

TripAdvisor, Inc.  
Form 10-K  
February 15, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-K**

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

Delaware  
(State or other jurisdiction of  
incorporation or organization)

141 Needham Street

Newton, MA 02464

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

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(Address of principal executive office) (Zip Code)

Registrant's telephone number, including area code:

(617) 670-6300

Securities registered pursuant to Section 12(b) of the Act:

<b>Title of each class:</b>	<b>Name of each exchange on which registered:</b>
Common Stock, \$0.001 par value	The NASDAQ Stock Market LLC
<b>Securities registered pursuant to Section 12(g) of the Act: None</b>	

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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

The aggregate market value of the common stock of the registrant held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter was \$5,560,483,534 based on the closing price on NASDAQ on such date. For the purpose of the foregoing calculation only, all directors and executive officers of the registrant are assumed to be affiliates of the registrant.

Outstanding Shares at

Class

February 8, 2013

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Common Stock, \$0.001 par value per share	130,105,917 shares
Class B Common Stock, \$0.001 par value per share	12,799,999 shares

### **Documents Incorporated by Reference**

The registrant intends to file a proxy statement pursuant to Regulation 14A not later than 120 days after the close of the fiscal year ended December 31, 2012. Portions of such proxy statement are incorporated by reference into Part III of this Annual Report on Form 10-K.

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**Cautionary Note Regarding Forward-Looking Statements**

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, principally, but not only, in the sections entitled Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations. We caution investors that any forward-looking statements in this report, or which management may make orally or in writing from time to time, are based on management's beliefs and on assumptions made by, and information currently available to, management. When used, the words anticipate, believe, could, estimate, expect, intend, may, might, plan, project, result should, will, which do not relate solely to historical matters are intended to identify forward-looking statements. Such statements are subject to risks, uncertainties and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from those anticipated, estimated or projected by the forward-looking statements. We caution you that, while forward-looking statements reflect our good faith beliefs when we make them, they are not guarantees of future performance and are impacted by actual events when they occur after we make such statements. We expressly disclaim any responsibility to update our forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, investors should use caution in relying on past forward-looking statements, which are based on results and trends at the time they are made, to anticipate future results or trends.

Some of the risks and uncertainties that may cause our actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include, among others, the following:

If we are unable to continue to increase visitors to our websites and to cost-effectively convert these visitors into repeat users or contributors, our advertising revenue could decline.

If we are not able to successfully expand our social integration and member acquisition efforts with social media, including Facebook, Twitter and other social sharing platforms, our ability to grow and maintain engagement with our user base could be negatively impacted.

Our businesses could be negatively affected by changes in search engine algorithms and dynamics, or search engine disintermediation.

Declines or disruptions in the travel industry, as a result of global economic conditions or otherwise, could adversely affect our businesses and financial performance.

We derive substantially all of our revenue from advertising and any significant reduction in spending by advertisers could harm our business.

Changes we make to our business model, including a transition to a hotel metasearch display, may impact our advertising revenue in ways that we do not expect, and the timing of these transitions may be longer than expected.

We rely on a relatively small number of significant advertisers, including Expedia, and any reduction in spending by or loss of those advertisers could seriously harm our business.

We rely on the value of our brand and consumer trust in our brand, and the costs of maintaining and enhancing brand awareness, including through social and traditional media, are increasing.

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We face competition from companies and websites that collect travel-related content, which could divert traffic from our websites causing financial harm to us.

Some of our customers, including some of our click-based advertising partners, are also our competitors, and the consolidation of our competitors and our partners may affect our competitiveness and partner relationships.

We are dependent upon the quality of traffic in our network to provide value to online advertisers, and any failure in our quality control could have a material adverse effect on the value of our websites to our advertisers and adversely affect our revenue.

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The risks set forth above are not exhaustive. Please refer to the section entitled Part I, Item 1A. Risk Factors. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Investors should also refer to our quarterly reports on Form 10-Q for future periods and current reports on Form 8-K as we file them with the Securities and Exchange Commission, or the SEC, and to other materials we may furnish to the public from time to time through Forms 8-K or otherwise, for a discussion of risks and uncertainties that may cause actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements. We expressly disclaim any responsibility to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events, or otherwise, and you should not rely upon these forward-looking statements after the date of this report.

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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, bed and breakfasts, or 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-branded websites globally have received more than 60 million unique visitors (according to July 2012 comScore), and we have built a base of more than 44 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 customers, including travel advertisers, allowing travelers to directly book their travel arrangements. In addition to the flagship TripAdvisor brand, we now manage and operate 20 other travel brands, connected by the common goal of providing comprehensive travel planning resources across the travel sector.

**Corporate Background**

The original TripAdvisor business was founded in February 2000 and was acquired by IAC/InterActiveCorp, or IAC, in April 2004. In August 2005, IAC spun-off its portfolio of travel brands, including TripAdvisor, into a separate company under the newly-formed Delaware corporation, Expedia, Inc., or Expedia. On December 20, 2011, Expedia completed the spin-off of TripAdvisor as described in more detail in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations Overview Spin-Off".

**Evolution of TripAdvisor-Branded Websites**

Since the initial launch of the U.S.-based tripadvisor.com website in November 2000, TripAdvisor-branded websites have been added in the following locations:

<b>Website</b>	<b>Target Location</b>	<b>Language</b>	<b>Launch Date</b>
tripadvisor.com.eg	Egypt	Arabic	June 2011
tripadvisor.com.my	Malaysia	English	March 2011
tripadvisor.tw	Taiwan	Chinese (Traditional)	February 2011
tripadvisor.com.ar	Argentina	Spanish	December 2010
tripadvisor.co.id	Indonesia	Bahasa	November 2010
tripadvisor.gr	Greece	Greek	October 2010
tripadvisor.ru	Russia	Russian	October 2010
th.tripadvisor.com	Thailand	Thai	August 2010
tripadvisor.co.kr	South Korea	Korean	August 2010
tripadvisor.com.sg	Singapore	English	August 2010
pl.tripadvisor.com	Poland	Polish	March 2010
no.tripadvisor.com	Norway	Norwegian	March 2010
tripadvisor.com.au	Australia	English	March 2010
tripadvisor.com.tr	Turkey	Turkish	December 2009
tripadvisor.com.mx	Mexico	Spanish	December 2009
tripadvisor.dk	Denmark	Danish	December 2009
tripadvisor.ca	Canada	English	August 2009
tripadvisor.se	Sweden	Swedish	April 2009
tripadvisor.nl	Netherlands	Dutch	April 2009
daodao.com	China	Chinese (Simplified)	April 2009
tripadvisor.com.br	Brazil	Portuguese	April 2009
tripadvisor.jp	Japan	Japanese	October 2008
tripadvisor.in	India	English	August 2008
tripadvisor.es	Spain	Spanish	January 2006
tripadvisor.it	Italy	Italian	January 2006
tripadvisor.de	Germany	German	January 2006



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tripadvisor.fr  
tripadvisor.co.uk  
tripadvisor.ie

France  
United Kingdom  
Ireland

French  
English  
English

January 2006  
November 2005  
November 2005

**Table of Contents*****Other Travel Brands and Websites***

In addition to the flagship TripAdvisor-branded websites, we have also acquired and launched numerous other travel brands, connected by the common characteristic of providing travelers with valuable planning resources across the travel sector. These brands have expanded our reach, product breadth and appeal to domestic and international advertisers.

Brands acquired include:

<b>Website</b>	<b>Date Acquired</b>	<b>Key Focus</b>
wanderfly.com	October 2012	Website and mobile application for discovering and sharing personalized travel recommendations.
whereivebeen.com	July 2011	Website and social platform with a detailed interactive world map that lets users share where they have been, lived, and want to go.
everytrail.com	February 2011	Mobile application and website for collecting and sharing geo-tagged user-generated travel content, such as walking tours and itineraries.
holidaylettings.co.uk	June 2010	A leading U.K.-based vacation rental site, featuring properties listed globally.
kuxun.cn	October 2009	Travel metasearch engine operating in China.
flipkey.com	August 2008	A vacation rental website featuring a large collection of vacation rental guest reviews on vacation rental properties around the world.
onetime.com	June 2008	Comparison shopping travel website that allows travel shoppers to conduct itinerary-based, multi-site searches for flights, hotels, cruises, vacations, and car rentals.
virtualtourist.com	June 2008	Travel-oriented community website featuring user-contributed travel guides for locations worldwide.
airfarewatchdog.com	March 2008	Provides up-to-date airline deals that have been researched and verified by a team of dedicated airfare experts.
holidaywatchdog.com	January 2008	U.K.-based website for traveler reviews on hotels and destinations focusing on the Mediterranean.
cruisecritic.com	May 2007	A community of avid and first-time cruisers who enjoy the fun of planning, researching and sharing their passion for cruising. Cruise Critic offers objective cruise reviews written by expert travel writers and members.
independenttraveler.com	May 2007	A traveler's exchange that features practical travel resources for a community of international travelers who enjoy the adventure of independent travel.
seatguru.com	March 2007	Features aircraft seat maps, seat reviews, and a color-coded system to identify superior and substandard airline seats.
bookingbuddy.com	February 2007	Travel shopping website that gives travelers easy access to airfare, hotel, car rental, cruise, vacation rental, and vacation deals, plus prices from selected travel sites.
smartertravel.com	February 2007	One of the largest online travel resources of independent expert advice for the budget-conscious traveler. The SmarterTravel editorial staff provides advice and analysis to help travelers find the best deals and get the most value from their trips.
travelpod.com	December 2006	Pioneering travel blog website.
travel-library.com	September 2006	Travel website with user-generated reviews.

