Common Stock, \$0.001 par value per share	129,543,981 shares
Class B common stock, \$0.001 par value per share	12,799,999 shares

**Table of Contents**

**TripAdvisor, Inc.**

**Form 10-Q**

**For the Quarter Ended September 30, 2012**

**Table of Contents**

	<b>Page</b>
<b>Part I Financial Information</b>	
Item 1. Unaudited Financial Statements	
<u>Consolidated and Combined Statements of Operations (Unaudited) for the Three and Nine Months Ended September 30, 2012 and 2011</u>	3
<u>Consolidated and Combined Statements of Comprehensive Income (Unaudited) for the Three and Nine Months Ended September 30, 2012 and 2011</u>	4
<u>Consolidated Balance Sheets (Unaudited) at September 30, 2012 and December 31, 2011</u>	5
<u>Consolidated Statement of Changes in Stockholders' Equity (Unaudited) for the Nine Months Ended September 30, 2012</u>	6
<u>Consolidated and Combined Statements of Cash Flows (Unaudited) for the Nine Months Ended September 30, 2012 and 2011</u>	7
<u>Notes to Unaudited Consolidated and Combined Financial Statements</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	38
<u>Item 4. Controls and Procedures</u>	39
<b>Part II Other Information</b>	
<u>Item 1. Legal Proceedings</u>	40
<u>Item 1A. Risk Factors</u>	40
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	40
<u>Item 4. Mine Safety Disclosures</u>	40
<u>Item 6. Exhibits</u>	40
<b>Signature</b>	42

**Table of Contents****TRIPADVISOR, INC.****UNAUDITED CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS**

(In thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Revenue	\$ 155,835	\$ 120,384	\$ 429,370	\$ 325,705
Related-party revenue from Expedia	56,875	60,417	164,203	173,560
<b>Total revenue</b>	<b>212,710</b>	<b>180,801</b>	<b>593,573</b>	<b>499,265</b>
Costs and expenses:				
Cost of revenue (exclusive of amortization) (1)	2,876	3,227	8,536	8,193
Selling and marketing(2)	67,647	60,349	199,279	157,229
Technology and content(2)	23,535	14,748	62,950	41,216
General and administrative(2)	20,056	9,194	54,562	25,332
Related-party shared services fee to Expedia		1,980		5,940
Depreciation	5,037	4,630	14,033	13,246
Amortization of intangible assets	1,310	2,394	4,909	5,643
Spin-off costs		2,211		3,265
<b>Total costs and expenses</b>	<b>120,461</b>	<b>98,733</b>	<b>344,269</b>	<b>260,064</b>
Operating income	92,249	82,068	249,304	239,201
Other income (expense):				
Interest (expense) income, net	(2,806)	212	(8,143)	527
Other, net	1,367	(2,802)	(2,476)	(1,380)
<b>Total other expense, net</b>	<b>(1,439)</b>	<b>(2,590)</b>	<b>(10,619)</b>	<b>(853)</b>
Income before income taxes	90,810	79,478	238,685	238,348
Provision for income taxes	(31,275)	(25,185)	(77,814)	(82,574)
Net income	59,535	54,293	160,871	155,774
Net (income) loss attributable to noncontrolling interests	(175)	21	(381)	(118)
<b>Net income attributable to TripAdvisor, Inc.</b>	<b>\$ 59,360</b>	<b>\$ 54,314</b>	<b>\$ 160,490</b>	<b>\$ 155,656</b>
Earnings Per Share attributable to TripAdvisor, Inc.:				
Basic	\$ 0.42	\$ 0.41	\$ 1.16	\$ 1.17
Diluted	0.41	0.41	1.14	1.17
Weighted Average Common Shares Outstanding:				
Basic	142,342	133,461	138,458	133,461
Diluted	143,657	133,461	140,517	133,461
(1) Excludes amortization as follows:				
Amortization of acquired technology included in amortization of intangibles	\$ 183	\$ 71	\$ 547	\$ 396
Amortization of website development costs included in depreciation	3,231	3,197	8,923	8,920
	\$ 3,414	\$ 3,268	\$ 9,470	\$ 9,316
(2) Includes stock-based compensation as follows:				
Selling and marketing	\$ 1,184	\$ 568	\$ 3,185	\$ 1,962

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Technology and content	3,187	750	7,125	2,277
General and administrative	4,092	719	9,613	2,240

The accompanying notes are an integral part of these consolidated and combined financial statements.

**Table of Contents****TRIPADVISOR, INC.****UNAUDITED CONSOLIDATED AND COMBINED STATEMENTS OF COMPREHENSIVE INCOME****(In thousands)**

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Net income	\$ 59,535	\$ 54,293	\$ 160,871	\$ 155,774
Other comprehensive income(loss):				
Foreign currency translation adjustments	1,724	(1,203)	1,955	(545)
Comprehensive income	61,259	53,090	162,826	155,229
Less: Comprehensive (income) loss attributable to noncontrolling interests	(175)	21	(381)	(118)
Comprehensive income attributable to TripAdvisor, Inc.	\$ 61,084	\$ 53,111	\$ 162,445	\$ 155,111

The accompanying notes are an integral part of these consolidated and combined financial statements.

**Table of Contents****TRIPADVISOR, INC.****UNAUDITED CONSOLIDATED BALANCE SHEETS**

(In thousands, except share and per share data)

	September 30, 2012	December 31, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 548,372	\$ 183,532
Accounts receivable, net of allowance of \$2,482 and \$5,370 at September 30, 2012 and December 31, 2011, respectively	103,080	67,936
Receivable from Expedia, net	32,549	14,081
Deferred income taxes, net	6,648	6,494
Prepaid expenses and other current assets	8,934	6,279
Total current assets	699,583	278,322
Long-term assets:		
Property and equipment, net	41,133	34,754
Other long-term assets	10,483	11,888
Intangible assets, net	39,399	44,030
Goodwill	468,685	466,892
Total long-term assets	559,700	557,564
<b>TOTAL ASSETS</b>	<b>\$ 1,259,283</b>	<b>\$ 835,886</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 20,421	\$ 12,097
Deferred revenue	30,014	19,395
Credit facility borrowings	29,483	26,734
Borrowings, current	35,000	20,000
Taxes payable	14,945	17,229
Accrued expenses and other current liabilities	47,662	31,075
Total current liabilities	177,525	126,530
Long-term liabilities:		
Deferred income taxes, net	13,399	16,004
Other long-term liabilities	15,070	15,952
Borrowings, net of current portion	350,000	380,000
Total long-term liabilities	378,469	411,956
Total Liabilities	555,994	538,486
Redeemable noncontrolling interest (See Note 12)	14,645	3,863
Commitments and Contingencies (See Note 5)		
Stockholders' equity:		
Preferred stock \$0.001 par value		
Authorized shares: 100,000,000		



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Shares issued and outstanding: 0 and 0		
Common stock \$0.001 par value	130	121
Authorized shares: 1,600,000,000		
Shares issued and outstanding: 129,560,833 and 120,661,808		
Class B common stock \$0.001 par value	13	13
Authorized shares 400,000,000		
Shares issued and outstanding: 12,799,999 and 12,799,999		
Additional paid-in capital	526,397	293,744
Retained earnings	162,859	2,369
Accumulated other comprehensive loss	(755)	(2,710)
Total stockholders' equity	688,644	293,537
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 1,259,283</b>	<b>\$ 835,886</b>

The accompanying notes are an integral part of these consolidated and combined financial statements.

Table of Contents

## TRIPADVISOR, INC.

## UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012

(In thousands, except share data)

	Common stock		Class B common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive (loss) income	Total
	Shares	Amount	Shares	Amount				
<b>Balance as of December 31, 2011</b>	<b>120,661,808</b>	<b>\$ 121</b>	<b>12,799,999</b>	<b>\$ 13</b>	<b>\$ 293,744</b>	<b>\$ 2,369</b>	<b>\$ (2,710)</b>	<b>\$ 293,537</b>
Net income attributable to TripAdvisor, Inc.						160,490		160,490
Currency translation adjustments							1,955	1,955
Tax benefits on equity awards					2,393			2,393
Issuance of common stock related to exercise of options and warrants and vesting of RSUs	8,899,025	9			226,242			226,251
Minimum withholding tax on vesting of RSUs					(3,689)			(3,689)
Adjustment to the fair value of redeemable noncontrolling interest					(7,951)			(7,951)
Reclassification of non-employee equity awards to liability					(1,174)			(1,174)
Stock-based compensation expense					16,888			16,888
Other					(56)			(56)
<b>Balance as of September 30, 2012</b>	<b>129,560,833</b>	<b>\$ 130</b>	<b>12,799,999</b>	<b>\$ 13</b>	<b>\$ 526,397</b>	<b>\$ 162,859</b>	<b>\$ (755)</b>	<b>\$ 688,644</b>

The accompanying notes are an integral part of these consolidated and combined financial statements.

**Table of Contents****TRIPADVISOR, INC.****UNAUDITED CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS**

(in thousands)

	Nine months ended September 30,	
	2012	2011
<b>Operating activities:</b>		
Net income	\$ 160,871	\$ 155,774
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property and equipment, including internal-use software and website development	14,033	13,246
Stock-based compensation	19,923	6,479
Amortization of intangible assets	4,909	5,643
Amortization of deferred financing costs	683	
Deferred tax benefit	413	(174)
Excess tax benefits from stock-based compensation	(2,189)	(1,651)
Provision for doubtful accounts	(1,584)	601
Foreign exchange (gain) loss on cash and cash equivalents, net	1,779	(16)
Other	21	215
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(32,461)	(21,480)
Related parties	(25,500)	
Prepaid expenses and other current assets	(1,885)	(1,774)
Accounts payable	8,877	18,214
Taxes payable	(4,534)	6,608
Accrued expenses and other current liabilities	14,190	2,935
Deferred revenue	10,383	7,101
<b>Net cash provided by operating activities</b>	<b>167,929</b>	<b>191,721</b>
<b>Investing activities:</b>		
Acquisitions, net of cash acquired		(7,894)
Capital expenditures, including internal-use software and website development	(20,587)	(16,029)
Distribution proceeds from Expedia related to Spin-Off	7,028	
Transfers to Expedia, net		(104,013)
Maturity of short-term investments		20,356
<b>Net cash used in investing activities</b>	<b>(13,559)</b>	<b>(107,580)</b>
<b>Financing activities:</b>		
Acquisitions funded by Expedia		5,135
Proceeds from credit facilities	12,798	4,321
Payments on credit facilities	(10,000)	
Principal payments on long-term debt	(15,000)	
Proceeds from exercise of stock options and warrants	226,251	
Payment of minimum withholding taxes on RSU vesting	(3,689)	
Excess tax benefits from stock-based compensation	2,189	1,651
<b>Net cash provided by financing activities</b>	<b>212,549</b>	<b>11,107</b>
Effect of exchange rate changes on cash and cash equivalents	(2,079)	(1)
<b>Net increase in cash and cash equivalents</b>	<b>364,840</b>	<b>95,247</b>
Cash and cash equivalents at beginning of year	183,532	93,133

<b>Cash and cash equivalents at end of period</b>	\$ 548,372	\$ 188,380
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The accompanying notes are an integral part of these consolidated and combined financial statements.

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**Table of Contents**

**TRIPADVISOR, INC.**

**UNAUDITED NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**

**NOTE 1: ORGANIZATION AND BASIS OF PRESENTATION**

We refer to TripAdvisor, Inc. and our wholly-owned subsidiaries as TripAdvisor, us, we and our in these notes to the consolidated and combined financial statements.

***Description of Business***

TripAdvisor is an online travel company, empowering users to plan and have the perfect trip. TripAdvisor's travel research platform aggregates reviews and opinions of members about destinations, accommodations (hotels, bed and breakfasts, specialty lodging and vacation rentals), restaurants and activities throughout the world through our flagship TripAdvisor brand. TripAdvisor-branded websites include tripadvisor.com in the United States and localized versions of the website in 29 other countries, including in China under the brand daodao.com. Beyond travel-related content, TripAdvisor websites also include links to the websites of our travel advertisers allowing travelers to directly book their travel arrangements. In addition to the flagship TripAdvisor brand, we manage and operate websites under 19 other travel brands, connected by the common goal of providing comprehensive travel planning resources across the travel sector. We derive substantially all of our revenue from advertising, primarily through click-based advertising and display-based advertising sales. In addition, we earn revenue through a combination of subscription-based offerings, transaction revenue from our flash sale website, SniqueAway, and from our recently-launched hotel booking site, Tingo, and other revenue including content licensing.

***Spin-Off from Expedia***

On April 7, 2011, Expedia, Inc. ( Expedia ) announced its plan to separate into two independent public companies in order to better achieve certain strategic objectives of its various businesses. We refer to this transaction as the Spin-Off.

On December 20, 2011, following the close of trading on the NASDAQ Global Select Market ( NASDAQ ), the Spin-Off was completed, and TripAdvisor began trading as independent public company on December 21, 2011. Expedia effected the Spin-Off by means of a reclassification of its capital stock that resulted in the holders of Expedia capital stock immediately prior to the time of effectiveness of the reclassification having the right to receive a proportionate amount of TripAdvisor capital stock. A one-for-two reverse stock split of outstanding Expedia capital stock occurred immediately prior to the Spin-Off, with cash paid in lieu of fractional shares.

In connection with the Spin-Off, Expedia contributed or transferred all of the subsidiaries and assets relating to Expedia's TripAdvisor Media Group, which were comprised of the TripAdvisor Holdings, LLC combined financial statements, to TripAdvisor and TripAdvisor or one of its subsidiaries assumed all of the liabilities relating to Expedia's TripAdvisor Media Group. TripAdvisor now trades on the NASDAQ under the symbol TRIP .

On December 20, 2011, TripAdvisor Holdings, LLC, distributed approximately \$406 million in cash to Expedia in the form of a dividend, prior to completion of the Spin-Off. This distribution was funded through borrowings under a new credit agreement, dated as of December 20, 2011, among TripAdvisor, TripAdvisor Holdings, LLC, TripAdvisor LLC, the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent, and J.P. Morgan Europe Limited, as London agent. Such credit agreement together with all exhibits, schedules, annexes, certificates, assignments and related documents contemplated thereby is referred to herein as the Credit Agreement. The Credit Agreement provided for a five-year term loan (the Term Loan ) to TripAdvisor Holdings, LLC in a principal amount of \$400 million, repayable in quarterly installments equal to 1.25% of the original principal amount in year 2012 and 2.5% of the original principal amount in each year thereafter, with the balance payable on the final maturity date. The Credit Agreement also provides for a revolving credit facility (the Revolving Credit Facility ) with a maximum borrowing capacity of \$200 million. All outstanding principal and interest under the Term Loan and the Revolving Credit Facility will be due and payable, and the Revolving Credit Facility will terminate, on December 20, 2016.

***Basis of Presentation***

The accompanying unaudited consolidated and combined financial statements have been prepared by us in accordance with generally accepted accounting principles, or GAAP, for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared under generally accepted accounting principles for complete periods have been condensed or omitted pursuant to such regulations. In the opinion of management, all adjustments considered necessary for a fair presentation of our financial position, results of operations and cash flows have been included. All

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such adjustments are of a normal recurring nature. These unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated and combined financial statements for the year ended December 31, 2011 filed with the Securities and Exchange Commission ( SEC ) in our Annual Report on Form 10-K on March 15, 2012. The results for interim periods are not necessarily indicative of the results to be expected for the full year.

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## **Table of Contents**

The financial statements and related financial information pertaining to the period preceding the Spin-Off have been presented on a combined basis and reflect the results of TripAdvisor that were ultimately transferred to us as part of the Spin-Off. The financial statements and related financial information pertaining to the period subsequent to the Spin-Off have been presented on a consolidated basis. Prior to the Spin-Off, certain functions, including accounting, legal, tax, corporate development, treasury, employee benefits, financial reporting and real estate management, were historically managed by the corporate division of Expedia on behalf of its subsidiaries. The assets, liabilities and expenses related to the support of these centralized corporate functions have been allocated to us on a specific identification basis to the extent possible. Otherwise, allocations related to these services, in the form of a related-party services fee, were primarily based upon an estimate of the proportion of corporate amounts applicable to us. These allocations were determined on a basis that Expedia and we considered to be a reasonable reflection of the cost of services provided or the benefit received by us. These expenses were allocated based on a number of factors including headcount, estimated time spent and operating expenses. In the opinion of management, the assumptions and allocations have been made on a reasonable basis. Management believes that amounts allocated to TripAdvisor reflect a reasonable representation of the types of costs that would have been incurred if we had performed these functions as a stand-alone company. However, as estimation is inherent within the aforementioned allocation process, these combined financial statements do not include all of the actual amounts that would have been incurred had we been a stand-alone entity during the periods presented and also do not necessarily reflect our future financial position, results of operations and cash flows.

### ***Consolidation***

Our consolidated and combined financial statements include the accounts of TripAdvisor, our wholly owned subsidiaries, and entities we control, or in which we have a variable interest and are the primary beneficiary of expected cash profits or losses. We record our investments in entities that we do not control, but over which we have the ability to exercise significant influence, using the equity method. We record noncontrolling interest in our consolidated and combined financial statements to recognize the minority ownership interest in our consolidated subsidiaries. Noncontrolling interest in the earnings and losses of consolidated subsidiaries represent the share of net income or loss allocated to members or partners in our consolidated entities. Significant intercompany transactions between the TripAdvisor consolidated entities and accounts have been eliminated.

Certain of our subsidiaries that operate in China, have variable interests in affiliated entities in China in order to comply with Chinese laws and regulations, which restrict foreign investment in Internet content provision businesses. Although we do not own the capital stock of some of our Chinese affiliates, we consolidate their results as we are the primary beneficiary of the cash losses or profits of these variable interest affiliates and have the power to direct the activities of these affiliates. Our variable interest entities are not material for all periods presented.

### ***Accounting Estimates***

We use estimates and assumptions in the preparation of our consolidated and combined 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 consolidated and combined financial statements. These estimates and assumptions also affect the reported amount of net income or loss during any period. Our actual financial results could differ significantly from these estimates. The significant estimates underlying our consolidated and combined financial statements include revenue recognition; recoverability of long-lived assets, intangible assets and goodwill; income taxes; useful lives of property and equipment; purchase accounting and stock-based compensation.

### ***Reclassifications***

We have reclassified certain amounts related to our prior period results to conform to our current period presentation, specifically depreciation expense on the consolidated and combined statements of operations and our redeemable noncontrolling interest on the consolidated balance sheets.

During the fourth quarter of 2011, our management changed our non-GAAP financial measure that we use to measure our operating performance from Operating Income Before Amortization, or OIBA, to Adjusted Earnings Before Interest, Taxes, Depreciation, and Amortization, or Adjusted EBITDA. Consequently we have reclassified all of our depreciation expense, which previously had resided in technology and content expense and general and administrative expense, and have presented it as a separate line item on the consolidated and combined statement of operations. This reclassification had no net effect on either total operating expenses or total operating income. The table below provides a summary of that reclassification for the periods presented.

**Table of Contents**

	Three months ended September 30, 2011	Nine months ended September 30, 2011
	(In thousands)	
Depreciation	\$ 4,630	\$ 13,246
Technology and content	(3,658)	(10,627)
General and administrative	(972)	(2,619)
	\$	\$

**Seasonality**

Expenditures by travel advertisers tend to be seasonal. Traditionally, our strongest quarter has been the third quarter, which is a key travel research period, with the weakest quarter being the fourth quarter. However, adverse economic conditions or continued growth of our international operations with differing holiday peaks may influence the typical trend of our seasonality in the future.

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES****Accounting Policy Updates**

In the third quarter of 2012, we updated our accounting policy for Cash Equivalents and Marketable Securities which incorporates changes to our investment management policy as to how we may invest our cash on a prospective basis. In addition, during the third quarter of 2012, we established a policy for accounting for derivative financial instruments as we initiated using derivative financial instruments to manage our foreign currency exchange rate risk. Neither of these policy changes impacted consolidated and combined financial statements or related disclosures for any prior period.

**Cash Equivalents and Marketable Securities**

Our cash equivalents consist of highly liquid investments with maturities of three months or less at the date of purchase. Our marketable debt and equity securities have been classified and accounted for as available-for-sale. We determine the appropriate classification of our investments at the time of purchase and reevaluate the designations at each balance sheet date. We invest in highly-rated securities, and our investment policy generally limits the amount of credit exposure to any one issuer, industry group and currency. The policy requires investments to be investment grade, with the primary objective of minimizing the potential risk of principal loss and providing liquidity of investments sufficient to meet our operating and capital spending requirements and debt repayments.

We will classify our marketable debt securities as either short-term or long-term based on each instrument's underlying contractual maturity date and as to whether and when we intend to sell a particular security prior to its maturity date. Marketable debt securities with maturities of 12 months or less will be classified as short-term and marketable debt securities with maturities greater than 12 months will generally be classified as long-term. We classify our marketable equity securities, limited to money market funds and mutual funds, as either short-term or long-term based on the nature of each security and its availability for use in current operations. Our marketable debt and equity securities are carried at fair value, with the unrealized gains and losses, net of taxes, reported in accumulated other comprehensive income (loss) as a component of shareholders' equity. Fair values are determined for each individual security in the investment portfolio.

The cost of securities sold is based upon the specific identification method. We may sell certain of our marketable securities prior to their stated maturities for strategic reasons including, but not limited to, anticipation of credit deterioration and liquidity and duration management. The weighted average maturity of our total invested cash shall not exceed 12 months, and no security shall have a final maturity date greater than three years.

When evaluating an investment for other-than-temporary impairment, we review factors such as the length of time and extent to which fair value has been below its cost basis, the financial condition of the issuer and any changes thereto, and our intent to sell, or whether it is more likely than not it will be required to sell the investment before recovery of the investment's cost basis.



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## **Table of Contents**

### ***Fair Value Measurements***

We measure assets and liabilities at fair value based on the expected exit price, which is the amount that would be received on the sale of an asset or amount paid to transfer a liability, as the case may be, in an orderly transaction between market participants. As such, fair value may be based on assumptions that market participants would use in pricing an asset or liability. The authoritative guidance on fair value measurements establishes a consistent framework for measuring fair value on either a recurring or nonrecurring basis whereby inputs, used in valuation techniques, are assigned a hierarchical level. The following are the hierarchical levels of inputs to measure fair value:

Level 1 Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2 Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 Valuations based on unobservable inputs reflecting our own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

### ***Derivative Financial Instruments***

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. We account for our derivative instruments as either assets or liabilities and carry them at fair value.

For derivative instruments that hedge the exposure to variability in expected future cash flows that are designated as cash flow hedges, the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income ( AOCI ) in shareholders' equity and reclassified into income in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of the gain or loss on the derivative instrument, if any, is recognized in current income. To receive hedge accounting treatment, cash flow hedges must be highly effective in offsetting changes to expected future cash flows on hedged transactions. For options designated as cash flow hedges, changes in the time value are excluded from the assessment of hedge effectiveness and are recognized in income. For derivative instruments that hedge the exposure to changes in the fair value of an asset or a liability and that are designated as fair value hedges, both the net gain or loss on the derivative instrument as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in earnings in the current period. The net gain or loss on the effective portion of a derivative instrument that is designated as an economic hedge of the foreign currency translation exposure of the net investment in a foreign operation is reported in the same manner as a foreign currency translation adjustment. For forward exchange contracts designated as net investment hedges, we exclude changes in fair value relating to changes in the forward carry component from its definition of effectiveness. Accordingly, any gains or losses related to this component are recognized in current income. We have not entered into any cash flow, fair value or net investment hedges to date as of September 30, 2012.

Derivatives that do not qualify as hedges must be adjusted to fair value through current income. In certain circumstances, we enter into foreign currency forward exchange contracts ( forward contracts ) to reduce the effects of fluctuating foreign currency exchange rates on our cash flows denominated in foreign currencies. Our derivative instruments or forward contracts that were entered into and are not designated as hedges as of September 30, 2012 are disclosed below in Note 3, *Financial Instruments*. Monetary assets and liabilities denominated in a currency other than the functional currency of a given subsidiary are remeasured at spot rates in effect on the balance sheet date with the effects of changes in spot rates reported in Other (income) expense ( Other, net ) on our unaudited consolidated and combined statement of operations. Accordingly, fair value changes in the forward contracts help mitigate the changes in the value of the remeasured assets and liabilities attributable to changes in foreign currency exchange rates, except to the extent of the spot-forward differences. These differences are not expected to be significant due to the short-term nature of the contracts, which typically have average maturities at inception of less than one year.

### ***Recently Adopted Accounting Pronouncements***

#### ***Testing Goodwill for Impairment***

In September 2011, the FASB issued ASU 2011-08. ASU 2011-08 was issued to amend FASB Accounting Standards Codification ( ASC ) (Topic 350): Intangibles—Goodwill and Other. The guidance in ASU 2011-08 is intended to reduce complexity and costs by allowing an entity the option to first make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit. If entities determine, on the basis of qualitative factors, that it is more likely than not that the fair value of a reporting unit is

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less than the carrying amount, the two-step impairment test would be required. Otherwise, further testing would not be needed. The amendments in this update are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, and we adopted ASU 2011-08 on October 1, 2011 for the fiscal year 2011 goodwill impairment test. The adoption of ASU 2011-08 did not have a material impact on our consolidated and combined financial statements.

**Table of Contents*****Presentation of Other Comprehensive Income***

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation on Comprehensive Income ( ASU 2011-05 ). Under ASU 2011-05, there will no longer be the option to present items of other comprehensive income in the statement of stockholders' equity. ASU 2011-05 requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. ASU 2011-05 is effective for fiscal years and interim periods beginning after December 15, 2011 on a retrospective basis, with early adoption permitted. Accordingly, we have adopted the presentation requirements of ASU 2011-05 on December 31, 2011. The adoption of ASU 2011-05 did not have a material impact on our consolidated and combined financial statements.

***New Accounting Pronouncements Not Yet Adopted******Testing Indefinite-lived Intangibles for Impairment***

In July 2012, the FASB issued ASU 2012-02, which amends ASC Topic 350, Intangibles—Goodwill and Other. The guidance amends the impairment test for indefinite lived intangible assets other than goodwill by allowing companies to first assess qualitative factors to determine if it is more likely than not that an indefinite lived intangible asset is impaired and whether it is necessary to perform the impairment test of comparing the carrying amount with the recoverable amount of the indefinite lived intangible asset. This guidance is effective for interim and annual periods beginning after September 15, 2012, however, we have decided to early adopt and make it effective for our 2012 impairment review, which will take place in the fourth quarter. We do not anticipate that the adoption of this guidance will have a material impact on our consolidated and combined financial statements.

***Disclosure about Offsetting Assets and Liabilities***

In December 2011, the FASB issued ASU 2011-11, which amends ASC Subtopic 210-20, Offsetting. The guidance requires enhanced disclosures with improved information about financial instruments and derivative instruments that are either (i) offset in accordance with current guidance or (ii) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with current guidance. This guidance is effective for interim and annual periods beginning after January 1, 2013. The guidance is limited to the form and content of disclosures, and we do not anticipate that the adoption of this guidance will have an impact on our consolidated and combined financial statements.

For additional information about our critical accounting policies and estimates, refer to Note 2 *Significant Accounting Policies*, included in our Annual Report on Form 10-K filed on March 15, 2012 for the year ended December 31, 2011.