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Brands developed internally and launched as of December 31, 2012 include:

<b>Website</b>	<b>Date Launched</b>	<b>Key Focus</b>
tingo.com	March 2012	The first hotel booking site that automatically rebooks hotel rooms at a lower price if the rate drops and automatically refunds the difference to the travelers' credit cards.
sniqueaway.com	September 2010	U.S.-based members-only flash sale website, providing exclusive limited time access to deals on top hotels at deep discounts. This members-only website offers limited-time discounts exclusively on traveler-endorsed properties that have received a minimum four out of five-star rating (or its equivalent for smaller properties) on tripadvisor.com.
familyvacationcritic.com	June 2009	Reviews of family-friendly hotels, resorts, destinations and attractions, written by experienced family travel experts.

**Industry**

We operate in the online advertising sector of the global travel industry. As a result, we are impacted by trends in the global travel industry, the online travel market and online advertising.

***Global Travel Industry***

According to the PhoCusWright, gross bookings in the global travel industry are expected to be greater than \$1.1 trillion in 2013. Recent historical trends show that, each year, an increasing percentage of global travel spending has been conducted online through supplier websites and online travel agencies. We believe that this trend will continue as online penetration continues, as more consumers gain broadband access to the Internet, as smartphone, tablets and other mobile computing devices continue to proliferate, and as travel grows along with an expanding middle class in certain developing countries like China and India.

***Online Travel Market***

According to the International Data Corporation, or IDC, New Media Market Model, the travel industry represented half of all global e-Commerce transactions in 2012. On the other hand, only 19% of the approximately \$41 billion spent on travel advertising is spent online. We believe that the Internet will continue to become even more integral to the travel-planning process due to increasing worldwide online penetration, particularly given the capabilities that the Internet provides travelers, including the ability to refine searches, compare destinations and view real-time pricing.

***Online Advertising***

According to the IDC New Media Market Model, the global online advertising market is growing and is projected to exceed \$130 billion by 2014, as more and more advertisers continue to shift their spending from offline to online channels, mirroring the trend in consumer media consumption generally. For travel specifically, IDC estimates that annual expenditures for global mobile internet travel advertising in 2013 will be close to \$15 billion. Given the size of the travel market, we believe that travel providers and travel related advertisers are, and will continue to be, motivated to devote significant resources to advertise their travel products and services. In addition, as more and more travel transactions are conducted online generally, we believe that an increasing amount of travel advertising spending will migrate from traditional offline advertising channels to online advertising opportunities.

**Key Strengths**

Just over a decade ago, travel research and planning was largely conducted with the assistance and guidance of a personal travel agent or advice from friends and family. Consumers had no single resource to access recent

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and comprehensive destination, lodging, restaurant and attraction feedback and information. We were founded with the goal of providing an online resource based on user-generated content to prospective travelers. By using the power of the Internet to create transparency in the travel planning process with a comprehensive online resource for travel information, we have democratized the travel research and planning process. For any customer with access to the Internet, whether through their desktop, smartphone or tablet devices, we provide the ability and information to plan and have the perfect trip.

In order to achieve our goals, we leverage our key assets – a robust community of users, rich user-generated content, technology and a commitment to continuous innovation and global reach as follows:

***Robust Community of Users.*** TripAdvisor-branded sites offer benefits to our many constituents, the totality of which combines to create a vibrant community. By providing an interactive forum to share travel experiences, we allow the voice of our large, highly engaged community of travelers to influence travel purchase decision-making during the trip-planning phase. To ease planning, we enable consumers to research pricing and availability from third-party travel booking sites. To facilitate better travel experiences for consumers and to create a feedback loop between the hospitality industry and individual travelers, we allow hospitality management representatives to respond to reviews of their properties on our website. We believe that the robust feedback loop created on TripAdvisor-branded websites and the volume of reviews generated on TripAdvisor-branded websites provides a sustainable advantage over competitors. We believe that we have the largest breadth of content in our markets, and that, because of this breadth, travelers gravitate to TripAdvisor-branded websites to research their travel plans. After completing their trip, consumers can return to our websites to write reviews to give back to the community that helped them plan their trip. Through this cycle, more content is generated, which drives community, traffic, loyalty and higher search engine rankings, all of which leads to further content creation.

***Rich User-Generated Content.*** We believe that the best travel content comes from the wisdom and insight of a robust community of travelers. We leverage user-generated content to power travel planning by allowing members to create reviews and share opinions on hundreds of thousands of accommodations, destinations, attractions and restaurants. As evidenced by the growth of our business, this type of travel planning has been embraced by travelers. For example, in July 2006, we hosted more than 5 million user reviews and opinions with respect to approximately 220,000 hotels and attractions. Currently, TripAdvisor-branded websites provide consumers with over 75 million user reviews and opinions with respect to more than 670,000 hotels and accommodations and over 1.2 million restaurants and attractions in more than 120,000 destinations throughout the world. On average, our users are currently adding more than 60 pieces of content every minute. To promote an enthusiastic reviewer community, we have launched several programs to recognize reviewer contributions, including site badges, helpful vote recognition, and other community-focused features, all of which highlight the active and helpful reviews and opinions available throughout the TripAdvisor community.

***Technology and Innovation.*** We focus heavily on speed-to-market and product innovation in order to create a richer experience for travelers, and our team deploys weekly engineering releases with new products and features. Some recent examples of this product innovation include our recent development of a hotel metasearch product, which makes it even easier for users to research and plan their perfect trip on TripAdvisor; Facebook integration including Facebook Connect and Open Graph, which allows travelers to see their friend's travel experiences on TripAdvisor and share their own content with their friend network; and friend-of-a-friend review highlighting, which expands the number of friend-connected reviews a user will see; hotel style buttons, which make it easier for users to find the right hotel for their particular travel needs. We are also continuing to invest heavily in the rapidly growing mobile channel, releasing 60 new mobile city guides this past year to bring coverage up to 80 of the most popular cities globally; adding menus to restaurant pages and bookable tickets to attractions pages; releasing hotel pricing and availability improvements; and integrating Facebook login into our industry-leading mobile websites as well as tablet and smartphone applications.

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that are currently available in 20 languages. Our innovation also extends to content syndication and review collection partnerships, as we leverage our technology and content for the benefit of other websites. In addition, we expend significant efforts with respect to manual and electronic fraud detection in order to maintain the quality and authenticity of user reviews, and have clear posting guidelines for user content submission.

**Global Reach.** We maintain a global presence both through the reach of our global portfolio of 30 websites and through our in-market staffing in more than ten countries. We have TripAdvisor branded websites in 30 countries and 21 languages at December 31, 2012, including in China under the brand daodao.com. We have over 120 million review translations, and we are committed to continuing to improve the in-country user experience and the local content coverage for all of our points-of-sale. As of December 31, 2012, we had approximately 650 employees based outside of the United States. We believe that our core TripAdvisor platform and many of our other brands are uniquely positioned to appeal to travelers globally, in that they strive to provide universally-relevant content and community.

### **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.

**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 continuing to extend that functionality to additional platforms such as smartphones 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.

**Social Platform.** 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 enable us to continue to grow and maintain engagement with our user base and increase our content. For example, when searching for a hotel on TripAdvisor, users can see which hotels their Facebook friends and friends-of-friends have visited and reviewed. Users can share their reviews and ratings with their friends and publish their activity to their timelines. Users can also update their travel map and rate new experiences on Facebook.

**Metasearch.** We have offered a flight metasearch product since 2009 expanding internationally to 19 points of sale in 2012. In 2012, we invested in building a hotel metasearch product for our smartphone platforms and we currently plan to roll out our hotel metasearch product on our desktop and tablet platforms during the next three to six months. A metasearch display is an interface that shows hotel or flight availability and pricing information from multiple sources, without requiring the user to visit another website. We expect to continue to develop our metasearch capabilities, because we believe that by showing users real-time pricing and availability wherever possible across our global points of sale, we can provide a better user experience while delivering highly qualified leads to our advertising partners.

**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.

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***Enhance International Offerings.*** We are focused on strengthening our broad global footprint. We are continuing to improve localization and grow our user base in Europe, Asia and South America, especially in emerging markets, such as Brazil, Russia and China. 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.

### **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, selling room nights on our transactional sites SniqueAway and Tingo, and other revenue including content licensing. In the year ended December 31, 2012, we earned \$588 million of revenue from click-based advertising, \$94 million in revenue from display-based advertising and \$81 million in revenue from subscription-based offerings, transaction revenue and other revenue.

***Click-Based Advertising Revenue.*** Our largest source of revenue is click-based advertising, which includes links to our partners booking sites and 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. Click-based advertising is generally priced on a cost-per-click, or CPC, basis, with payments from advertisers based on the number of users who click on each type of link. Most of our click-based advertising contracts can be terminated by the advertisers at will or on short notice.

***Display-Based Advertising Revenue.*** We 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 are predominately direct suppliers in the hotel, airline and cruise categories and online travel agencies, we also accept display advertising from 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 offer advertising via a subscription model that is sold for a flat fee per time period. Managed by our TripAdvisor 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 product allows individual vacation property owners and property 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 room nights on our transactional sites, SniqueAway and Tingo, as well as content licensing arrangements with third-party sites.

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### **Strategic Relationships**

#### ***Click-Based Advertisers***

We have click-based advertising relationships with the vast majority of the leading online travel agencies globally as well as a variety of other travel suppliers pursuant to which these companies purchase traveler leads from us, generally on a CPC basis. For the year ended December 31, 2012, approximately \$204 million, or 27%, of our total revenue was derived from Expedia businesses. At the time of the spin-off from Expedia, or the Spin-Off, new commercial arrangements with Expedia-owned brands, including Expedia.com and Hotels.com were implemented. For a discussion of these commercial arrangements, see Note 16 *Related Party Transactions* in the notes to our consolidated and combined financial statements. For the year ended December 31, 2012, our two most significant advertising customers accounted for a combined 48% of total revenue. These and our other click-based advertising relationships are strategically important to us and most can be terminated by the advertiser at will or on short notice.

#### ***Content-Related Partnerships***

We have a content licensing program utilized by over 575 partners across the world, including hotel chains, online travel agents, tourist boards, airlines and media sites. TripAdvisor also distributes its content through self-service HTML widgets, which are used on the websites of hotels, restaurants, attractions and destination marketing organizations. These products, which are available at no cost in the TripAdvisor Management Center, allow businesses and destinations to promote themselves by displaying their TripAdvisor ratings, reviews and awards. TripAdvisor widgets are presently found on more than 70,000 unique domains around the globe, reaching over 300 million people per month. Partners benefit from our user-generated content, such as reviews, ratings, photos and traveler forums. In addition we power review collection for a growing number of partners such as Accor Hotels, Wyndham Hotel Group and Easytobook.com, enabling them to proactively collect reviews from their own customers post-stay in their own branded environment. We have also developed partnerships with mobile carriers and device manufacturers.

#### ***Syndication Partners***

We also syndicate our click-based advertising to third-party websites. The largest such syndication relationship is with Yahoo! Travel Guides, pursuant to which we provide show prices advertising on the Yahoo! Travel Guides hotel pages.

### **Marketing and Promotions**

Our marketing programs are intended to build and maintain the value of our brands, promote consumer engagement and contributions, drive qualified clicks to our partners and strategically position our brands in the market. Our long-term success depends on our continued ability to maintain and increase the overall number of consumers flowing through our brand in a cost-effective manner, as well as our ability to attract consumers who will share their own content from their trips. Our marketing channels include SEM and search engine optimization. We also utilize customer relationship marketing in which we send relevant and engaging traveler communications to our members via email. We have a robust global public relations program that yields placements on a constant basis in major print and online publications. We continue to look for new ways to build brand awareness and expand new channels, which may include traditional media and social media channels including Facebook and Twitter to deepen customer engagement. We syndicate our content so that other sites can feature TripAdvisor branding and content. Lastly, marketing and product development initiatives are closely tied. We are constantly creating helpful features and functionality so that our consumers can discover more relevant travel and review content that they want to talk about and share with their friends.

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### **Operations and Technology**

We have assembled a team of highly skilled software engineers, computer scientists, data scientists, network engineers, and systems engineers whose expertise spans a broad range of technical areas, including a wide variety of open source operating systems, databases, languages, analytics, networking, scalable web architecture, operations, and warehousing technologies. We make significant investments in product and feature development, data management and personalization technologies, scalable infrastructures, networking, data warehousing, and search engine technologies. The TripAdvisor branded websites are powered primarily using Java programming language.

Our systems infrastructure, web and database servers for TripAdvisor branded websites are housed at two geographically separate facilities and have multiple communication links as well as continuous monitoring and engineering support. Each facility is fully self-sufficient and operational with its own hardware, networking, software, and content, and is structured in an active/passive, fully redundant configuration. Substantially all of our software components, data, and content are replicated in multiple datacenters and development centers, as well as being backed up at offsite locations. Our systems are monitored and protected through multiple layers of security. Several of our individual subsidiaries and businesses, including our subsidiaries in China, have their own data infrastructure and technology teams.

### **Competition**

We face competition for users, advertisers and travel reviews. Our primary competitors include large search engines, such as Google, Microsoft's Bing, Yahoo! and Baidu, and online travel agencies such as Expedia and Priceline, and their respective subsidiaries. We also compete with a wide range of other companies, including, among others, Facebook, Inc., Airbnb, Inc., Ctrip.com International, Ltd., HolidayCheck AG, HomeAway.com, Inc., Kayak Software Corporation, Qunar.com Information Technology Co. Ltd., trivago GmbH and Yelp, Inc. Certain of the companies we do business with, including some of our click-based advertising partners, are also our competitors. The consolidation of our competitors and partners, including Expedia (through its investment in trivago) and Priceline (through its announced acquisition of Kayak), may affect our competitiveness and partner relationships. As the market evolves for online travel content and the technology supporting it, including new platforms such as smartphone and tablet computing devices, we anticipate that the existing competitive landscape will change and new competitors may emerge.

#### ***Competition for Content and Travel Reviews***

We are the world's largest global platform for travel-related reviews and opinions. We face competition in the travel review space from online travel agencies, such as Expedia and Priceline and their respective subsidiaries, which solicit reviews from travelers who book travel on their websites. Moreover, networks with significant installed user bases such as Google (for example, via Google + Local and Google Hotel Finder) have begun to, and other networks or platforms, like Facebook, could choose to, compete more directly with us by attracting and accumulating user-generated travel reviews and opinions or may pursue the acquisition of travel-related content directly from consumers.

#### ***Competition for Users***

In the competition to attract users, we rely on our ability to acquire traffic through offline brand recognition and brand-direct efforts such as email and online search, whether unpaid or paid. Unpaid search is sometimes referred to as search engine optimization, or SEO, which is the practice of developing websites with relevant and current content that rank well in organic, or unpaid, search engine results. SEO can be affected by a number of factors including competitive site content, changes to our website architecture and page designs, changes to search engine ranking algorithms, or changes to display ordering in search engine results such as preferred placement for internal products offered by search engines. 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



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placement, contextual advertising, and paid inclusion. SEM is a competitive marketplace with competitors continually updating their traffic acquisition strategies and economic models across a large number of keywords and markets.

### ***Competition for Advertisers***

We compete with search engines, such as Google, Bing, and Yahoo!, online media companies and ad networks, as well as offline advertising sources, such as television and print media, for travel supplier, online travel agency and other travel-related advertising budgets. These competitors have large client bases and significantly greater resources than we have and competition from these parties could cause us to lose advertising customers or shares of advertising expenditures. However, we believe that our large audience of highly-qualified, highly-engaged users makes TripAdvisor an important strategic buy for online travel agents and hotel partners.

### **Intellectual Property**

Our intellectual property, including patents, trademarks, copyrights, domain names, trade dress, proprietary technology and trade secrets, is an important component of our business. We rely on our intellectual property rights in our content, proprietary technology, software code, ratings indexes, databases of reviews and forum content, images, videos, graphics and brands. We have acquired some of our intellectual property rights through licenses and content agreements with third parties. These licenses and agreements may place restrictions on our use of the intellectual property.

We protect our intellectual property by relying on our terms of use, confidentiality procedures and contractual provisions, as well as on international, national, state and common law rights. In addition, we enter into confidentiality and invention assignment agreements with employees and contractors, and confidentiality agreements with other third parties. We protect our brands by pursuing the trademark registration of our core brands, such as TripAdvisor and the Owl Logo, maintaining our trademark portfolio, securing contractual trademark rights protection when appropriate, and relying on common law trademark rights when appropriate. We also register copyrights and domain names as deemed appropriate. Additionally, we protect our trademarks, domain names and copyrights with an enforcement program and the use of intellectual property licenses.

We have considered, and will continue to consider, the appropriateness of filing for patents to protect future inventions, as circumstances may warrant. However, many patents protect only specific inventions and there can be no assurance that others may not create new products or methods that achieve similar results without infringing upon patents owned by us.