**NOTE 3: FINANCIAL INSTRUMENTS****Cash and Cash Equivalents**

The following tables show our cash and available-for-sale securities' adjusted cost, gross unrealized gains, gross unrealized losses and fair value by significant investment category recorded as cash and cash equivalents as of September 30, 2012 and December 31, 2011 (in thousands):

	September 30, 2012				Cash and Cash Equivalents
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	
Cash	\$ 279,225	\$	\$	\$ 279,225	\$ 279,225
Level 1:					
Money market funds	269,147			269,147	269,147
Total	\$ 548,372	\$	\$	\$ 548,372	\$ 548,372

**December 31, 2011**

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	<b>Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Cash and Cash Equivalents</b>
Cash	\$ 114,532	\$	\$	\$ 114,532	\$ 114,532
Level 1:					
Money market funds	69,000			69,000	69,000
Total	\$ 183,532	\$	\$	\$ 183,532	\$ 183,532

**Table of Contents**

We have classified our cash equivalents within Level 1 as we have valued our cash equivalents using quoted market prices. There were no sales of our cash equivalents for the three and nine months ended September 30, 2012 and 2011, respectively.

**Derivative Financial Instruments**

In the normal course of business, we are exposed to the impact of foreign currency fluctuations, which we mitigate through the use of derivative instruments. Accordingly, we have entered into forward contracts to reduce the effects of fluctuating foreign currency exchange rates on our cash flows denominated in foreign currencies. We do not use derivatives for trading or speculative purposes. In accordance with current accounting guidance on derivative instruments and hedging activities, we record all our derivative instruments as either an asset or liability measured at their fair value.

Our current forward contracts are not designated as hedges. Consequently, any gain or loss resulting from the change in fair value is recognized in the current period earnings. These gains or losses are offset by the exposure related to receivables and payables with our foreign subsidiaries. We recorded a loss in other income (expense) ( Other, net ), of \$0.3 million for the three and nine months ended September 30, 2012. No derivative instruments were entered into or settled during the three and nine months ended September 30, 2011 and no derivative instruments were settled during the three and nine months ended September 30, 2012.

The following table shows the fair value and notional principal amounts of our outstanding or unsettled derivative instruments that are not designated as hedging instruments:

(\$ in thousands)	Balance Sheet Caption	September 30, 2012		U.S. Dollar
		Fair Value of Derivative		Notional
		Asset	Liability	
Foreign exchange- forward contracts (current)	Accrued and other current liabilities (1)	\$	\$ 305	\$ (18,330)

(1) These derivative contracts mitigate changes in the value of remeasured foreign currency denominated monetary assets and liabilities attributable to changes in foreign currency exchange rates. Our current derivative contracts address foreign exchange fluctuations for the Euro versus the U.S. Dollar.

(2) The fair value of our derivative liability is measured using Level 2 fair value inputs. No derivative instruments were entered into during the year ended December 31, 2011.

**Concentration of Credit Risk**

Counterparties to currency exchange derivatives consist of major international financial institutions. We monitor our positions and the credit ratings of the counterparties involved and, by policy limits, the amount of credit exposure to any one party. While we may be exposed to potential losses due to the credit risk of non-performance by these counterparties, losses are not anticipated.

**Other Financial Instruments**

Other financial instruments not measured at fair value on a recurring basis include trade receivables, related party receivables, trade payables, short-term debt, accrued and other current liabilities and long-term debt. With the exception of long-term debt, the carrying amount approximates fair value because of the short maturity of these instruments as reported on the unaudited consolidated and combined balance sheet as of September 30, 2012 and December 31, 2011. The carrying value of the long-term borrowings outstanding on our Credit Agreement bear interest at a variable rate and therefore is also considered to approximate fair value.

One of our acquisitions made during 2008 includes noncontrolling interests with certain rights whereby we may acquire, and the minority shareholders may sell to us, the additional shares of the subsidiary, at fair value or at adjusted fair values at our discretion, beginning in the fourth quarter of 2012. Fair value determination has been based on various internal valuation techniques, including market comparables and discounted cash flow projections and is considered a Level 3 liability at September 30, 2012. The total liability balance at September 30, 2012

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and December 31, 2011 was \$14.6 million and \$3.9 million respectively, and is included in redeemable noncontrolling interests in the mezzanine section of the consolidated balance sheets. Refer to Note 12, *Redeemable Noncontrolling Interests* for additional information.

We did not have any Level 2 or Level 3 assets for the periods ended September 30, 2012 or December 31, 2011.

**Table of Contents****NOTE 4: DEBT*****Term Loan Facility Due 2016 and Revolving Credit Facility****Overview*

On December 20, 2011, in connection with the Spin-Off, we entered into the Credit Agreement, which provides \$600 million of borrowing including:

the Term Loan Facility, or Term Loan, in an aggregate principal amount of \$400 million with a term of five years due December 2016; and

the Revolving Credit Facility in an aggregate principal amount of \$200 million available in U.S. dollars, Euros and British pound sterling with a term of five years expiring December 2016.

The Term Loan and any loans under the Revolving Credit Facility bear interest by reference to a base rate or a Eurocurrency rate, in either case plus an applicable margin based on our leverage ratio. We are also required to pay a quarterly commitment fee, on the average daily unused portion of the Revolving Credit Facility for each fiscal quarter and fees in connection with the issuance of letters of credit. The Term Loan and loans under the Revolving Credit Facility currently bear interest at LIBOR plus 175 basis points, or the Eurocurrency Spread, or the alternate base rate ( ABR ) plus 75 basis points, and undrawn amounts are currently subject to a commitment fee of 30 basis points.

As of September 30, 2012 we are using a one-month interest period Eurocurrency Spread which is approximately 2.0% per annum. Interest is currently payable on a monthly basis while we are borrowing under the one-month interest rate period. The current interest rates are based on current assumptions, leverage and LIBOR rates and do not take into account that rates will reset periodically.

The Term Loan principal will be repayable in quarterly installments on the last day of each calendar quarter equal to 1.25%, with \$15 million paid during the nine months ended September 30, 2012. The payments for the year ending December 31, 2012 will be equal to 1.25% of the original principal amount and will be equal to 2.5% of the original principal amount in each year thereafter, with the balance due on the final maturity date.

The Revolving Credit Facility includes \$40 million of borrowing capacity available for letters of credit and \$40 million for borrowings on same-day notice. Immediately following the Spin-Off, \$10 million was drawn down under the Revolving Credit Facility, which was repaid during the three months ended March 31, 2012. As of September 30, 2012 there are no outstanding borrowings under our Revolving Credit Facility.

During the three and nine months ended September 30, 2012, we recorded total interest and commitment fees on our Credit Agreement of \$2.1 million and \$6.5 million, respectively, to interest expense on our consolidated statement of operations. All unpaid interest and commitment fee amounts as of September 30, 2012 were not material.

Total outstanding borrowings under the Credit Agreement consist of the following (in thousands):

	<b>September 30, 2012</b>
<b>Short-Term Debt:</b>	
Revolving Credit Facility	\$
Term Loan	35,000
<b>Total Short-Term Borrowings</b>	<b>\$ 35,000</b>
<b>Long-Term Debt:</b>	

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Term Loan	\$	350,000
<b>Total Long-Term Borrowings</b>	<b>\$</b>	<b>350,000</b>



**Table of Contents**

The remaining future minimum principal payment obligations due under the Credit Agreement related to our Term Loan is as follows as of September 30, 2012 (in thousands):

	<b>Payment Amount</b>
2012	\$ 5,000
2013	\$ 40,000
2014	\$ 40,000
2015	\$ 40,000
2016	\$ 260,000
Total	\$ 385,000

*Guarantees*

All obligations under the Credit Agreement are unconditionally guaranteed by us and each of our existing and subsequently acquired or organized direct or indirect wholly-owned domestic and foreign restricted subsidiaries, subject to certain exceptions for subsidiaries that are controlled foreign corporations, foreign subsidiaries in jurisdictions where applicable law would otherwise be violated, and non-material subsidiaries.

*Covenants*

The Credit Agreement contains a number of covenants that, among other things, restrict our ability to: incur additional indebtedness, create liens, enter into sale and leaseback transactions, engage in mergers or consolidations, sell or transfer assets, pay dividends and distributions or repurchase our capital stock, make investments, loans or advances, prepay certain subordinated indebtedness, make certain acquisitions, engage in certain transactions with affiliates, amend material agreements governing certain subordinated indebtedness, and change our fiscal year. The Credit Agreement also requires us to maintain a maximum leverage ratio and a minimum cash interest coverage ratio, and contain certain customary affirmative covenants and events of default, including a change of control. If an event of default occurs, the lenders under the Credit Agreement will be entitled to take various actions, including the acceleration of all amounts due under Credit Agreement and all actions permitted to be taken by a secured creditor.

As of September 30, 2012 we believe we are in compliance with all of our debt covenants.

The full text of the Credit Agreement is incorporated by reference to Exhibit 4.2 of our Annual Report on Form 10-K filed on March 15, 2012 for the year ending December 31, 2011.

*Chinese Credit Facilities*

In addition to our borrowings under the Credit Agreement, we maintain our Chinese Credit Facilities. As of September 30, 2012 and December 31, 2011, we had \$29.5 million and \$16.7 million of short term borrowings outstanding, respectively.

Certain of our Chinese subsidiaries entered into a RMB 138,600,000 (approximately \$22 million), one-year revolving credit facility with Bank of America (the Chinese Credit Facility BOA ) that has a current termination date of December 2012. During the third quarter of 2012 this credit line was increased to RMB 189,000,000 (approximately \$30 million). We currently have \$21.6 million of outstanding borrowings from this credit facility as of September 30, 2012. Our Chinese Credit Facility BOA currently bears interest based at 100% of the People's Bank of China's base rate and was 5.6% as of September 30, 2012.

In addition, during April 2012, certain of our Chinese subsidiaries entered into a RMB 125,000,000 (approximately \$20 million) one-year revolving credit facility with J.P. Morgan Chase Bank ( Chinese Credit Facility-JPM ). We currently have \$7.9 million of outstanding borrowings from this credit facility as of September 30, 2012. Our Chinese Credit Facility JPM currently bears interest based at 100% of the People's Bank of China's base rate and was 5.6% as of September 30, 2012.



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**Table of Contents**

**NOTE 5: COMMITMENTS AND CONTINGENCIES**

There have been no material changes to our commitments and contingencies since December 31, 2011. (Refer to Note 10 *Commitments and Contingencies*, in the Notes to our Consolidated and Combined Financial Statements in Item 8 of our Annual Report on Form 10-K filed on March 15, 2012 for the year ended December 31, 2011.)

In the ordinary course of business, we and our subsidiaries are parties to legal proceedings and claims involving alleged infringement of third-party intellectual property rights, defamation, and other claims. Rules of the SEC require the description of material pending legal proceedings, other than ordinary, routine litigation incident to the registrant's business, and advise that proceedings ordinarily need not be described if they primarily involve damages claims for amounts (exclusive of interest and costs) not individually exceeding 10% of the current assets of the registrant and its subsidiaries on a consolidated basis. In the judgment of management, none of the pending litigation matters that the Company and its subsidiaries are defending involves or is likely to involve amounts of that magnitude. There may be claims or actions pending or threatened against us of which we are currently not aware and the ultimate disposition of which could have a material adverse effect on us.

**NOTE 6: STOCK BASED AWARDS AND OTHER EQUITY INSTRUMENTS**

Stock-based compensation expense relates primarily to expense for restricted stock units (RSUs) and stock options. Our outstanding RSUs and stock options generally vest over five years and four years, respectively.

For the three and nine months ended September 30, 2012, we recognized total stock-based compensation expense of \$8.5 million and \$19.9 million, respectively. The total income tax benefit related to stock-based compensation expense was \$3.2 million and \$7.2 million for the three and nine months ended September 30, 2012, respectively. For the three and nine months ended September 30, 2011, we recognized total stock-based compensation expense of \$2.0 million and \$6.5 million, respectively. The total income tax benefit related to stock-based compensation expense was \$0.8 million and \$2.6 million for the three and nine months ended September 30, 2011, respectively.

*Stock Based Awards and Other Equity Instruments Assumed at Spin-Off*

Prior to the Spin-Off, we participated in the Amended and Restated Expedia, Inc. 2005 Stock and Annual Incentive Plan, under which we, through Expedia, granted RSUs, stock options, and other stock-based awards to our directors, officers, employees and consultants. Following the Spin-Off, these existing Expedia stock-based awards were primarily converted as follows:

Each vested stock option to purchase shares of Expedia common stock converted into an option to purchase shares of Expedia common stock and an option to purchase shares of TripAdvisor common stock;

Each unvested stock option to purchase shares of Expedia common stock converted into a stock option to purchase shares of common stock of the applicable company for which the employee was employed following the Spin-Off; and

All RSUs converted into RSUs of the applicable company for which the employee was employed following the Spin-Off.

In addition, upon Spin-Off, we entered into a warrant agreement (the *Warrant Agreement*) with Mellon Investor Services LLC and issued warrants exercisable for TripAdvisor common stock in respect of previously outstanding warrants exercisable for Expedia common stock that were adjusted on account of Expedia's reverse stock split and the Spin-Off. The warrants, which totaled 32,186,792 at Spin-Off, were subsequently converted into 7,952,456 shares of our common stock during the six months ended June 30, 2012, prior to their expiration date of May 7, 2012. Refer to our discussion below in this Note 6 *2012 Stock Warrant Activity* for a discussion of warrant activity during the nine months ended September 30, 2012.

One tranche of warrants (issued in respect of Expedia warrants that had featured an exercise price of \$12.23 per warrant prior to adjustment) were exercisable for 0.25 (one-quarter) of a share of TripAdvisor common stock at an exercise price equal to \$6.48 per warrant, and the other tranche of warrants (issued in respect of Expedia warrants that had featured an exercise price of \$14.45 per warrant prior to adjustment) were exercisable for 0.25 (one-quarter) of a share of TripAdvisor common stock at an exercise price equal to \$7.66 per warrant. The exercise price could have been paid in cash or via cashless exercise as set forth in the Warrant Agreement. In total, at Spin-Off, the warrants could be

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converted into a maximum of 8,046,698 shares of our common stock without any further adjustments to the Warrant Agreement.

Below is a summary of our stock-based awards and warrants issued upon completion of the conversion of existing Expedia stock-based awards and warrants into TripAdvisor stock-based awards and warrants on December 20, 2011 and the related weighted-average grant date exercise price for options and warrants and the weighted-average grant date fair value for RSUs:

**Table of Contents***Options and Stock Warrants:*

	Potential Shares of Common Stock (in thousands)	Weighted Average Grant Date Exercise Price
Options	6,575	\$ 23.65
Warrants \$6.48 TripAdvisor Warrants	6,047	\$ 25.92
Warrants \$7.66 TripAdvisor Warrants	2,000	\$ 30.64

*RSUs:*

	Potential Shares of Common Stock (in thousands)	Weighted Average Grant Date Fair Value
RSUs	893	\$ 21.09

*TriAdvisor, Inc. 2011 Stock and Annual Incentive Plan ( 2011 Incentive Plan )*

On December 20, 2011, the 2011 Incentive Plan became effective. A summary of certain important features of the 2011 Incentive Plan can be found in Note 7 *Stock Based Awards and Other Equity Instruments*, in the Notes to our Consolidated and Combined Financial Statements in Item 8 of our Annual Report on Form 10-K filed on March 15, 2012 for the year ended December 31, 2011. The summary of the material terms of the 2011 Incentive Plan is qualified in its entirety by the full text of the 2011 Incentive Plan which is incorporated by reference in our Annual Report on Form 10-K as Exhibit 4.3.

*2012 Stock Option Activity*

The exercise price for all stock options granted by us to date has been equal to the market price of the underlying shares of common stock at the date of grant. In this regard, when making stock option awards, our practice is to determine the applicable grant date and to specify that the exercise price shall be the closing price of our common stock on the date of grant. Stock options granted during the first nine months of 2012 have a term of ten years from the date of grant and generally vest over a four-year service period.

During the nine months ended September 30, 2012, we have issued 3,470,975 of primarily service based stock options under the 2011 Incentive Plan with a weighted average grant-date fair value per option of \$20.55. We will amortize the fair value, net of estimated forfeitures, as stock-based compensation expense over the vesting term of generally four years on a straight-line basis. We use historical data to estimate pre-vesting option forfeitures and record share-based compensation expense only for those awards that are expected to vest. Changes in estimated forfeitures will be recognized through a cumulative catch-up adjustment in the period of change and will also impact the amount of stock compensation expense to be recognized in future periods.

**Table of Contents**

A summary of the status and activity for stock option awards relating to our common stock for the nine months ended September 30, 2012, is presented below:

	Options Outstanding (In thousands)	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (In years)	Aggregate Intrinsic Value (In thousands)
Options outstanding at January 1, 2012	6,575	\$ 23.65		
Granted	3,471	40.18		
Exercised	738	15.95		\$ 13,784
Cancelled	337	27.52		
Options outstanding at September 30, 2012	8,971	\$ 30.52	5.7	\$ 51,680
Exercisable as of September 30, 2012	3,511	\$ 25.14	3.2	\$ 32,788
Vested and expected to vest after September 30, 2012	7,834	\$ 29.60	5.7	\$ 49,561

Aggregate intrinsic value represents the difference between the closing stock price of our common stock and the exercise price of outstanding, in-the-money options. Our closing stock price as reported on NASDAQ as of September 28, 2012 was \$32.93.

The estimated fair value of the options granted under the 2011 Incentive Plan was calculated using a Black-Scholes Merton option-pricing model (Black-Scholes model). The Black-Scholes model incorporates assumptions to value stock-based awards, which includes the risk-free rate of return, volatility, expected term and expected dividend yield.

Our risk-free interest rate is based on the rates currently available on zero-coupon U.S. Treasury issues, in effect at the time of the grant, whose remaining maturity period most closely approximates the stock option's expected term assumption. We estimated the volatility of our common stock by using an average of historical stock price volatility of publicly traded companies that we consider peers based on daily price observations over a period equivalent or approximate to the expected term of the stock option grants. The decision to use a weighted average volatility factor of a peer group was based upon the relatively short period of availability of data on our common stock. We estimated our expected term using the simplified method for all stock options as we do not have sufficient historical exercise data on our common stock. Our expected dividend yield is zero, as we have not paid and do not anticipate paying dividends on our common stock in the foreseeable future.

The fair value of stock option grants under the 2011 Incentive Plan has been estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Three months ended September 30, 2012	Nine months ended September 30, 2012
Risk free interest rate	0.90%	1.03%
Expected term (in years)	6.25	6.22
Volatility	54.78%	53.54%
Expected dividend yield	0%	0%

**2012 RSU Activity**

During the nine months ended September 30, 2012, we issued 59,951 RSUs under the 2011 Incentive Plan for which the fair value was measured based on the quoted price of our common stock at the date of grant of \$33.27. We will amortize the fair value, net of estimated forfeitures, as stock-based compensation expense over the vesting term of two years on a straight-line basis.



**Table of Contents**

The following table presents a summary of RSU activity on our common stock:

	RSUs Outstanding	Weighted Average Grant- Date Fair Value Per Share (In thousands)
Unvested RSUs outstanding as of January 1, 2012	926	\$ 21.32
Granted	60	33.27
Vested and released (1)	319	15.32
Cancelled	16	27.28
Unvested RSUs outstanding as of September 30, 2012 (2)	651	\$ 24.42

(1) Inclusive of 112,110 RSUs withheld to satisfy minimum tax withholding requirements.

(2) Included in RSUs outstanding at September 30, 2012 are 400,000 RSUs awarded to one of our non-employee Directors, for which vesting is tied to achievement of performance targets and a requisite service period.

**2012 Stock Warrant Activity**

During the nine months ended September 30, 2012, there were a total of 32,186,791 warrants exercised which resulted in a total of 7,952,456 shares of our common stock being issued during that period, which included 31,641,337 warrants for which the exercise price was paid in cash at a weighted average price of \$27.11. We received total exercise proceeds of \$214.5 million related to these warrant exercises. In addition there were 545,454 cashless warrants exercised with a weighted average exercise price of \$25.92 of which we did not receive any exercise proceeds. As of September 30, 2012, we had no outstanding warrants available which could be convertible to shares of our common stock.

A summary of the unrecognized compensation expense, net of estimated forfeitures and the weighted average period remaining at September 30, 2012 related to our non-vested stock options and RSU awards is presented below (in thousands, except per year information):

	Stock Options	RSUs
Unrecognized compensation expense (net of forfeitures)	\$ 63,063	\$ 4,942
Weighted average period remaining (in years)	3.2	1.6

**NOTE 7: INCOME TAXES**

Each interim period is considered an integral part of the annual period and, accordingly, we measure our tax expense using an estimated annual effective tax rate. An enterprise is required, at the end of each interim reporting period, to make its best estimate of the annual effective tax rate for the full fiscal year and use that rate to provide for income taxes on a current year-to-date basis, as adjusted for discrete taxable events that occur during the interim period.

Our effective tax rate for the three and nine months ended September 30, 2012 was 34.4% and 32.6%, respectively. Our effective tax rate for the three and nine months ended September 30, 2011 was 31.7% and 34.6%, respectively. For the three and nine months ended September 30, 2012, the effective tax rate is less than the federal statutory rate primarily due to earnings in jurisdictions outside the United States, where our effective tax rate is lower, which was partially offset by state income taxes, non-deductible stock compensation and accruals on uncertain tax positions. The change in the effective tax rate for 2012 compared to the 2011 rate was primarily due to an increase in earnings in jurisdictions outside the United States and increases in uncertain tax positions.

Our policy is to recognize accrued interest and penalties related to unrecognized tax benefits and income tax liabilities as part of our income tax expense. As of September 30, 2012, accrued interest is \$0.4 million, net of federal benefit, and no penalties have been accrued. We do not anticipate any material releases in the next twelve months.



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We are subject to taxation in the United States and various States and foreign jurisdictions. As of September 30, 2012, the Company's tax years for 2009, 2010 and 2011 are subject to examination by the tax authorities. The Company is currently under an IRS audit for 2009 and 2010, and has various ongoing state income tax audits. As of September 30, 2012 no material assessments have resulted from these audits.

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**Table of Contents**

**NOTE 8: STOCKHOLDERS EQUITY**

***Common Stock and Class B Common Stock***

Our authorized common stock consists of 1.6 billion shares of common stock with par value of \$0.001 per share, and 400 million shares of Class B common stock with par value of \$0.001 per share. Both classes of common stock qualify for and share equally in dividends, if declared by our Board of Directors. Common stock is entitled to one vote per share and Class B common stock is entitled to 10 votes per share on most matters. Holders of TripAdvisor common stock, acting as a single class, are entitled to elect a number of directors equal to 25% percent of the total number of directors, rounded up to the next whole number, which is currently three directors. Class B common stockholders may, at any time, convert their shares into common stock, on a one for one share basis. Upon conversion, the Class B common stock is retired and is not available for reissue. In the event of liquidation, dissolution, distribution of assets or winding-up of TripAdvisor the holders of both classes of common stock have equal rights to receive all the assets of TripAdvisor after the rights of the holders of the preferred stock have been satisfied.

As discussed in our Annual Report on Form 10-K filed March 15, 2012 ( Note 1 *Organization and Basis of Presentation* ), in connection with the Spin-Off a one-for-two reverse stock split of outstanding Expedia capital stock occurred immediately prior to the Spin-Off, which resulted in 120,661,020 shares of Common Stock and 12,799,999 shares of Class B common stock outstanding immediately following the Spin-Off.

***Preferred Stock***

In addition to common stock, we are authorized to issue up to 100 million preferred shares, with \$ 0.001 par value per share, with terms determined by our Board of Directors, without further action by our stockholders. At September 30, 2012, no preferred shares had been issued.

***Share Repurchases***

During the period January 1, 2012 through September 30, 2012, our Board of Directors did not authorize any share buyback program and we have not repurchased any shares of outstanding common stock.

***Dividends***

During the period January 1, 2012 through September 30, 2012, our Board of Directors did not declare any dividends on our outstanding common stock.

***Accumulated Other Comprehensive Income (Loss)***

Accumulated other comprehensive income (loss) for the nine months ended September 30, 2012 and the year ended December 31, 2011 is comprised of accumulated foreign currency translation adjustments.

**NOTE 9: SEGMENT INFORMATION**

We have one reportable segment: TripAdvisor. We determined our segment based on how our chief operating decision maker manages our business, makes operating decisions and evaluates operating performance. Our primary operating metric for evaluating segment performance is Adjusted EBITDA. Adjusted EBITDA is defined as operating income plus: (1) depreciation of property and equipment, including internal use software and website development; (2) amortization of intangible assets; (3) stock-based compensation; and (4) non-recurring expenses incurred to effect the Spin-Off during the year ended December 31, 2011. Such amounts are detailed in our segment reconciliation below. In addition, please see our discussion of Adjusted EBITDA in the section entitled Management's Discussion and Analysis of Financial Condition and Results of Operations below.

**Table of Contents**

The following table is a reconciliation of Adjusted EBITDA to operating income and net income for the periods presented (in thousands):

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
<b>Adjusted EBITDA</b>	<b>\$ 107,059</b>	<b>\$ 93,340</b>	<b>\$ 288,169</b>	<b>\$ 267,834</b>
Depreciation (1)	(5,037)	(4,630)	(14,033)	(13,246)
OIBA (2)	102,022	88,710	274,136	254,588
Amortization of intangible assets	(1,310)	(2,394)	(4,909)	(5,643)
Stock-based compensation	(8,463)	(2,037)	(19,923)	(6,479)
Spin-off costs		(2,211)		(3,265)
<b>Operating income</b>	<b>92,249</b>	<b>82,068</b>	<b>249,304</b>	<b>239,201</b>
Interest (expense) income, net	(2,806)	212	(8,143)	527
Other, net	1,367	(2,802)	(2,476)	(1,380)
Provision for income taxes	(31,275)	(25,185)	(77,814)	(82,574)
Income before income taxes	59,535	54,293	160,871	155,774
Net (income) loss attributable to noncontrolling interest	(175)	21	(381)	(118)
Net income attributable to TripAdvisor, Inc.	\$ 59,360	\$ 54,314	\$ 160,490	\$ 155,656

(1) Includes internal use software and website development.

(2) Our primary operating metric prior to the Spin-Off for evaluating operating performance was OIBA, as reported on our Registration Statement. OIBA is defined as operating income plus: (1) amortization of intangible assets and any related impairment; (2) stock-based compensation expense; and (3) non-recurring expenses incurred to effect the Spin-Off during the year ended December 31, 2011. This operating metric is no longer being used by our management to measure operating performance and is only being shown above to illustrate the financial impact as we converted to a new operating metric post Spin-Off.

**NOTE 10: EARNINGS PER SHARE**

As discussed in our Annual Report on Form 10-K filed March 15, 2012 ( *Note 1 Organization and Basis of Presentation* ) in connection with the Spin-Off a one-for-two reverse stock split of outstanding Expedia capital stock occurred immediately prior to the Spin-Off, which resulted in 120,661,020 shares of common stock and 12,799,999 shares of Class B common stock outstanding immediately following the Spin-Off.

**Basic Earnings Per Share**

For the three and nine months ended September 30, 2012, we computed basic earnings per share using the number of shares of common stock and Class B common stock outstanding as of December 31, 2011 plus the weighted average of any additional shares issued and outstanding during the three and nine months ended September 30, 2012.

For the three and nine months ended September 30, 2011, we computed basic earnings per share using the number of shares of common stock and Class B common stock outstanding immediately following the Spin-Off, as if such shares were outstanding for the entire period.

**Diluted Earnings Per Share**

For the three and nine months ended September 30, 2012, we computed diluted earnings per share using (i) the number of shares of common stock and Class B common stock outstanding at December 31, 2011, (ii) the weighted average of any additional shares issued and outstanding for the three and nine months ended September 30, 2012, and (iii) if dilutive, the incremental weighted average common stock that we would issue upon the assumed exercise of common equivalent shares related to stock options and stock warrants and the vesting of restricted stock units using the treasury stock method during the three and nine months ended September 30, 2012, and (iv) if dilutive, performance based

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awards based on the number of shares that would be issuable as of the end of the reporting period assuming the end of the reporting period was also the end of the contingency period.