### **Regulation**

We are subject to a number of United States federal and state and foreign laws and regulations that affect companies conducting business on the Internet, many of which are still evolving and being tested in courts, and could be interpreted in ways that could harm our business. These may involve user privacy, libel, rights of publicity, data protection, content, intellectual property, distribution, electronic contracts and other communications, competition, protection of minors, consumer protection, taxation and online payment services. In particular, we are subject to United States federal and state and foreign laws regarding privacy and protection of user data. Foreign data protection, privacy, and other laws and regulations are often more restrictive than those in the United States. United States federal and state and foreign laws and regulations are constantly evolving and can be subject to significant change. In addition, the application and interpretation of these laws and regulations is often uncertain, particularly in the new and rapidly-evolving industry in which we operate. There are also a number of legislative proposals pending before the United States Congress, various state legislative bodies, and foreign governments concerning data protection which could affect us. For example, a revision to the 1995 European Union Data Protection Directive is currently being considered by legislative bodies that may include more stringent operational requirements for data processors and significant penalties for non-compliance.

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In addition, we provide advertising data and information and conduct marketing activities that are subject to United States federal and state consumer protection laws that regulate unfair and deceptive practices, domestically and internationally. The United States and European Union have begun to adopt legislation that regulates certain aspects of the Internet, including online editorial and user-generated content, user privacy, behavioral targeting and online advertising, taxation, and liability for third-party activities.

United States federal, state and foreign governments are also considering alternative legislative and regulatory proposals that would increase regulation on Internet advertising. It is impossible to predict whether new taxes or regulations will be imposed on our services, and whether or how we might be affected. Increased regulation of the Internet could increase the cost of doing business or otherwise materially adversely affect our business, financial condition or operational results.

## **Segment and Geographic Areas**

We have one reportable segment. Segment and geographical information is contained in *Note 17 Segment Information* in the notes to our consolidated and combined financial statements.

## **Employees**

As of December 31, 2012, we had approximately 1,575 employees. Of these employees, approximately 925 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.

## **Additional Information**

### ***Company Website and Public Filings***

We maintain a corporate website at [www.tripadvisor.com](http://www.tripadvisor.com). Except as explicitly noted, the information on our website, as well as the websites of our various brands and businesses, is not incorporated by reference in this Annual Report on Form 10-K, or in any other filings with, or in any information furnished or submitted to, the SEC.

We make available, free of charge through the Investor Relations section of our website, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to those reports, filed or furnished pursuant to Sections 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after they have been electronically filed with, or furnished to, the SEC.

### ***Code of Ethics***

We post our code of business conduct and ethics, which applies to all employees, including all executive officers, senior financial officers and directors, on our corporate website at [www.tripadvisor.com](http://www.tripadvisor.com). Our code of business conduct and ethics complies with Item 406 of SEC Regulation S-K and the rules of NASDAQ. We intend to disclose any changes to the code that affect the provisions required by Item 406 of Regulation S-K, and any waivers of the code of ethics for our executive officers, senior financial officers or directors, on our corporate website.

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**Item 1A. Risk Factors**

*An investment in our Common Stock involves risks. You should consider carefully the risks described below together with all of the other information included in this Annual Report on Form 10-K. This Annual Report on Form 10-K contains forward-looking statements that contain risks and uncertainties. Please refer to the section entitled "Cautionary Note Regarding Forward-Looking Statements" on page 1 of this Annual Report on Form 10-K in connection with your consideration of the risk factors and other important factors that may affect future results described below.*

***If we or our partners are unable to successfully monetize our user traffic, or if our partners choose not to advertise with us, or choose to reduce their spending with us, our financial performance could be materially adversely affected.***

Even if we succeed in driving traffic to our websites, neither we nor our partners may be able to monetize this traffic or otherwise retain consumers. We maintain relationships with our click-based advertising partners, predominantly online travel agencies and direct suppliers in the hotel and airline product categories, and include their data and content in our search results. The loss of existing relationships with our partners, or an inability to continue to add new ones, may result in our hotel metasearch display providing incomplete pricing, availability and other information, which could reduce user confidence and have an adverse impact on traffic. A metasearch product is an interface that displays availability and pricing information from multiple sources on one page. Our revenues are based significantly on CPC pricing and volume of clicks by our users. We expect that click volume may decrease as a result of our transition to hotel metasearch display, but that CPC pricing levels will rise. To the extent that the expected increase in CPC pricing levels does not sufficiently offset the expected drop in click volume, our financial performance may be materially adversely affected. We cannot guarantee that our partners will continue to advertise with us. If our partners choose not to advertise with us, or choose to reduce their spending with us, our financial performance may be materially adversely affected.

***If we are unable to continue to increase visitors to our websites and to cost-effectively convert these visitors into repeat users or contributors, our advertising revenue could decline.***

The primary asset that we use to attract traffic to our websites and convert these visitors into repeat users is the content created by users of our websites, particularly such content's volume, unique nature and organization. Our success in attracting users depends, in part, upon our continued ability to collect, create, organize and distribute high-quality, commercially valuable content in a cost-effective manner at a scale that connects consumers with content that meets their specific interests and enables them to share and interact with the content and supporting communities. There can be no assurances that we will continue to receive content in a cost-effective manner or in a manner that timely meets rapidly changing consumer demand, if at all. Any failure to obtain such content could adversely affect user experiences and reduce traffic driven to our websites, which would make our websites less attractive to advertisers. Any change in the cost structure pursuant to which we obtain our content currently, or in travelers' relative appreciation of user-based versus expert content, could negatively impact our business and financial performance.

***Our businesses could be negatively affected by changes in search engine algorithms and dynamics, or search engine disintermediation.***

We rely heavily on Internet search engines such as Google, including through the purchase of travel-related keywords, to generate traffic to our websites. We obtain a significant amount of traffic via search engines and, therefore, utilize techniques such as SEO and SEM to improve our placement in relevant search queries. Search engines, including Google, frequently update and change the logic that determines the placement and display of results of a user's search, such that the purchased or algorithmic placement of links to our websites can be negatively affected. Moreover, a search engine could, for competitive or other purposes, alter its search algorithms or results causing our websites to place lower in search query results. If a major search engine

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changes its algorithms in a manner that negatively affects our paid or unpaid search ranking, or if competitive dynamics impact the effectiveness of SEO or SEM in a negative manner, our business and financial performance would be adversely affected, potentially to a material extent. Furthermore, our failure to successfully manage our SEO and SEM strategies could result in a substantial decrease in traffic to our websites, as well as increased costs if we were to replace free traffic with paid traffic.

In addition, to the extent that Google (including Google + Local and Google Hotel Finder) and ) Bing (including Bing Travel), or other leading search or metasearch engines that have a significant presence in our key markets, disintermediate online travel agencies or travel content providers by offering comprehensive travel planning or shopping capabilities, or refer those leads to suppliers directly, or to other favored partners, there could be a material adverse impact on our business and financial performance. For example, during 2011, Google completed its acquisition of flight search technology company ITA Software and separately made changes to its hotel search results, including both expanding and promoting the use of Google + Local. To the extent these actions have a negative effect on our search traffic, our business and financial performance could be adversely affected.

***Declines or disruptions in the travel industry could adversely affect our businesses and financial performance.***

Our businesses and financial performance are affected by the health of the worldwide travel industry. Travel expenditures are sensitive to personal and business discretionary spending levels and tend to decline or grow more slowly during economic downturns. Decreased travel expenditures could reduce the demand for our services, thereby causing a reduction in revenue.

Most recently, beginning in 2008, domestic and global economic conditions deteriorated rapidly, resulting in increased unemployment and a reduction in available budgets for both business and leisure travelers, which slowed spending on the services that we provide. The global economy remains in a fragile state and may be adversely impacted by a number of negative economic developments including defaults on government debt, significant increases in fuel and energy costs, tax increases and other matters that could reduce discretionary spending, continued tightening of credit markets, further declines in consumer confidence, and policy missteps. Further weakness in the global economy could create uncertainty for travelers and suppliers, and result in reduced spending by advertisers. These conditions could have a material adverse impact on our business and financial performance.

***We derive substantially all of our revenue from advertising and any significant reduction in spending by advertisers could harm our business.***

Most of our advertisers can generally terminate their contracts with us at any time or on very short notice. Advertisers will not continue to do business with us if their investment in such advertising does not generate sales leads, customers, bookings, or revenue and profit on a cost-effective basis, or if we do not deliver advertisements in an appropriate and effective manner. If we are unable to remain competitive and provide value to our advertisers, they will likely stop placing ads on our websites, which would harm our revenues and business. In addition, we cannot guarantee that our current advertisers will fulfill their obligations under existing contracts, continue to advertise beyond the terms of existing contracts or enter into any additional contracts with us.

Expenditures by advertisers also tend to be cyclical, subject to variation based on budgetary constraints, project cancellation or delay, and to reflect overall economic conditions and buying patterns. If we are unable to generate advertising revenue due to factors outside of our control, our business and financial performance would be adversely affected.