Under the treasury stock method, the assumed proceeds calculation includes the actual proceeds to be received from the employee upon exercise, the average unrecognized compensation cost during the period and any tax benefits credited upon exercise to additional paid-in-capital. The treasury stock method assumes that a company uses the proceeds from the exercise of an award to repurchase common stock at the average market price for the period. Windfall tax benefits created upon the exercise of an award would be added to assumed proceeds, while shortfalls charged to additional paid-in-capital would be deducted from assumed proceeds. Any shortfalls not covered by the windfall tax pool would be charged to the income statement and would be excluded from the calculation of assumed proceeds, if any.

**Table of Contents**

For the three and nine months ended September 30, 2011, we computed diluted earnings per share using (i) the number of shares of common stock and Class B common stock outstanding immediately following the Spin-Off, as no TripAdvisor equity awards were outstanding prior to the Spin-Off.

Below is a reconciliation of the weighted average number of shares of common stock outstanding in calculating diluted earnings per share (in thousands, except for per share information):

	Three months ended		Nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
<b>Numerator:</b>				
Net income attributable to TripAdvisor	\$ 59,360	\$ 54,314	\$ 160,490	\$ 155,656
<b>Denominator:</b>				
Weighted average shares used to compute Basic EPS	142,342	133,461	138,458	133,461
Weighted average effect of dilutive securities:				
Stock options	1,223		1,249	
RSUs	92		129	
Stock warrants			681	
Weighted average shares used to compute Diluted EPS	143,657	133,461	140,517	133,461
Basic EPS	\$ 0.42	\$ 0.41	\$ 1.16	\$ 1.17
Diluted EPS	\$ 0.41	\$ 0.41	\$ 1.14	\$ 1.17

The following potential common shares related to stock options and RSUs were excluded from the calculation of diluted net income per share because their effect would have been anti-dilutive for the periods presented (in thousands):

	Three months ended		Nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Stock options (1)	4,921		3,584	
RSUs (1)			20	
Total	4,921		3,604	

- (1) These totals do not include performance based options and RSUs representing the right to acquire 110,000 shares and 400,000 shares of common stock, respectively, for which all targets required to trigger vesting have not been achieved during the three and nine months ended September 30, 2012; therefore, such awards were excluded from the calculation of weighted average shares used to compute diluted earnings per share for those reporting periods.

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 11: RELATED PARTY TRANSACTIONS****Expedia**

Following the Spin-Off, TripAdvisor and Expedia are related parties since they are under common control. Revenue we derived from related party transactions with Expedia was \$56.9 million and \$164.2 million for the three and nine months ended September 30, 2012 and was \$60.4 million and \$173.6 million for the three and nine months ended September 30, 2011, respectively, which primarily consisted of click-based

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advertising and other advertising services provided to Expedia and its subsidiaries and is recorded at contract value, which we believe is a reasonable reflection of the value of the services provided. This related-party revenue represented 26.7% and 27.7% of our total revenue for the three and nine months ended September 30, 2012 and for the three and nine months ended September 30, 2011, related-party revenue represented 33.4% and 34.8% of our total revenue, respectively.

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**Table of Contents**

Our operating expenses for the three and nine months ended September 30, 2011 included a related-party shared services fee of \$2.0 million and \$5.9 million, which was comprised of allocations from Expedia for accounting, legal, tax, corporate development, treasury, financial reporting, real estate management and included an allocation of employee compensation within these functions. This related-party shared service fee ended in connection with the Spin-Off. These allocations were determined on a basis that Expedia and we considered to be a reasonable reflection of the cost of services provided or the benefit received by us. These expenses were allocated based on a number of factors including headcount, estimated time spent and operating expenses. It was not practicable to determine the amounts of these expenses that would have been incurred had we operated as an unaffiliated entity. In the opinion of our management, the allocation method was reasonable.

Other related-party operating expenses which were included within Selling and Marketing expense were \$1.7 million and \$5.2 million for the three and nine months ended September 30, 2012, respectively, which primarily consisted of marketing expense for exit windows. For the three and nine months ended September 30, 2011, other related-party operating expenses which were included within Selling and Marketing expense were approximately \$1.3 million and \$3.3 million.

Our net related party receivable with Expedia and its subsidiaries reflected in our consolidated balance sheets as of September 30, 2012 and December 31, 2011 were \$32.5 million and \$14.1 million, respectively. We received \$7.0 million from Expedia during the first fiscal quarter of 2012, which was owed to us as a result of the subsequent reconciliation process allowed in the Separation Agreement related to the approximate \$406 million distribution paid to Expedia immediately prior to the Spin-Off. This balance was included in our related party receivable balance at December 31, 2011.

For purposes of governing certain of the ongoing relationships between us and Expedia at and after the Spin-Off, and to provide for an orderly transition, we and Expedia entered into various agreements, including, among others, the Separation Agreement, the Tax Sharing Agreement, the Employee Matters agreement, the Transition Services Agreement, and commercial agreements. The various commercial agreements, including click-based advertising agreements, content sharing agreements and display-based and other advertising agreements, have terms of one to three years.

The full texts of the Separation Agreement, the Tax Sharing Agreement, the Employee Matters Agreement, the Transition Services Agreement and the Master Advertising Agreement (CPC) are incorporated by reference into our Annual Report on Form 10-K filed on March 15, 2012 for the year ended December 31, 2011 as Exhibits 2.1, 10.2, 10.3, 10.4 and 10.6 (10.6 filed in redacted form pursuant to confidential treatment request), respectively.

***Liberty Interactive Corporation and Barry Diller***

Mr. Diller, our Chairman of the Board of Directors and Senior Executive, through shares he owns beneficially as well as those subject to an irrevocable proxy granted by Liberty Interactive Corporation, or Liberty, controls approximately 57.1% of the combined voting power of the outstanding TripAdvisor capital stock as of September 30, 2012. As such, Mr. Diller effectively controls the outcome of all matters submitted to a vote or for the consent of our stockholders (other than with respect to the election by the holders of common stock of 25% of the members of our Board of Directors and matters as to which Delaware law requires a separate class vote). Upon Mr. Diller's permanent departure from TripAdvisor, the irrevocable proxy would terminate and depending on the capitalization of TripAdvisor at such time, Liberty could effectively control the voting power of our capital stock. On May 3, 2012, Liberty Interactive Corporation, or Liberty, sold 8,450,000 shares of our common stock pursuant to Rule 144 under the Securities Act of 1933, as amended at an average per share price of \$40.

**NOTE 12: REDEEMABLE NONCONTROLLING INTEREST**

Redeemable noncontrolling interests are measured at fair value, both at the date of acquisition and subsequently at each reporting period. The redeemable noncontrolling interests are reported on the our consolidated balance sheet in the mezzanine section in redeemable noncontrolling interests.

One of our acquisitions made during 2008 includes noncontrolling interests with certain rights whereby we may acquire, and the minority shareholders may sell to us, the additional shares of the subsidiary, at fair value or at adjusted fair values at our discretion, beginning in the fourth quarter of 2012. Fair value determination has been based on various internal valuation techniques, including industry market comparables and a discounted cash flow valuation model. Certain assumptions are used in determining fair value, including revenue growth rates and discount rates. Changes in these assumptions would impact the fair value. In addition, under certain circumstances the parties may be required to submit to arbitration in order to determine the final fair value of the noncontrolling interests. Changes in the fair value of the shares for which the minority shareholders may sell to us have been recorded to the redeemable noncontrolling interest with charges or credits to additional paid in capital. The final determination of fair value and ultimate payment to the noncontrolling interests are expected to be made during the fourth quarter of 2012.

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In addition, we have incurred stock based compensation for the three and nine months ending September 30, 2012, of \$2.0 million and \$2.5 million, respectively related to stock option and RSU issuances which are convertible for common shares of our noncontrolling interest. All stock option and RSU grants issued by our noncontrolling interest were issued with an exercise price at fair value, calculated as described above, and generally vest over a four-year service period, with accelerated vesting upon a liquidation event. In accordance with current accounting guidance on stock based compensation, we have classified these awards as liability awards and therefore mark the liability to market at each report date with stock based compensation expense recognized ratably over the vesting period.



**Table of Contents**

A reconciliation of redeemable noncontrolling interests for the nine months ended September 30, 2012 and twelve months ended December 31, 2011, respectively, is as follows (in thousands):

	Nine months ended September 30, 2012	Twelve months ended December 31, 2011
Balance, beginning of period (1)	\$ 3,863	\$ 2,637
Net income attributable to noncontrolling interests	381	114
Fair value adjustments	7,951	571
Stock based compensation	2,450	541
Balance, end of period	\$ 14,645	\$ 3,863

- (1) Balance reclassified as of September 30, 2012 from accrued expenses and other current liabilities to redeemable noncontrolling interests on the consolidated balance sheet.

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## **Table of Contents**

### **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, 2011, 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, generally 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 and combined financial statements and the notes included in this Quarterly Report on Form 10-Q, and the audited consolidated and combined 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 filed March 15, 2012 for the year ended December 31, 2011.

#### ***Overview***

We are the world's largest online travel company, empowering users to plan and have the perfect trip. Our travel research platform aggregates reviews and opinions from our community about destinations, accommodations (including hotels, resorts, motels, B&Bs, specialty lodging and vacation rentals), restaurants and activities throughout the world through our flagship TripAdvisor brand. Our branded websites include tripadvisor.com in the United States and localized versions of the website in 29 other countries, including in China under the brand daodao.com. Our TripAdvisor branded websites globally received an average of more than 57 million monthly unique visitors for the quarter ended September 2012, according to comScore, and we have built a base of more than 36 million marketable members, which are members we have permission to email on a regular basis, and we feature over 75 million reviews and opinions. Beyond travel-related content, our websites also include links to the websites of our advertisers, including travel advertisers, allowing travelers to directly book their travel arrangements. In addition to the flagship TripAdvisor brand, we now manage and operate websites under 19 other travel brands, connected by the common goal of providing comprehensive travel planning resources across the travel sector. On March 21, 2012, we announced the launch of a new travel brand, Tingo, the first hotel booking site that automatically rebooks hotel rooms at a lower price if the rate drops and then refunds the difference to the travelers' credit cards when the traveler books a Money Back room.

For additional information about our portfolio of brands, see Other Travel Brands and Websites in Part I, Item 1, Business, in our Annual Report on Form 10-K filed on March 15, 2012 for the year ended December 31, 2011.

#### ***Business Model***

We derive substantially all of our revenue from the sale of advertising, primarily through click-based advertising and, to a lesser extent, display-based advertising. The remainder of our revenue is generated through a combination of subscription-based offerings, transactions conducted via our flash sale website, SniqueAway, and our recently-launched Tingo hotel booking site, and other revenue including content licensing.

***Click-Based Advertising Revenue.*** Our largest source of revenue is click-based advertising, which includes our check rates feature as well as contextually-relevant branded and unbranded textlinks. Our click-based advertising partners are predominantly online travel agencies and direct suppliers in the hotel, airline and cruise product categories. The check rates feature enables users to compare pricing and availability for a particular hotel across different on-line travel agents and hotel partners booking engines and thereby delivers a highly-targeted audience deep into the booking paths of their websites. Click-based advertising is generally priced on a

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cost-per-click, or CPC, basis, with payments from advertisers based on the number of users who click on each type of link. Advertisers who increase their CPC rates generally get an increased number of clicks from their click-based advertising on our websites. Most of our click-based advertising contracts can be terminated by the advertisers at will or on short notice.

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## **Table of Contents**

***Display-Based Advertising Revenue.*** We also earn revenue from a variety of display-based advertising placements on our websites through which our advertising partners can promote their brands in a contextually-relevant manner. While our display-based advertising clients include direct suppliers in the hotel, airline and cruise categories and online travel agencies, we have also broadened our advertiser base to include destination marketing organizations, casinos, resorts and attractions, as well as advertisers from non-travel categories. We generally sell our display-based advertising on a cost per thousand impressions, or CPM, basis. Our display-based advertising products also include a number of custom-built products including the sponsorship of certain site features and functionality, as well as certain customized co-branded features.

***Subscription-Based, Transaction and Other Revenue.*** We also offer advertising via a subscription model that is sold for a flat fee per time period. Managed by our Trip for Business division, this advertising product, Business Listings, is currently offered to hotels, B&Bs and other specialty lodging properties and allows subscribers to list a website URL, email address and phone number on TripAdvisor-branded websites as well as to post special offers for travelers. Our Vacation Rentals division allows individual vacation property owners or managers to pay a subscription fee to list properties on our Holiday Lettings and FlipKey websites, as well as on select TripAdvisor-branded websites. Other sources of revenue include selling discounted hotel room nights and coupons on our flash sale website, SniqueAway, transactions via our Tingo website and licensing our content to third-party sites.

### ***Executive Summary***

Our financial results are dependent on our ability to drive our click-based advertising revenue and continue to invest in areas of potential growth, including our social, mobile and global initiatives as well as our subscription-based businesses, which include vacation rentals and business listings, and our transaction based businesses, which include SniqueAway and Tingo. We have leveraged our position as the largest online travel company to become a critical partner for online advertisers including hotels, online travel agencies and other travel-related service providers by providing our customers with access to our large audience of highly-qualified, highly-engaged users. The key drivers of our click-based advertising revenue are described below, as well as a summary of our key growth areas and the current trends impacting our business.

### ***Key Drivers of Click-Based Advertising Revenue***

For the three and nine months ended September 30, 2012, respectively, 79% and 78% of our total revenue came from our core cost-per-click, or CPC, based lead generation product. For the three and nine months ended September 30, 2011, respectively, 81% and 80% of our total revenue came from our core cost-per-click, or CPC, based lead generation product. Revenues derived from CPC based lead generation represented 79% of our total revenue for the year ending December 31, 2011. The key drivers of our click-based advertising revenue include the growth in hotel shoppers, user conversion and lead pricing. Total traffic growth, or growth in monthly visits from unique IP addresses is reflective of our overall brand growth. We continue to refine our ability to track and analyze sub-segments of traffic and its correlation to revenue generation and we believe that hotel shoppers are a more useful indicator of revenue growth. We use the term hotel shoppers to refer to users who view a listing of hotels in a city or visitors who view a specific hotel page.