Click-based advertising accounts for the majority of our advertising revenue. Any changes we make to our business model, including a transition to a hotel metasearch display, may impact our advertising revenue in ways

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that we do not expect. If our partners do not receive the benefits they expect from their advertising spend with us, they may reduce their spending. In addition, if new, more effective advertising models were to emerge, there can be no assurance that we will have the ability to offer these models, or offer them in an effective manner. To the extent new technology platforms, such as smartphone and tablet computing, begin to take market share from established platforms, there can be no assurance that our existing advertising models will operate successfully on these new platforms, or work as effectively as on the desktop computer platform.

Furthermore, our CPC pricing for click-based advertising depends, in part, on competition between advertisers. If our large advertisers become less competitive with each other, merge with each other or with our competitors, focus more on per-click profit than on traffic volume, or are able to reduce CPCs, this would have an adverse impact on our CPCs which would, in turn, have an adverse effect on our business, financial condition and results of operations.

***We rely on a relatively small number of significant advertisers and any reduction in spending by or loss of those advertisers could seriously harm our business.***

We derive a substantial portion of our revenue from a relatively small number of significant advertisers. If any of our significant advertisers were to cease or to significantly curtail advertising on our websites, we could experience a rapid decline in our revenue over a relatively short period of time. For example, for the year ended December 31, 2012, our two most significant advertising customers accounted for a combined 48% of total revenue.

***Changes we make to our user experience and business model may not yield the benefits we expect and may have adverse impacts that we did not anticipate.***

We are continually working to improve our user experience and business model in order to drive user traffic and conversion rates. We can give no assurances that the changes we make will yield the benefits we expect and will not have adverse impacts that we did not anticipate. If we reverse any of the changes we make to our user experience or business model we may incur additional costs, reputational harm and a decline in user traffic and advertising revenue.

***Our success depends upon the acceptance, and successful measurement, of online advertising as an alternative to offline advertising.***

We believe that a significant discrepancy exists between the percentage of the advertising market allocated to online advertising and the percentage of consumer time spent on online media consumption as opposed to offline advertising and media consumption. Long-term growth of our business will depend heavily on this distinction between online and offline advertising narrowing or being eliminated, which may not happen in a manner or to the extent that we currently expect. We compete with traditional media for advertising dollars, in addition to websites with higher levels of traffic. If online advertising ceases to be an acceptable alternative to offline advertising, our business, financial condition and results of operations will be negatively impacted.

Because the online marketing industry is relatively new and rapidly evolving, it uses different methods than traditional media to gauge its effectiveness. Some of our potential customers have little or no experience using the Internet for advertising and marketing purposes and have allocated only limited portions of their advertising and marketing budgets to the Internet. The adoption of Internet advertising, particularly by those entities that have historically relied upon traditional media for advertising, requires the acceptance of a new way of conducting business, exchanging information and evaluating new advertising and marketing technologies and services. As a result, we are continually evaluating changes to aspects of our business model to keep pace with the expectations of users and advertisers, and these changes may not yield the benefits we expect. In particular, we are dependent on our clients' adoption of new metrics to measure the success of online marketing campaigns. We may also experience resistance from traditional advertising agencies who may be advising our clients. Any

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lack of growth in the market for various online advertising models could have an adverse effect on our business, financial condition and results of operations.

In addition, if advertisers materially change their transaction attribution models or their return on investment calculations and/or increase their return on investment targets with respect to online advertising in general, or TripAdvisor traffic in particular, they might reduce the prices they are willing to pay for our advertising products, which would have an adverse effect on our business, financial condition and results of operations.

*We may experience difficulty in achieving meaningful consumer adoption of, and creating a viable advertising market via, our applications for smartphone computing devices, which could harm our business.*

In general, our content was originally designed for users accessing the Internet on a desktop or laptop computer. The number of people who access the Internet through devices other than personal computers has increased substantially in the last few years. Although we have developed services and applications to address the smaller screens, and less convenient typing capabilities of these devices, the efficacy of the smartphone advertising market is still developing. Moreover, if our smartphone computing services prove to be less effective for users seeking to research travel through these devices or less economically attractive for advertisers and the smartphone segment of Internet traffic grows at the expense of traditional computer and tablet Internet access, we may experience difficulty attracting and retaining traffic and, in turn, advertisers, on these platforms. Additionally, as new devices and new platforms are continually being released, it is difficult to predict the challenges that we may encounter in developing versions of our offerings for use on these alternative devices, and we may need to devote significant resources to the creation, support, and maintenance of our services on such devices. To the extent that revenue generated from advertising placed on smartphone computing devices becomes increasingly more important to our business and we fail to adequately evolve and address this market, our business and financial performance could be negatively impacted.

*We rely on the value of our brand and consumer trust in our brand, and the costs of maintaining and enhancing brand awareness are increasing.*

We invest in our brand in order to retain and expand our customer base and expect these investments to continue, or even increase, as a result of a variety of factors, including increased spending from competitors, the increasing costs of supporting multiple brands, expansion into geographies and products where our brands are less well known, inflation in media pricing, including SEM keywords, and the continued emergence and relative traffic share growth of search engines and metasearch engines as destination sites for travelers. We expect to continue to invest in, and devote resources to, advertising and marketing, as well as other brand building efforts to preserve and enhance consumer awareness of our brands. Such efforts may not maintain or enhance consumer awareness of our brands, and, even if we are successful in our branding efforts, such efforts may not be cost-effective, or as efficient as they have been historically. If we are unable to maintain or enhance consumer awareness of our brands or to generate demand in a cost-effective manner, it would have a material adverse effect on our business and financial performance.

*We face competition from companies and websites that collect travel-related content, which could divert traffic from our websites causing financial harm to us.*

We may face increased competition to the extent that competitors pursue a strategy to maximize the creation of commercially valuable online content at significant scale. For example, if any of the large search engines, online travel agencies or other companies chose to compete more directly with us in the travel review space, we may face loss of business or other adverse financial consequences since those entities generally possess significantly greater consumer bases, financial resources, distribution channels and patent portfolios. For example, Google + Local, with its aggregated reviews and local recommendations, competes with us. Further, Google's access to more comprehensive data regarding user search queries through its search algorithms gives it a significant competitive advantage over other companies in the industry, including us. If this data is used

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competitively by Google, sold to online publishers or given away for free, our business may face increased competition from companies, including Google, with substantially greater resources, brand recognition and established market presence. Facebook may also compete with us in new and unknown ways. For example, if significant numbers of users adopt Facebook's newly released Graph Search to get travel recommendations, it could have the effect of reducing traffic and user engagement on TripAdvisor. We could also face competition from online travel agents that may be in a position to accumulate and develop a comprehensive offering of travel-related reviews and resources. The barriers to entry for these companies may be limited given their access to travel-related information and relationships with consumers. If online travel agents were to more aggressively pursue our market, the number of visitors to our websites may be negatively affected, which would, in turn, negatively impact our community and ability to collect content and also to reduce our ability to attract advertisers. Online travel agents are also a meaningful source of revenue for us, so if in competing with us, these companies decide to reduce or eliminate their business with us, and it could significantly impact our results of operations and financial condition. Any of these competitors may announce new products, services or enhancements that attract users.

Many of our competitors have significantly greater financial, technical, marketing and other resources compared to us as well as large client bases. In addition, we compete with newspapers, magazines and other traditional media companies that provide offline and online advertising opportunities. We expect to face additional competition as other established and emerging companies enter the travel advertising market. Certain of the companies we do business with, including some of our click-based advertising partners, are also our competitors. The consolidation of our competitors and partners, including Expedia (through its investment in trivago) and Priceline (through its announced acquisition of Kayak), may affect our relative competitiveness and our partner relationships. Competition and consolidation could result in higher traffic acquisition costs, reduced margins on our advertising services, loss of market share, reduced customer traffic to our websites and reduced advertising by travel companies on our websites. For example, Google (through its launch of Google Hotel Finder, acquisition of ITA Software, evolution and expansion of Google + Local and preferred top placement of Places results in Google organic travel search results), Microsoft's Bing (through its launch of Bing Travel), have each taken steps to appeal more directly to travel customers, which could lead to diversion of customer traffic to their own websites or those of a favored partner, or undermine our ability to obtain prominent placement in paid or unpaid search results at a reasonable cost, or at all. Competition in our industry may result in pricing pressure, loss of market share or decreased member engagement, any of which could adversely affect our business and financial performance.

***As a distributor and host of Internet content, we face potential liability and expense for legal claims based on the nature and content of the materials that we distribute or create, or that are accessible via our websites.***

As a distributor and host of original content and user-generated content, we face potential liability based on a variety of theories, including defamation, libel, negligence, copyright or trademark infringement or other legal theories based on the nature, creation or distribution of this information, and under various laws, including the Lanham Act, the Copyright Act, the Federal Trade Commission Act, the Digital Millennium Copyright Act, Section 230 of the Communications Decency Act, and the European Union E-Commerce Directive. We may also be exposed to similar liability in connection with content that users post to our websites through forums, blogs, comments, and other social media features. In addition, it is possible that visitors to our websites could make claims against us for losses incurred in reliance upon information provided via our websites. These claims, whether brought in the United States or abroad, could divert management time and attention away from our business and result in significant costs to investigate and defend, regardless of the merit of these claims. If we become subject to these or similar claims and are not successful in our defense, we may be forced to pay substantial damages. There is no guarantee that we will avoid future liability and potential expenses for legal claims based on the content available on our websites. Should the content distributed through our websites violate the rights of others or otherwise give rise to claims against us, we could be subject to substantial liability, which could have a negative impact on our business and financial performance.