After hotel shoppers, the second driver of our business is user conversion, which is a measure of how many hotel shoppers ultimately click on a CPC link that generates revenue for us. User conversion on our site is primarily driven by three factors: merchandising, commerce coverage and choice. We think of merchandising as the number and location of ads that are available on a page; commerce coverage is whether we have a client who can take an online booking for a particular property; and choice is the number of clients available for any given property, allowing the user to shop for the best price. In summary, our CPC revenue depends on the number of hotel shoppers that we can get interested in a property, whether there is a commerce link available for that hotel shopper to click on for that property and whether there are several commerce choices available for that property, so the hotel shopper can shop around. The other key driver that we look at is the CPC price that online travel agencies and hoteliers are willing to pay us for our leads.

### ***Key Growth Areas***

We continue to invest in areas of potential growth, including our social, mobile and global initiatives as well as our subscription-based businesses, which include vacation rentals and business listings.

***Social.*** Our Wisdom of Friends initiative is a core component of our strategic growth plan; 76% of respondents to a recent Nielsen study cited recommendations from people I know as the information source that they trust most. We believe that having a strong social presence drives traffic to and engagement on our sites and improves the sites stickiness amongst the users. As a result, we continue to deepen our integration with Facebook's Friend Graph. As of September 30, 2012, and according to AppData, an independent application tracking traffic service, TripAdvisor has averaged more than 34 million monthly Facebook users via its TripAdvisor Facebook application id. We offer these Facebook users a personalized and social travel planning experience that enables travelers to engage first with their own Facebook friends reviews and

opinions when planning their perfect trip on TripAdvisor.

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## **Table of Contents**

*Mobile.* Mobile is an investment area that is geared towards creating a more complete user experience by reinforcing the TripAdvisor brand when users are in-market. In the year ended December 31, 2011, we saw strong user uptake, reaching an aggregate of 13 million mobile downloads and approximately 16 million monthly unique users, as measured by our own log files, and as of September 30, 2012, we reached over 26 million mobile downloads of our TripAdvisor, City Guides, and SeatGuru apps and averaged more than 35 million monthly unique users, as measured by our own log files. We believe that mobile devices, including smartphones and tablet devices, are increasingly used when travelers begin to plan trips. In order to capture an increasing percentage of these users, we have designed our mobile product to be user-friendly and have chosen not to monetize that platform to its full potential at this time. We expect the long-term benefits of a more engaged mobile audience to outweigh the short-term revenue that we could generate from, for example, an increased number of advertisements.

*Vacation Rentals.* This product addresses a highly-fragmented \$85 billion per-year industry, according to a 2010 Radius Global Market study. Historically, we have built our supply content through acquisitions, namely our U.S.-based FlipKey and U.K.-based Holiday Lettings businesses, but during the fourth quarter of 2011 we announced partnerships aimed at increasing our supply content. We believe that our nearly 200,000 properties, as of December 31, 2011, and our highly-engaged and motivated community, position us extremely well for success.

*Business Listings.* This product was created in early 2010 to allow hotel and accommodation owners to list pertinent information on TripAdvisor, bringing them closer to the traveler and thereby increasing direct bookings. In the year ended December 31, 2011, we saw nearly 80% subscriber growth, reaching our approximately 35,000 Business Listing customers by the end of the year, which is still only around 6% of our current hotel listings on our TripAdvisor branded sites. We continue to expand our sales force and improve features to attract additional customers from our installed base.

### *Current Trends Affecting Our Business*

*Increasing Competition.* The travel review industry and, more generally, the business of collecting and aggregating travel-related resources and information, have become increasingly competitive. In recent years, an increasing number of companies, such as search companies Google Inc. and Baidu.com, Inc. and several large online travel agencies, have begun to collect and aggregate travel information and resources. We plan to continue to invest in order to remain the leading source of travel reviews as well as continuing to enhance our content and user experience.

*Increasing Use of Internet and Social Media to Access Travel Information.* Commerce, information and advertising continue to migrate to the Internet and away from traditional media outlets. We believe that this trend will create strategic growth opportunities, allowing us to attract new consumers and develop unique and effective advertising solutions. Consumers are increasingly using online social media, such as Facebook, as a means to communicate and exchange information, including travel information and opinions. We have made significant efforts related to social networking in order to leverage the expanding use of this channel and enhance traffic diversification and user engagement.

*Increasing Mobile Usage.* Consumers are increasingly using mobile and tablet computing devices to access the Internet. To address these demands, we continue to extend the platform to develop mobile and tablet applications to allow greater access to our travel information and resources. Although the substantial majority of our mobile users also access and engage with our websites on personal computers where we display advertising, our users could decide to increasingly access our products primarily through mobile devices. Historically we have not displayed graphic advertising on smartphones and our mobile monetization strategies are still developing. Improvement of our mobile offerings is a key company priority which we believe is critical to help us maintain and grow our user base and engagement over the long term and we will continue to invest and innovate in this growing platform.

*Click-Based Advertising Revenue.* In recent years, the majority of our revenue growth resulted from higher click-based advertising revenue due to increased traffic on our websites, an increase in the volume of clicks on advertisers' placements, and, in 2011, an increase in the average CPC price. Although click-based advertising revenue growth has generally been driven by traffic volume, we remain focused on the various factors that could impact revenue growth, including, but not limited to, the growth in hotel shoppers, CPC pricing fluctuations, the overall economy, the ability of advertisers to monetize our traffic, the quality and mix of traffic to our websites, and the quality and mix of traffic from our advertising placements to advertisers, as well as advertisers' evolving approach to transaction attribution models and return on investment targets. We monitor and regularly respond to changes in these factors in order to strategically improve our user experience, customer satisfaction and monetization in this dynamic environment.

*Global Economic Conditions.* In late 2008 and throughout 2009, weak global economic conditions created uncertainty for travelers and suppliers, and put pressure on discretionary spending on travel and advertising. As a result, our revenue growth slowed in 2009, with a corresponding pull back in sales and marketing and a reduction in general and administrative expenses. Since 2010 the travel industry has been gradually improving. However, global economic conditions remain uncertain, and in particular, we anticipate travel expenditures in Europe to continue to be adversely affected by the economic issues overseas.

*Our Strategy*

In expanding our global reach, we leverage significant investments in technology, operations, brand-building, and advertiser and other partner relationships. For example, we are able to aggregate a large base of consumer reviews, in a variety of languages, across our global core platform. We expect to continue leveraging this investment when launching additional points of sale in new countries, introducing new product features and adding new business model offerings.

## **Table of Contents**

***Investment in Technology.*** We believe that our ability to continue to innovate by providing additional functionality to our main Internet sites, while at the same time extending that functionality to various platforms such as mobile and tablets, will enable us to continue providing an industry-leading user experience. We have a strong culture of speed-to-market with our innovations. By innovating and releasing updates quickly, we believe that we can continue to grow our site visitors and over 75 million reviews and opinions, increase revenue and effectively compete with our competitors.

***New Social Sharing Tools.*** We intend to continue to expand our social integration and member acquisition efforts with social media, including Facebook, Twitter and other social sharing platforms. We believe that this integration will be critical to continuing to grow and maintain engagement with our user base and increase our content. For example, by tapping into Facebook's rich social data, TripAdvisor connects users to their friends and shares helpful content about where their friends have traveled and where they would like to visit in the future. While on the TripAdvisor website, friends can discuss their travel plans and recommendations and build out personal profiles of places they have been.

***Investment in Search Engine Marketing.*** One of the ways that we look to penetrate new markets is to leverage our expertise in search engine marketing, or SEM. SEM is a form of Internet marketing that involves the promotion of websites by increasing their visibility in search engine results pages through the use of paid placement, contextual advertising, and paid inclusion. In certain markets we may bid on keywords to break even or at a loss in order to drive traffic, build our brand, gain more users to our product, collect content and scale more quickly. We think SEM is an important channel because it delivers a significant number of brand impressions and can be a cost-effective method to get people to try our sites.

***International Expansion.*** We are focused on expanding our footprint globally. We are continuing to expand in Europe, Asia and South America, especially in emerging markets, such as Brazil, Russia, India and China. During 2011, we added new points-of-sale in Taiwan, Malaysia and Egypt, bringing our total TripAdvisor-branded websites to 30 countries and 21 languages. These and the other newer sites in Asia-Pacific represent a longer-term opportunity for us. We believe that China represents a large international opportunity for our business. We currently have two lead product offerings in the Chinese market – DaoDao and Kuxun – both headquartered in Beijing. We continue to invest heavily and operate at a loss in the Chinese market.

***Acquisitions .*** We have a history of successfully acquiring and integrating companies that expand our footprint either geographically or in market sectors that are complementary to our flagship properties. We intend to continue to seek acquisition targets.

### ***Segment***

We have one reportable segment. The segment is determined based on how our chief operating decision maker manages our business, makes operating decisions and evaluates operating performance.

### ***Employees***

As of September 30, 2012, we had 1,483 employees. Of these employees, 874 were based in the United States. None of our employees are represented by a labor union or are subject to a collective bargaining agreement. We believe that relations with our employees are good.

### ***Seasonality***

Expenditures by travel advertisers tend to be seasonal. Traditionally, our strongest quarter has been the third quarter, which is a key travel research period, with the weakest quarter historically being the fourth quarter. However, adverse economic conditions or continued growth of our international operations with differing holiday peaks may influence the typical trend of our 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 and combined financial statements because they require that we use judgment and estimates in applying those policies. We prepare our consolidated and combined financial statements and accompanying notes in accordance with generally accepted accounting principles in the United States ( GAAP ). Preparation of the consolidated and combined financial statements and accompanying notes requires that we make estimates and assumptions



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that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated and combined financial statements as well as revenue and expenses during the periods reported. We base our estimates on historical experience, where applicable, and other assumptions that we believe are reasonable under the circumstances. Actual results may differ from our estimates under different assumptions or conditions.

**Table of Contents**

There are certain critical estimates that we believe require significant judgment in the preparation of our consolidated and combined 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 filed on March 15, 2012 for the year ended December 31, 2011 and Note 2 *Significant Accounting Policies* above in notes to consolidated and combined financial statements in this Quarterly Report on Form 10-Q.

***New Accounting Pronouncements***

For a discussion of new accounting pronouncements, see Note 2 *Significant Accounting Policies*, in the notes to the consolidated and combined financial statements in this Quarterly Report on Form 10-Q. We are an issuer (as defined in Section 2(a) of the Sarbanes-Oxley Act of 2002), and, as such, are required to comply with all new and revised accounting standards applicable to public companies.

**Table of Contents****Results of Operations****Selected Financial Data****(in thousands, except per share data)**

	Three months ended September 30,			Nine months ended September 30,		
	2012	2011	% Change	2012	2011	% Change
Revenue	\$ 155,835	\$ 120,384	29%	\$ 429,370	\$ 325,705	32%
Related-party revenue from Expedia	56,875	60,417	(6)%	164,203	173,560	(5)%
Total revenue	212,710	180,801	18%	593,573	499,265	19%
Costs and expenses:						
Cost of revenue (exclusive of amortization) (1)	2,876	3,227	(11)%	8,536	8,193	4%
Selling and marketing(2)	67,647	60,349	12%	199,279	157,229	27%
Technology and content(2)	23,535	14,748	60%	62,950	41,216	53%
General and administrative(2)	20,056	9,194	118%	54,562	25,332	115%
Related-party shared services fee to Expedia		1,980	(100%)		5,940	(100%)
Depreciation	5,037	4,630	9%	14,033	13,246	6%
Amortization of intangible assets	1,310	2,394	(45)%	4,909	5,643	(13)%
Spin-off costs		2,211	(100%)		3,265	(100%)
Total costs and expenses	120,461	98,733	22%	344,269	260,064	32%
Operating income	92,249	82,068	12%	249,304	239,201	4%
Other income (expense):						
Interest (expense) income, net	(2,806)	212	(1,424%)	(8,143)	527	(1,645%)
Other, net	1,367	(2,802)	(149%)	(2,476)	(1,380)	79%
Total other expense, net	(1,439)	(2,590)	(44%)	(10,619)	(853)	1,145%
Income before income taxes	90,810	79,478	14%	238,685	238,348	0%
Provision for income taxes	(31,275)	(25,185)	24%	(77,814)	(82,574)	(6)%
Net income	59,535	54,293	10%	160,871	155,774	3%
Net (income) loss attributable to noncontrolling interest	(175)	21	933%	(381)	(118)	223%
<b>Net income attributable to TripAdvisor, Inc.</b>	<b>\$ 59,360</b>	<b>\$ 54,314</b>	<b>9%</b>	<b>\$ 160,490</b>	<b>\$ 155,656</b>	<b>3%</b>

**Earnings Per Share attributable to TripAdvisor, Inc.**

Basic	\$ 0.42	\$ 0.41	2%	\$ 1.16	\$ 1.17	(1)%
Diluted	0.41	0.41	0%	1.14	1.17	(3)%
Weighted Average Common Shares Outstanding:						
Basic	142,342	133,461	7%	138,458	133,461	4%
Diluted	143,657	133,461	8%	140,517	133,461	5%

**Other Financial Data:**

Adjusted EBITDA (3)	\$ 107,059	\$ 93,340	15%	\$ 288,169	\$ 267,834	8%
(1) Excludes amortization as follows:						
Amortization of acquired technology included in amortization of intangibles	\$ 183	\$ 71		\$ 547	\$ 396	
Amortization of website development costs included in depreciation	3,231	3,197		8,923	8,920	

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	\$	3,414	\$	3,268	\$	9,470	\$	9,316
(2) Includes stock-based compensation as follows:								
Selling and marketing	\$	1,184	\$	568	\$	3,185	\$	1,962
Technology and content		3,187		750		7,125		2,277
General and administrative		4,092		719		9,613		2,240

- (3) See Adjusted EBITDA below for more information and for a reconciliation of Adjusted EBITDA to operating income, the most directly comparable financial measure calculated and presented in accordance with GAAP.