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Loss of trust in our brand would harm our reputation and adversely affect our business, financial condition and results of operations. Our success depends on attracting a large number of users to our websites, and retaining such users, and providing leads and clicks to advertisers. In order to attract and retain users, we must remain a valuable source of travel advice. Because of our reliance on user-generated content, we must continually manage and monitor our content and detect incorrect or fraudulent information. For example, hotels, hotel competitors, or others, in an attempt to improperly influence a hotel's reviews and rankings, sometimes write and submit fraudulent or otherwise misleading reviews. If a significant amount of inaccurate or fraudulent information were not detected and removed by us in a timely manner, or if a significant amount of information was deemed by users or the media to be inaccurate or fraudulent, our brand, business and reputation could be harmed. Any damage to our reputation could harm our ability to attract and retain users, employees and advertisers, which would adversely affect our business and financial performance. In addition, significant adverse news reports or media, industry or consumer coverage of us would reflect poorly on our brands and could have an adverse effect on our business and financial performance.

***We are dependent upon the quality of traffic in our network to provide value to online advertisers, and any failure in our quality control could have a material adverse effect on the value of our websites to our advertisers and adversely affect our revenue.***

We use technology and processes to monitor the quality of and to identify any anomalous metrics associated with, the Internet traffic that we deliver to online advertisers. These metrics may be indicative of low quality clicks such as non-human processes, including robots, spiders or other software; the mechanical automation of clicking; and other types of invalid clicks or click fraud. Even with such monitoring in place, there is a risk that a certain amount of low-quality traffic, or traffic that online advertisers deem to be invalid, will be delivered to such online advertisers. As a result, we may be required to credit amounts owed to us by our advertisers. Furthermore, low-quality or invalid traffic may be detrimental to our relationships with advertisers, and could adversely affect our advertising pricing and revenue.

***New technologies could block our ads, which would harm our business.***

Technologies have been developed that can block the display of online ads and that provide tools to users to opt out of some web-based advertising products. We derive most of our revenues from fees paid to us by advertisers in connection with the display of ads on web pages for our users. As a result, these technologies and tools could adversely affect our business and financial performance.

***Unfavorable media coverage could negatively affect our business.***

We receive significant media coverage in our various geographic markets. Unfavorable publicity regarding, for example, our privacy practices, product changes, the accuracy of user-generated content, product quality, litigation or regulatory activity could adversely affect our reputation with our site users and our advertisers. Such negative publicity also could have an adverse effect on the size, engagement, and loyalty of our user base and result in decreased revenue, which could adversely affect our business and financial results.

***If we do not continue to innovate and provide tools and services that are useful to travelers, we may not remain competitive, and our business and financial performance could suffer.***

Our success depends in part on continued innovation to provide features and services that make our websites and smartphone and tablet computing applications useful for travelers. Our competitors are continually developing innovations in online travel-related services and features. If we are unable to provide quality features and services that travelers want to use, then travelers may become dissatisfied and use a competitor's offerings. If we are unable to continue offering innovative products and services, we may be unable to attract additional users, which could adversely affect our business and financial performance.



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### ***Our culture emphasizes rapid innovation and prioritizes user engagement over short-term financial results.***

We have a culture that encourages employees to quickly develop and release new and improved products, which may at times result in unintended consequences or decisions that are poorly received by users or advertisers. Our culture also prioritizes user engagement, or website stickiness, over short-term financial results. We have taken actions in the past and may continue to make product decisions going forward that have the effect of reducing our short-term revenue or profitability if we believe that the decisions benefit the aggregate user experience and/or conversion rates and CPC pricing, and will thereby improve our financial performance over the long-term. The short-term reductions in revenue or profitability could be more severe than we anticipate. These decisions may not produce the long-term benefits that we expect, in which case our user growth and engagement, our relationships with users and advertisers, and our business and results of operations could be harmed. For example, if our hotel metasearch product is not embraced by our users or advertising partners, our business and financial results could be adversely affected.

### ***We may not be able to successfully expand into the vacation rental marketplace.***

We offer vacation rental services through our U.S.-based FlipKey and U.K.-based Holiday Lettings businesses, as well through various partnerships. The online vacation rental market is relatively new and is rapidly evolving, and limited data is currently available regarding the market and industry. Our vacation rental services may not succeed, and, even if successful, our revenues may not increase. These new services could also increase our operating costs. Furthermore, a larger competitor exists in the vacation rental space, with significantly more users and listed properties, and new competitors with significant financial resources are continually emerging. If property owners and managers do not perceive the benefits of marketing their properties online or marketing their properties with several intermediaries, then the market for our services may not develop as expected, or it may develop more slowly than expected, either of which would slow the growth of our business and revenues.

### ***Growth in use of TripAdvisor through our smartphone products as a substitute for use on personal computers and tablets may negatively affect our revenue and financial results.***

We anticipate that the rate of growth in smartphone and tablet users will continue to exceed the growth rate of our overall users for the foreseeable future, in part due to our focus on developing smartphone and tablet products to encourage usage of TripAdvisor. Although the substantial majority of smartphone users also access and engage with our websites on personal computers and/or tablets, where we display advertising, our users could decide to increasingly access our products primarily through smartphone devices. We do not currently display graphic advertising on smartphones and our smartphone monetizing strategies are still developing. If users continue to increasingly access our smartphone products as a substitute for access through personal computers and/or tablets, and if we are unable to successfully improve monetization strategies for our smartphone users, our revenue and financial results may be negatively affected.

### ***We may be subject to claims that we violated intellectual property rights of others, which claims are extremely costly to defend and could require us to pay significant damages and limit our ability to operate.***

Companies in the Internet and technology industries, and other patent and trademark holders seeking to profit from royalties in connection with grants of licenses, own large numbers of patents, copyrights, trademarks and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. We have received in the past, and may in the future receive, notices that claim we have misappropriated or misused other parties' intellectual property rights. There may be intellectual property rights held by others, including patents, copyrighted works and/or trademarks, which cover significant aspects of our technologies or content. Any intellectual property claim against us, regardless of merit, could be time consuming and expensive to settle or litigate and could divert management's attention and other resources. These claims also could subject us to significant liability for damages and could result in our having to stop using

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technology or content found to be in violation of another party's rights. We might be required or may opt to seek a license for rights to intellectual property held by others, which may not be available on commercially reasonable terms, or at all. Even if a license is available, we could be required to pay significant royalties, which would increase our operating expenses. We may also be required to develop alternative non-infringing technology, or content, which could require significant effort and expense and make us less competitive in the relevant market. Any of these results could harm our business and financial performance.

***We may have future capital needs and may not be able to obtain additional financing on acceptable terms.***

We are party to a term loan in the amount of \$400 million, as well as a revolving credit facility of \$200 million. These arrangements may limit our ability to secure significant additional financing in the future on favorable terms. Our ability to secure additional financing and satisfy our financial obligations under indebtedness outstanding from time to time will depend upon our future operating performance, which is subject to then prevailing general economic and credit market conditions, including interest rate levels and the availability of credit generally, and financial, business and other factors, many of which are beyond our control.

In addition, we may be unable to secure additional financing or financing on favorable terms, or our operating cash flow may be insufficient to satisfy our financial obligations under indebtedness outstanding from time to time (if any). Furthermore, if financing is not available when needed or is not available on favorable terms, we may be unable to issue or repurchase equity, develop new or enhanced existing services, complete acquisitions or otherwise take advantage of business opportunities, any of which could have a material adverse effect on our business, financial condition and results of operations. If additional funds are raised through the issuance of equity securities, our stockholders may experience significant dilution.

***We have significant indebtedness, which could adversely affect our business and financial condition.***

The face value of our term loan totals \$400 million. Risks relating to our indebtedness include:

Increasing our vulnerability to general adverse economic and industry conditions;

Requiring us to dedicate a portion of our cash flow from operations to principal and interest payments on our indebtedness, thereby reducing the availability of cash flow to fund working capital, capital expenditures, acquisitions and investments and other general corporate purposes;

Making it more difficult for us to optimally capitalize and manage the cash flow for our businesses;

Limiting our flexibility in planning for, or reacting to, changes in our businesses and the markets in which we operate;

Possibly placing us at a competitive disadvantage compared to our competitors that have less debt;

Limiting our ability to borrow additional funds or to borrow funds at rates or on other terms that we find acceptable; and

Exposing us to the risk of increased interest rates because our outstanding debt is expected to be subject to variable rates of interest. In addition, it is possible that we may need to incur additional indebtedness in the future in the ordinary course of business. The terms of our term loan and revolving credit facility will allow us to incur additional debt subject to certain limitations. If new debt is added to current debt levels, the risks described above could intensify.