**Table of Contents****Adjusted EBITDA**

To provide investors with additional information regarding our financial results, we have disclosed Adjusted EBITDA in our Quarterly Report on Form 10-Q, a non-GAAP financial measure. We have provided reconciliations below of Adjusted EBITDA to operating income, the most directly comparable GAAP financial measure. A non-GAAP financial measure refers to a numerical measure of a company's historical or future financial performance, financial position, or cash flows that excludes (or includes) amounts that are included in (or excluded from) the most directly comparable measure calculated and presented in accordance with GAAP in such company's financial statements.

We define Adjusted EBITDA as operating income (loss), excluding depreciation of property and equipment, which includes internal use software and website development, amortization of intangible assets, stock-based compensation and non-recurring expenses incurred to effect the Spin-Off from Expedia during the year ended December 31, 2011. Adjusted EBITDA is the primary metric by which management evaluates the performance of its business and on which internal budgets are based. In particular, the exclusion of certain expenses in calculating Adjusted EBITDA facilitates operating performance comparisons on a period-to-period basis. Adjusted EBITDA eliminates items that are either not part of our core operations such as the costs incurred to spin-off from Expedia or those costs that do not require a cash outlay, such as stock-based compensation. Adjusted EBITDA also excludes depreciation and amortization expense, which is based on our estimates of the useful life of tangible and intangible assets. These estimates could vary from actual performance of the asset, are based on historical costs and other factors and may not be indicative of current or future capital expenditures. We believe that by excluding certain items, such as stock-based compensation and non-recurring expenses, Adjusted EBITDA corresponds more closely to the cash operating income generated from our business and allows investors to gain an understanding of the factors and trends affecting the ongoing cash earnings capabilities of our business, from which capital investments are made and debt is serviced.

Our use of Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results reported in accordance with GAAP. Some of these limitations are:

Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;

Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

Adjusted EBITDA does not consider the potentially dilutive impact of stock-based compensation;

Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements; and

Other companies, including companies in our own industry, may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, you should consider Adjusted EBITDA alongside other financial performance measures, including various cash flow metrics, net income and our other GAAP results.

The following table is a reconciliation of Adjusted EBITDA to operating income for the periods presented:

	Three months ended		Nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
<b>Adjusted EBITDA</b>	<b>\$ 107,059</b>	<b>\$ 93,340</b>	<b>\$ 288,169</b>	<b>\$ 267,834</b>
Depreciation (1)	(5,037)	(4,630)	(14,033)	(13,246)

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OIBA (2)	102,022	88,710	274,136	254,588
Amortization of intangible assets	(1,310)	(2,394)	(4,909)	(5,643)
Stock-based compensation	(8,463)	(2,037)	(19,923)	(6,479)
Spin-off costs		(2,211)		(3,265)
<b>Operating income</b>	<b>\$ 92,249</b>	<b>\$ 82,068</b>	<b>\$ 249,304</b>	<b>\$ 239,201</b>

- (1) Includes internal use software and website development.
- (2) Our primary operating metric prior to the Spin-Off for evaluating operating performance was Operating Income Before Amortization, or OIBA, as reported on our Form S-4 filed with the SEC on November 1, 2011. OIBA is defined as operating income plus: (1) amortization of intangible assets and any related impairment; (2) stock-based compensation expense; and (3) non-recurring expenses incurred to effect the Spin-Off during the year ended December 31, 2011. This operating metric is no longer being used by our management to measure operating performance and is only being shown above to illustrate the financial impact of our conversion to a new operating metric post Spin-Off.

**Table of Contents****Reclassifications**

Certain reclassifications have been made to conform the prior periods data to the current format.

Our management has changed the non-GAAP financial measure that we use to measure our operating performance from OIBA to Adjusted EBITDA. Consequently we have reclassified depreciation expense, which previously had resided in technology and content expense and general and administrative expense, and have presented it as a separate line item on the consolidated and combined statement of operations. This reclassification had no net effect on either total operating expenses or total operating income for any period. The table below provides a reconciliation of that reclassification for the periods presented.

	Three months ended September 30, 2011	Nine months ended September 30, 2011
	(In thousands)	
Depreciation	\$ 4,630	\$ 13,246
Technology and content	(3,658)	(10,627)
General and administrative	(972)	(2,619)
	\$	\$

**Revenue**

We derive substantially all of our revenue through the sale of advertising, primarily through click-based advertising and, to a lesser extent, display-based advertising. In addition, we earn revenue through a combination of subscription-based offerings, transaction revenue from our flash sale website, SniqueAway, our recently-launched hotel booking site, Tingo, and other revenue including content licensing.

	Three months ended September 30,			Nine months ended September 30,		
	2012	2011	% Change	2012	2011	% Change
	(\$ in millions)			(\$ in millions)		
Click-based advertising	\$ 168	\$ 146	15%	\$ 464	\$ 400	16%
Display-based advertising	24	21	12%	72	63	14%
Subscription, transaction and other	21	14	53%	58	36	59%
Total revenue	\$ 213	\$ 181	18%	\$ 594	\$ 499	19%

Revenue increased \$32 million and \$94 million during the three and nine months ended September 30, 2012, respectively, when compared to the same period in 2011, primarily due to an increase in click-based advertising revenue of \$22 million and \$64 million, respectively. The primary driver of the increase in click-based advertising revenue was an increase in hotel shoppers during the three and nine months ended September 30, 2012 when compared to the same period in 2011, of approximately 30%, partially offset during the three and nine months ended September 30, 2012 by lower clicks per hotel shopper due to our site redesign in the third quarter of 2011, lower hotel shopper volume during the Olympics, and lower revenue per click. Subscription, transaction and other revenue increased by \$7 million and \$22 million in the three and nine months ended September 30, 2012, respectively, primarily due to growth in Business Listings.

In addition to the product revenue discussion above, related-party revenue from Expedia, which consists primarily of click-based advertising, is as follows:

	Three months ended September 30,			Nine months ended September 30,		
	2012	2011	% Change	2012	2011	% Change
	(\$ in millions)			(\$ in millions)		
Related party revenue from Expedia	\$ 57	\$ 60	(6)%	\$ 164	\$ 174	(5)%

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% of revenue

26.7%

33.4%

27.7%

34.8%

TripAdvisor and Expedia entered into certain commercial arrangements in connection with the Spin-Off. The arrangements generally have terms one to three years and are described in Note 9 *Related Party Transactions* in the notes to our consolidated and combined financial statements in our Annual Report on Form 10-K filed on March 15, 2012 for the year ended December 31, 2011. In connection with the Spin-Off, Expedia expected to lower its CPC pricing by 10-15%. This change was rolled out throughout the fourth quarter of 2011, and trended towards the upper end of the expected discount range. We expect the decrease in CPC pricing paid by Expedia to continue to negatively impact total revenue for the year ended 2012 by approximately 5%.



**Table of Contents****Cost of Revenue**

Cost of revenue consists of expenses that are closely correlated or directly related to revenue generation, including ad serving fees, flight search fees, credit card fees and data center costs.

	Three months ended September 30,			Nine months ended September 30,		
	2012	2011	% Change	2012	2011	% Change
	(\$ in millions)			(\$ in millions)		
Cost of revenue	\$ 3	\$ 3	(11)%	\$ 9	\$ 8	4%
% of revenue	1.4%	1.8%		1.4%	1.6%	

Cost of revenue remained relatively unchanged during the three and nine months ended September 30, 2012 when compared to the same period in 2011.

**Selling and Marketing**

Sales and marketing expenses primarily consist of direct costs, including search engine marketing, or SEM, other traffic acquisition costs, syndication costs and affiliate program commissions, brand advertising and public relations. In addition, our indirect sales and marketing expense consists of personnel and overhead expenses, including salaries, commissions, benefits, stock-based compensation expense and bonuses for sales, sales support, customer support and marketing employees.

	Three months ended September 30,			Nine months ended September 30,		
	2012	2011	% Change	2012	2011	% Change
	(\$ in millions)			(\$ in millions)		
Direct costs	\$ 45	\$ 42	6%	\$ 134	\$ 103	30%
Personnel and overhead	23	18	26%	65	54	21%
Total selling and marketing	\$ 68	\$ 60	12%	\$ 199	\$ 157	27%
% of revenue	31.8%	33.4%		33.6%	31.5%	

Direct selling and marketing costs increased \$3 million and \$31 million during the three and nine months ended September 30, 2012 when compared to the same period in 2011, primarily due to increased search engine marketing costs, brand advertising costs and investments in social media costs. We increased our spending on social media in the three and nine months ended September 30, 2012 compared to the same period in 2011, in order to increase social engagement on our websites. Personnel and overhead costs increased \$5 million and \$11 million during the three and nine months ended September 30, 2012 when compared to the same period in 2011, primarily due to an increase in headcount to support business growth, including international expansion.

**Technology and Content**

Technology and content expenses consist of personnel and overhead expenses, including salaries and benefits, stock-based compensation expense and bonuses for salaried employees and contractors engaged in the design, development, testing and maintenance of our website. Other costs include licensing and maintenance expense.

	Three months ended September 30,			Nine months ended September 30,		
	2012	2011	% Change	2012	2011	% Change
	(\$ in millions)			(\$ in millions)		
Personnel and overhead	\$ 22	\$ 14	59%	\$ 58	\$ 37	55%
Other	2	1	61%	5	4	28%
Total technology and content	\$ 24	\$ 15	60%	\$ 63	\$ 41	53%

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% of revenue	11.1%	8.2%	10.6%	8.3%
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33

**Table of Contents**

Technology and content costs increased \$9 million and \$22 million during the three and nine months ended September 30, 2012 when compared to the same periods in 2011, primarily due to increased personnel costs from increased headcount to support business growth, including international expansion, enhanced site features and mobile initiatives, as well as an increase in stock based compensation.

As discussed in our Annual Report on Form 10-K filed on March 15, 2012 for the year ended December 31, 2011, all depreciation costs of technology assets, including web servers and purchased and capitalized website and development activities for all prior periods have been reclassified to depreciation expense on our consolidated and combined statement of operations.

**General and Administrative**

General and administrative expense consists primarily of personnel and related overhead costs, including executive leadership, finance, legal and human resource functions and stock-based compensation as well as professional service fees and other fees including audit, legal, tax and accounting, and other costs including bad debt expense and our charitable foundation costs.

	Three months ended September 30,			Nine months ended September 30,		
	2012	2011	% Change	2012	2011	% Change
	(\$ in millions)			(\$ in millions)		
Personnel and overhead	\$ 14	\$ 7	84%	\$ 36	\$ 20	80%
Professional service fees and other	6	2	259%	19	5	255%
<b>Total general and administrative</b>	<b>\$ 20</b>	<b>\$ 9</b>	<b>118%</b>	<b>\$ 55</b>	<b>\$ 25</b>	<b>115%</b>
% of revenue	9.4%	5.1%		9.2%	5.1%	

General and administrative costs increased \$11 million and \$29 million during the three and nine months ended September 30, 2012, when compared to the same periods in 2011, primarily due to increased personnel costs related to an increase in stock based compensation, as well as increased headcount as a result of the Spin-Off and to support business growth, as well as additional professional service fees in order to support our operations as a standalone public company. In addition, in connection with the Spin-Off, we assumed Expedia's obligation to fund a charitable foundation. Our expense related to the funding of this charitable foundation was \$2 million and \$6 million, respectively, for the three and nine months ended September 30, 2012.

As discussed above, all depreciation costs of capitalized assets, primarily consisting of furniture and office equipment for prior periods have been reclassified in our Annual Report on Form 10-K filed on March 15, 2012 for the year ended December 31, 2011 to depreciation expense on our consolidated and combined statement of operations.

**Related-Party Shared Services Fee**

Prior to the Spin-Off, our related-party shared services fee was comprised of allocations from Expedia for accounting, legal, tax, corporate development, treasury, financial reporting, real estate management and included an allocation of employee compensation within these functions. These allocations were determined based on what we and Expedia considered being reasonable reflections of the utilization of services provided or the benefit received by us.

	Three months ended September 30,			Nine months ended September 30,		
	2012	2011	% Change	2012	2011	% Change
	(\$ in millions)			(\$ in millions)		
Related-party shared services fee	\$	2	(100)%	\$	6	(100)%
% of revenue	%	1.1%		%	1.2%	

Related-party shared services fee costs incurred for the use of Expedia shared services ceased in connection with the Spin-Off. Refer to Note 11 *Related Party Transactions* in this Quarterly Report on Form 10-Q for further information on our relationship with Expedia.

**Table of Contents****Depreciation**

	Three months ended September 30,			Nine months ended September 30,		
	2012	2011	% Change	2012	2011	% Change
	(\$ in millions)			(\$ in millions)		
Depreciation	\$ 5	\$ 5	9%	\$ 14	\$ 13	6%
% of revenue	2.4%	2.6%		2.4%	2.7%	

There was no significant change in depreciation expense for the three and nine months ended September 30, 2012 compared to the same periods in 2011.

**Amortization of Intangible Assets**

	Three months ended September 30,			Nine months ended September 30,		
	2012	2011	% Change	2012	2011	% Change
	(\$ in millions)			(\$ in millions)		
Amortization of intangible assets	\$ 1	\$ 2	(45)%	\$ 5	\$ 6	(13)%
% of revenue	0.6%	1.3%		0.8%	1.1%	

Amortization of intangible assets decreased slightly during the three and nine months ended September 30, 2012 when compared to the same periods in 2011, primarily due to the completion of amortization related to certain technology intangible assets.

**Operating Income**

	Three months ended September 30,			Nine months ended September 30,		
	2012	2011	% Change	2012	2011	% Change
	(\$ in millions)			(\$ in millions)		
Operating income	\$ 92	\$ 82	12 %	\$ 249	\$ 239	4 %
% of revenue	43.4%	45.4%		42.0%	47.9%	

Operating income increased \$10 million for the three and nine months ended September 30, 2012 when compared to the same periods in 2011, primarily due to an increase in revenue of \$32 million and \$94 million, respectively, which was offset by a corresponding increase to operating expenses of \$22 million and \$84 million, respectively, particularly in personnel costs to support business growth and operations as a standalone public company, as well as stock based compensation, and traffic acquisition costs to drive higher revenue.