***The agreements that govern our credit facility contain various covenants that limit our discretion in the operation of our business and also require us to meet financial maintenance tests and other covenants. The failure to comply with such tests and covenants could have a***

*material adverse effect on us.*

We are party to a credit agreement providing for a revolving credit facility with a borrowing capacity of \$200 million and a term of five years, as well as a five-year, \$400 million term loan to TripAdvisor Holdings,

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LLC. The agreements that govern the term loan and revolving credit facility contain various covenants, including those that limit our ability to, among other things:

Incur indebtedness;

Pay dividends on, redeem or repurchase our capital stock;

Enter into certain asset sale transactions, including partial or full spin-off transactions;

Enter into secured financing arrangements;

Enter into sale and leaseback transactions; and

Enter into unrelated businesses.

These covenants may limit our ability to optimally operate our business.

In addition, our term loan and revolving credit facility require that we meet certain financial tests, including an interest coverage test and a leverage ratio test.

Any failure to comply with the restrictions of our term loan credit facility may result in an event of default under the agreements governing such facilities. Such default may allow the creditors to accelerate the debt incurred under thereunder. In addition, lenders may be able to terminate any commitments they had made to supply us with further funds (including periodic rollovers of existing borrowings).

***Conflicts of interest, or the appearance of conflicts of interest, may develop between the management and directors of Expedia, on the one hand, and our management and directors, on the other hand.***

Some members of the management and some directors of Expedia and TripAdvisor own both Expedia capital stock and our capital stock. In addition, Liberty Interactive Corporation controls the vote of approximately 56.6% of the combined voting power of our outstanding capital stock and also owns a significant number of shares of Expedia common stock. In addition, Mr. Diller serves as a director of TripAdvisor as well as Chairman and Senior Executive of Expedia. These circumstances could create, or appear to create, potential conflicts of interest when Expedia's and our directors and executive officers face decisions that could have different implications for Expedia and us. For example, potential conflicts of interest could arise in connection with the resolution of any dispute between Expedia and us regarding terms of the agreements governing the Spin-Off and our relationship with Expedia following the Spin-Off, including the separation agreement, the employee matters agreement, the tax sharing agreement, the transition services agreement between us and Expedia or any commercial agreements between us and Expedia. Potential conflicts of interest could also arise if we enter into commercial arrangements with Expedia in the future.

We have adopted corporate opportunity provisions in our amended and restated certificate of incorporation that generally provide that no officer or director of TripAdvisor who is also an officer or director of Expedia will be liable to TripAdvisor or its stockholders for breach of any fiduciary duty by reason of the fact that any such individual directs a corporate opportunity to Expedia instead of TripAdvisor, or does not communicate information to TripAdvisor regarding a corporate opportunity that the officer or director has directed to Expedia. In addition, Expedia's amended and restated certificate of incorporation renounces any interest or expectancy in certain corporate opportunities, which generally have the effect that no officer or director of Expedia who is also an officer or director of TripAdvisor will be liable to Expedia or its stockholders for breach of any fiduciary duty by reason of the fact that any such individual directs a corporate opportunity to us instead of Expedia, or does not communicate information to Expedia regarding a corporate opportunity that the officer or director has directed to us. The corporate opportunity provisions may have the effect of exacerbating the risk of conflicts of interest between Expedia and us because the provisions effectively shield an overlapping director/executive officer from liability for breach of fiduciary duty in the event that such director or officer chooses to direct a corporate opportunity to us instead of to Expedia or vice versa.



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*If the Spin-Off, together with certain related transactions, were to fail to qualify as a transaction that is generally tax free for U.S. federal income tax purposes, we could be subject to significant tax liabilities.*

As a condition to the completion of the Spin-Off, Expedia obtained a private letter ruling from the Internal Revenue Service, or the IRS, along with an opinion of counsel, satisfactory to the Expedia Board of Directors regarding the qualification of the Spin-Off, together with certain related transactions, as a transaction that is generally tax free for U.S. federal income tax purposes under Sections 355 and 368(a) (1) (D) of the Internal Revenue Code of 1986, as amended, or the Code. The IRS private letter ruling and the opinion of counsel were based on, among other things, certain facts, assumptions as well as the accuracy of certain representations, statements and undertakings that Expedia and we made to the IRS and to counsel. If any of these representations, statements or undertakings are, or become, inaccurate or incomplete, or if we or Expedia breach any of the covenants, the IRS private letter ruling and the opinions of counsel may be invalid.

Moreover, the IRS private letter ruling does not address all the issues that are relevant to determining whether the Spin-Off qualifies as a transaction that is generally tax free for U.S. federal income tax purposes. Notwithstanding the IRS private letter ruling and/or the opinion of counsel, the IRS could determine that the Spin-Off should be treated as a taxable transaction if it determines that any of the representations, assumptions or undertakings that were included in the request for the IRS private letter ruling or on which the opinion of counsel was based is false or has been violated or if it disagrees with the conclusions in the opinion of counsel that are not covered by any IRS ruling.

Under the tax sharing agreement between us and Expedia, we are generally required to indemnify Expedia for any taxes resulting from the Spin-Off (and any related interest, penalties, legal and professional fees, and all costs and damages associated with related stockholder litigation or controversies) to the extent such amounts resulted from (i) any act or failure to act by us described in the covenants in the tax sharing agreement, (ii) any acquisition of our equity securities or assets or those of a member of our group, or (iii) any failure of the representations with respect to us or any member of our group to be true or any breach by us or any member of our group of any covenant, in each case, which is contained in the separation documents or in the documents relating to the IRS private letter ruling and/or the opinion of counsel.

*We may not be able to engage in desirable strategic transactions and equity issuances due to our tax sharing agreement with Expedia.*

Our ability to engage in significant stock transactions could be limited or restricted after the Spin-Off in order to preserve the tax free nature of the Spin-Off to Expedia. U.S. federal income tax law provides that the Spin-Off would be taxable to Expedia, but not to its stockholders, if such Spin-Off is part of a plan or series of related transactions pursuant to which one or more persons acquire directly or indirectly stock representing a 50% or greater interest (by vote or value) in us or Expedia. Acquisitions that occur during the four-year period that begins two years before the date of the Spin-Off are presumed to occur pursuant to a plan or series of related transactions, unless it is established that the acquisition is not pursuant to a plan or series of transactions that includes the Spin-Off. U.S. Treasury regulations currently in effect generally provide that whether an acquisition and a spin-off are part of a plan is determined based on all of the facts and circumstances, including, but not limited to, specific factors described in the Treasury regulations. In addition, the Treasury regulations provide several safe harbors for acquisitions that are not considered to be part of a plan or series of related transactions.

These rules will limit our ability during the two-year period following the Spin-Off to enter into certain transactions that might be advantageous to us and our stockholders, particularly issuing equity securities to satisfy financing needs, repurchasing equity securities, and, under certain limited circumstances, acquiring businesses or assets with equity securities or agreeing to be acquired.

Under the tax sharing agreement, there are restrictions on our ability to take such actions that could cause the Spin-Off to fail to qualify as a tax free transaction prior to January 21, 2014.

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In addition, a sale or disposition of the stock of Expedia or our stock by certain persons that own 5% or more of any class of our stock could disqualify the tax free status of the Spin-Off. Liberty Interactive Corporation and its affiliates own stock of TripAdvisor representing 56.6% by vote and 21.7% beneficial ownership. Accordingly, in evaluating our ability to engage in certain transactions involving our equity securities, it is possible that Expedia and we will need to take into account the activities of Liberty Interactive Corporation and its affiliates.

***We rely on information technology to operate our business and maintain competitiveness, and any failure to adapt to technological developments or industry trends could harm our businesses.***

We depend on the use of sophisticated information technologies and systems. As our operations grow in size and scope, we must continuously improve and upgrade our systems and infrastructure while maintaining or improving the reliability and integrity of our systems and infrastructure. Our future success also depends on our ability to adapt our services and infrastructure to meet rapidly evolving consumer trends and demands while continuing to improve the performance, features and reliability of our services in response to competitive service and product offerings. The emergence of alternative platforms such as smartphone and tablet computing devices and the emergence of niche competitors who may be able to optimize products, services or strategies for such platforms will require new investment in technology. New developments in other areas, such as cloud computing, could also make it easier for competition to enter our markets due to lower up-front technology costs. In addition, we may not be able to maintain our existing systems or replace or introduce new technologies and systems as quickly as we would like or in a cost-effective manner.

***If we fail to manage our growth effectively, our brand, results of operations and business could be harmed.***

We have experienced rapid growth in our headcount and operations, which places substantial demands on management and our operational infrastructure. We intend to make substantial investments in our technology, sales and marketing and community management organizations. As we continue to grow, we must effectively integrate, develop and motivate a large number of new employees, including employees in international markets, while maintaining the beneficial aspects of our company culture. If we do not manage the growth of our business and operations effectively, the quality of our platform and efficiency of our operations could suffer, which could harm our brand, results of operations and business.