**Interest (Expense) Income, Net**

	Three months ended September 30,			Nine months ended September 30,		
	2012	2011	% Change	2012	2011	% Change
	(\$ in millions)			(\$ in millions)		
Interest (expense) income, net	\$ (3)	\$	(1,424)%	\$ (8)	\$ 1	(1,645)%
% of revenue	(1.3)%	%		(1.4)%	%	

Other interest expense, increased \$3 million and \$9 million during the three and nine months ended September 30, 2012 when compared to the same periods in 2011, primarily due to interest expense on our Term Loan and revolving credit facilities.

**Other, Net**

Other, net is primarily comprised of net foreign exchange gains and losses for the periods presented.



**Table of Contents****Provision for Income Taxes**

	Three months ended September 30,			Nine months ended September 30,		
	2012	2011	% Change	2012	2011	% Change
	(\$ in millions)			(\$ in millions)		
Provision for income taxes	\$ 31	\$ 25	24%	\$ 78	\$ 83	(6)%
Effective tax rate	34.4%	31.7%		32.6%	34.6%	

For the three and nine months ended September 30, 2012, the effective tax rate is less than the federal statutory tax rate primarily due to earnings in jurisdictions outside the United States, where our effective tax rate is lower, which was partially offset by state income taxes, non-deductible stock compensation and accruals on uncertain tax positions. The change in the effective tax rate for 2012 compared to the 2011 rate was primarily due to an increase in earnings in jurisdictions outside the United States and increases in uncertain tax positions.

**Financial Position, Liquidity and Capital Resources**

For the nine months ended September 30, 2012 we had \$548 million of cash and cash equivalents, and at December 31, 2011 we had \$184 million of cash and cash equivalents. The cash and cash equivalent balances include cash and a money market account held in the United Kingdom (\$225 million and \$165 million for the period ended September 30, 2012 and December 31, 2011, respectively) related to earnings we intend to reinvest permanently outside the United States. Should we distribute earnings of foreign subsidiaries in the form of dividends or otherwise, we may be subject to U.S. income taxes. Cumulative undistributed earnings of foreign subsidiaries that we intend to indefinitely reinvest outside of the United States totaled approximately \$375 million as of September 30, 2012. Should we distribute, or be treated under certain U.S. tax rules as having distributed, the earnings of foreign subsidiaries in the form of dividends or otherwise, we may be subject to U.S. income taxes. Determination of the amount of any unrecognized deferred income tax liability on this temporary difference is not practicable because of the complexities of the hypothetical calculation. Cash held is primarily denominated in U.S. dollars.

In connection with the Spin-Off, we entered into our Revolving Credit Facility with a borrowing capacity of \$200 million and have also entered into our five-year, \$400 million Term Loan, as discussed in Note 4 *Debt* in this Quarterly Report on Form 10-Q. Immediately prior to the Spin-Off, we transferred approximately \$406 million in the form of a dividend to Expedia, which included an estimate of our cash in excess of \$165 million. This distribution included the proceeds from our \$400 million Term Loan.

Historically, the cash we generate has been sufficient to fund our working capital and capital expenditure requirements. Management believes that our cash and cash equivalents, combined with expected cash flows generated by operating activities and the our Revolving Credit Facility will be sufficient to fund our ongoing working capital needs, capital expenditure requirements and business growth initiatives and to meet our long term debt obligations and commitments and fund acquisitions for at least the next 12 months.

Our cash flows are as follows (in millions):

	Nine months ended	
	September 30, 2012	September 30, 2011
Net cash provided by (used in):		
Operating activities	\$ 168	\$ 192
Investing activities	\$ (14)	\$ (108)
Financing activities	\$ 213	\$ 11

**Operating Activities**

For the nine months ended September 30, 2012, net cash provided by operating activities decreased by \$24 million or 12% when compared to the same period in 2011, primarily due to a decrease in working capital movements which includes the timing of customer cash receipts and vendor payments, but, was primarily driven by related party activity with Expedia of \$26 million subsequent to the Spin-Off being classified in operating activities as compared to investing activities in the prior year.

**Investing Activities**

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For the nine months ended September 30, 2012, net cash provided by investing activities increased by \$94 million when compared to the same period in 2011 primarily due to the cessation of cash transfers to Expedia in 2012 related to business operations of \$104 million which occurred regularly up through the Spin-Off. In addition, we received \$7 million during the nine months ended September 30, 2012, from Expedia which was owed to us related to the Spin-Off and we paid \$8 million in 2011 for business acquisitions. This was offset by \$20 million received in 2011 from the maturity of a short term investment which did not reoccur in 2012 and higher capital expenditures of \$5 million during the nine months ended September 30, 2012.

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## **Table of Contents**

### *Financing Activities*

For the nine months ended September 30, 2012, net cash provided by financing activities increased by \$202 million when compared to the same period in 2011 primarily due to proceeds from the exercise of our stock options and warrants of \$226 million, net of payment of minimum withholding taxes related to the vesting of our RSUs of \$4 million during the nine months ended September 30, 2012. We also borrowed an additional \$8 million under our Chinese Credit Facilities in 2012. This was partially offset by \$15 million in year to date principal payments on our Term Loan and a \$10 million repayment of our outstanding borrowing on our Revolving Credit Facility for the nine months ended September 30, 2012. In addition, during the nine months ended September 30, 2011, we received \$5 million of funding from Expedia related to an external acquisition, which did not reoccur in 2012.

### *Commitments and Contingencies and Off-Balance Sheet Arrangements*

There have been no material changes to our commitments and contingencies and off-balance sheet arrangements since December 31, 2011. (See Commitments, Contingencies and Off-Balance Sheet Arrangements in the Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of our Annual Report on Form 10-K filed on March 15, 2012 for the year ended December 31, 2011.) Other than our contractual obligations and commercial commitments, we did not have any off-balance sheet arrangements as of September 30, 2012 or December 31, 2011.

### *Related Party Transactions*

Refer to Note 11 *Related Party Transactions* above for information on related party transactions.

### *Stock-Based Compensation*

We adopted the TripAdvisor, Inc. 2011 Stock and Annual Incentive Plan, or the 2011 Incentive Plan, as of December 21, 2011, under which we may grant restricted stock, restricted stock awards, RSUs, stock options and other stock-based awards to our directors, officers, employees and consultants. Refer to Note 6 *Stock Based Awards and Other Equity Instruments* above for further information on the 2011 Incentive Plan.

### *Stock Option Activity*

The exercise price for all stock options granted by us to date has been equal to the market price of the underlying shares of common stock at the date of grant. In this regard, when making stock option awards, our practice is to determine the applicable grant date and to specify that the exercise price shall be the closing price of our common stock on the date of grant. Stock options granted during the first nine months of 2012 have had a term of ten years from the date of grant and generally vest over a four-year period.

During the three and nine months ended September 30, 2012, we have issued 3,470,975 of primarily service based stock options under the 2011 Incentive Plan with a weighted average grant-date fair value per option of \$20.55. We will amortize the fair value, net of estimated forfeitures, as stock-based compensation expense over the vesting term of four years on a straight-line basis. We use historical data to estimate pre-vesting option forfeitures and record share-based compensation expense only for those awards that are expected to vest. Changes in estimated forfeitures will be recognized through a cumulative catch-up adjustment in the period of change and will also impact the amount of stock compensation expense to be recognized in future periods.

The estimated fair value of the options granted under the 2011 Incentive Plan was calculated using a Black-Scholes Merton option-pricing model (Black-Scholes model). The Black-Scholes model incorporates assumptions to value stock-based awards, which includes the risk-free rate of return, volatility, expected term and expected dividend yield.



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## **Table of Contents**

Our risk-free interest rate is based on the rates currently available on zero-coupon U.S. Treasury issues, in effect at the time of the grant, whose remaining maturity period most closely approximates the stock option's expected term assumption. We estimated the volatility of our common stock by using an average of historical stock price volatility of publicly traded companies that we consider peers based on daily price observations over a period equivalent or approximate to the expected term of the stock option grants. The decision to use a weighted average volatility factor of a peer group was based upon the relatively short period of availability of data on our common stock. We estimated our expected term using the simplified method for all stock options as we do not have sufficient historical exercise data on our common stock. Our expected dividend yield is zero, as we have not paid and do not anticipate paying dividends on our common stock in the foreseeable future.

### *Stock Warrant Activity*

During the nine months ended September 30, 2012, there were a total of 32,186,791 warrants exercised which resulted in a total of 7,952,456 shares of our common stock being issued during that period, which included 31,641,337 warrants for which the exercise price was paid in cash at a weighted average price of \$27.11. We received total exercise proceeds of \$214.5 million related to these warrant exercises. In addition there were 545,454 cashless warrants exercised with a weighted average exercise price of \$25.92 of which we did not receive any exercise proceeds. As of September 30, 2012, we had no outstanding warrants available which could be convertible to shares of our common stock.

Refer to Note 6 *Stock Based Awards and Other Equity Instruments* above for further information on current year equity award activity.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk Market Risk Management**

Please refer to 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, 2011.

There has been no material change in our market risk management strategy during the three and nine months ended September 30, 2012, except as follows.

#### *Foreign Currency Exchange Rates*

We conduct business in certain international markets, primarily the European Union, the U.K. and China. Because we operate in international markets, we have exposure to different economic climates, political arenas, tax systems and regulations that could affect foreign exchange rates. Our primary exposure to foreign currency risk relates to transacting in foreign currency and recording the activity in U.S. dollars. Changes in exchange rates between the U.S. dollar, the British pound sterling, the Euro and other currencies will result in transaction gains or losses, which we recognize in our consolidated and combined statements of operations. As we increase our operations in international markets, we become increasingly exposed to potentially volatile movements in currency exchange rates. These movements, if material, could cause us to adjust our financing and operating strategies.

We currently manage our exposure to foreign currency risk through internally established policies and procedures and, when deemed appropriate, through the use of derivative financial instruments, which we began using during the three months ending September 30, 2012. We use foreign exchange derivative contracts to manage short-term foreign currency risk.

Our objective is to hedge only those currency exposures that can be confidently identified and quantified and that may result in significant impacts to corporate cash or the consolidated income statement. Our policy does not allow speculation in derivative instruments for profit or execution of derivative instrument contracts for which there are no underlying exposures. We do not use financial instruments for trading purposes and are not a party to any leveraged derivatives.

Our current derivative contracts principally address foreign exchange fluctuation risk for the Euro versus the U.S. Dollar. We account for our derivative instruments as either assets or liabilities and carry them at fair value.

As of September 30, 2012 we had outstanding forward currency contracts not designated as hedging contracts with a notional value of (\$18.3) million. These contracts are all short-term in nature. The fair value of these derivatives at September 30, 2012 was a net liability of \$0.3 million and was recorded in accrued expenses and other current liabilities on the consolidated balance sheet. For the three and nine months ended September 30, 2012, \$0.3 million of expense was recorded to Other, net on our consolidated and combined statement of operations. We did not

enter into any derivative instruments for the year ending December 31, 2011.

**Table of Contents**

**Item 4. Controls and Procedures**

***Evaluation of Disclosure Controls and Procedures***

As of September 30, 2012, our management, with the participation of our President and Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(b) promulgated under the Securities Exchange Act of 1934, as amended, or the Exchange Act. Based upon that evaluation, our President and Chief Executive Officer and our Chief Financial Officer concluded that, as of September 30, 2012, our disclosure controls and procedures were effective in ensuring that material information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's, or the SEC's, rules and forms, including ensuring that such material information is accumulated and communicated to our management, including our President and Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

***Changes in internal control over financial reporting.***

There were no changes to our internal control over financial reporting that occurred during the quarter ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II OTHER INFORMATION****Item 1. Legal Proceedings**

In the ordinary course of business, we and our subsidiaries are parties to legal proceedings and claims involving alleged infringement of third-party intellectual property rights, defamation, and other claims. Rules of the SEC require the description of material pending legal proceedings, other than ordinary, routine litigation incident to the registrant's business, and advise that proceedings ordinarily need not be described if they primarily involve damages claims for amounts (exclusive of interest and costs) not individually exceeding 10% of the current assets of the registrant and its subsidiaries on a consolidated basis. In the judgment of management, none of the pending litigation matters that TripAdvisor and our subsidiaries are defending involves or is likely to involve amounts of that magnitude. There may be claims or actions pending or threatened against us of which we are currently not aware and the ultimate disposition of which could have a material adverse effect on us.

**Item 1A. Risk Factors**

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I Item 1A., Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011 which could materially affect our business, financial condition or future results. During the quarter ended September 30, 2012, there have been no material changes in our risk factors from those disclosed in Part I, Item 1A., Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

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

During the quarter ended September 30, 2012, we did not issue or sell any shares of our common stock, Class B common stock or other equity securities pursuant to unregistered transactions in reliance upon an exemption from the registration requirements of the Securities Act of 1933, as amended.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 6. Exhibits**

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

Exhibit No.	Exhibit Description	Filed Herewith	Incorporated by Reference			
			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 to Section 302 of the Sarbanes-Oxley Act of 2002	X				
32.1		X				

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Certification of the Chairman and Senior Executive pursuant  
Section 906 of the Sarbanes-Oxley Act of 2002

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

**Table of Contents**

101\* The following financial statements from the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2012, formatted in XBRL: (i) Unaudited Consolidated and Combined Statements of Operations, (ii) Unaudited Consolidated and Combined Statements of Comprehensive Income, (iii) Unaudited Consolidated Balance Sheets, (iv) Unaudited Consolidated Statement of Changes in Stockholders' Equity, (v) Unaudited Consolidated and Combined Statements of Cash Flows, and (vi) Unaudited Notes to Consolidated and Combined Financial Statements, tagged as blocks of text.

\* XBRL information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934, and is not subject to liability under those sections, is not part of any registration statement or prospectus to which it relates and is not incorporated or deemed to be incorporated by reference into any registration statement, prospectus or other document.

**Table of Contents**

**SIGNATURES**

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

TripAdvisor, Inc.

By: */s/ JULIE M.B. BRADLEY*  
**Julie M.B. Bradley**  
**Chief Financial Officer**

November 5, 2012