***Our international operations involve additional risks and our exposure to these risks will increase as our business expands globally.***

We operate in a number of jurisdictions outside of the United States and intend to continue to expand our international operations. To achieve widespread acceptance in new countries and markets, we must continue to tailor our services and business model to the unique circumstances of such countries and markets, which can be difficult, costly and divert management and personnel resources. Failure to adapt practices and models effectively to each country into which we expand could slow our international growth.

We have businesses operating in China, which create particular risks and uncertainties relating to the laws in China. We operate in China under the brands daodao.com and kuxun.cn. The success of these businesses, and of any future investments in China, is subject to risks and uncertainties regarding the application, development and interpretation of China's laws and regulations.

The laws and regulations of China restrict foreign investment in areas including air-ticketing and travel agency services, Internet content provision, mobile communication and related businesses. Although we have established effective control of our Chinese businesses through a series of agreements, future developments in the interpretation or enforcement of Chinese laws and regulations or a dispute relating to these agreements could restrict our ability to operate or restructure these businesses or to engage in strategic transactions.

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Other risks faced by us as a result of our international operations, including our operations in China, include:

Political instability;

Threatened or actual acts of terrorism;

Regulatory requirements, including the Foreign Corrupt Practices Act and newly enacted U.K. Bribery Act, data privacy requirements, labor laws and anti-competition regulations;

Ability to comply with additional U.S. laws applicable to U.S. companies operating internationally as well as local laws and regulations;

Diminished ability to legally enforce contractual rights;

Increased risk and limits on enforceability of intellectual property rights;

Possible preferences by local populations for local providers;

Restrictions on, or adverse consequences related to, the withdrawal of non-U.S. investment and earnings;

Currency exchange restrictions, particularly conversion of the U.S. dollar into Chinese renminbi;

Restrictions on repatriation of cash as well as restrictions on investments in operations in certain countries;

Financial risk arising from transactions in multiple currencies;

Slower adoption of the Internet as an advertising, broadcast and commerce medium in certain of those markets as compared to the United States;

Difficulties in managing staffing and operations due to distance, time zones, language and cultural differences; and

Uncertainty regarding liability for services, content and intellectual property rights, including uncertainty as a result of local laws and lack of precedent.

***We depend on our key personnel.***

Our future success depends upon the continued contributions of our senior corporate management. In particular, the contributions of Stephen Kaufer, our President, Chief Executive Officer and a director, are critical to our overall management. Our future success will depend on the



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performance of our senior management and key employees. We cannot ensure that we will be able to retain the services of these key personnel or any other member of our senior management or key employees, the loss of whom could seriously harm our business. We do not maintain any key person life insurance policies.

In addition, competition remains intense for well-qualified employees in certain aspects of our business, including software engineers, developers, product management and development personnel, and other technology professionals. Our continued ability to compete effectively depends on our ability to attract new employees and to retain and motivate existing employees. If we do not succeed in attracting well-qualified employees or retaining or motivating existing employees, our business would be adversely affected.

***Changing laws, rules and regulations and legal uncertainties may adversely affect our business or financial performance.***

Our business and financial performance could be adversely affected by unfavorable changes in or interpretations of existing laws, rules and regulations or the promulgation of new laws, rules and regulations applicable to us and our business, including those relating to the Internet and online commerce, Internet

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advertising, consumer protection and privacy. Unfavorable changes could decrease demand for products and services, limit marketing methods and capabilities, increase costs and/or subject us to additional liabilities.

For example, there is, and will likely continue to be, an increasing number of laws and regulations pertaining to the Internet and online commerce that may relate to liability for information retrieved from or transmitted over the Internet, online editorial and user-generated content, user privacy, behavioral targeting and online advertising, taxation, liability for third-party activities and the quality of products and services. Our current business partner arrangements with third parties, including Facebook, could be negatively impacted to the extent that more restrictive privacy laws or regulations are enacted, particularly in the United States or European Union. In addition, enforcement authorities in the United States continue to rely on their authority under existing consumer protection laws to take action against companies relating to data privacy and security practices. The growth and development of online commerce may prompt calls for more stringent consumer protection laws and more aggressive enforcement efforts, which may impose additional burdens on online businesses generally.

***Liberty Interactive Corporation currently is a controlling shareholder.***

Liberty Interactive Corporation 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 our common stock of 25% of the members of our Board of Directors and matters as to which Delaware law requires separate class votes). Liberty's control of us, as well as the existing provisions of our organizational documents and Delaware law, may discourage or prevent a change of control of us, which may reduce the market price of our common stock.

***Our effective tax rate is impacted by a number of factors that could have a material impact on our financial results and could increase the volatility of those results.***

Due to the global nature of our business, we are subject to income taxes in the United States and other foreign jurisdictions. In the event we incur net income in certain jurisdictions but incur losses in other jurisdictions, we generally cannot offset the income from one jurisdiction with the loss from another, which could increase our effective tax rate. Furthermore, significant judgment is required to calculate our worldwide provision for income taxes. In the ordinary course of our business there are many transactions and calculations where the ultimate tax determination is uncertain. By virtue of our previously filed separate company and consolidated income tax returns with Expedia we are routinely under audit by federal, state and foreign taxing authorities. Although we believe our tax estimates are reasonable, the final determination of audits could be materially different from our historical income tax provisions and accruals. The results of an audit could have a material effect on our financial position, results of operations, or cash flows in the period or periods for which that determination is made.

Additionally, we earn an increasing portion of our income, and accumulate a greater portion of cash flow, in foreign jurisdictions. Any repatriation of funds currently held in foreign jurisdictions may result in higher effective tax rates and incremental cash tax payments. In addition, there have been proposals to amend U.S. tax laws that would significantly impact the manner in which U.S. companies are taxed on foreign earnings. Although we cannot predict whether or in what form any legislation will pass, if enacted, it could have a material adverse impact on our U.S. tax expense and cash flows.

***We cannot be sure that our intellectual property is protected from copying or use by others, including potential competitors.***

Our websites rely on content, brands and technology, much of which is proprietary. We protect our proprietary content, brands and technology by relying on a combination of trademarks, copyrights, trade secrets, patents and confidentiality agreements. In connection with our license agreements with third parties, we seek to control access to, and the use and distribution of, proprietary technology, content and brands. Even with these precautions, it may be possible for another party to copy or otherwise obtain and use our proprietary technology,

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content or brands without authorization or to develop similar technology, content or brands independently. Effective trademark, copyright, patent and trade secret protection may not be available in every jurisdiction in which our services are made available, and policing unauthorized use of our proprietary technology, content and brands is difficult and expensive. Therefore, in certain jurisdictions, we may be unable to protect our proprietary technology, content and brands adequately against unauthorized third-party copying or use, which could adversely affect our business or ability to compete. We cannot be sure that the steps we have taken will prevent misappropriation or infringement of proprietary technology, content or brands. Any misappropriation or violation of our rights could have a material adverse effect on our business. Furthermore, we may need to go to court or other tribunals to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. These proceedings might result in substantial costs and diversion of resources and management attention. Our failure to protect our intellectual property in a cost-effective or effective manner could have a material adverse effect on our business and ability to protect our technology, content and brands.

We currently license from third parties, and from Expedia, some of the technologies, content and brands incorporated into our websites. As we continue to introduce new services that incorporate new technologies, content and brands, we may be required to license additional technology, content or brands. We cannot be sure that such technology, content and brand licenses will be available on commercially reasonable terms, if at all.

### ***We are subject to foreign exchange risk.***

We conduct a significant and growing portion of our business outside the United States. As a result, we face exposure to movements in currency exchange rates, particularly those related to the Euro, British pound sterling, Singapore dollar and Chinese renminbi. These exposures include, but are not limited to re-measurement gains and losses from changes in the value of foreign denominated assets and liabilities; translation gains and losses on foreign subsidiary financial results that are translated into U.S. dollars upon consolidation; and planning risk related to changes in exchange rates between the time we prepare our annual and quarterly forecasts and when actual results occur.

Depending on the size of the exposures and the relative movements of exchange rates, if we were to choose not to hedge or were to fail to hedge effectively our exposure, we could experience a material adverse effect on our financial statements and financial condition. As seen in some recent periods, in the event of severe volatility in exchange rates the impact of these exposures can increase, and the impact on results of operations can be more pronounced. In addition, the current environment and the increasingly global nature of our business have made hedging these exposures both more complex and costly. We hedge certain short-term foreign currency exposures with the purchase of forward exchange contracts. These hedge contracts only help mitigate the impact of changes in foreign currency rates that occur during the term of the related contract period and carry risks of counter-party failure. There can be no assurance that our hedges will have their intended effects.

### ***System interruption and the lack of redundancy in some of our internal information systems may harm our business.***

We rely on computer systems to deliver content and services. We have experienced and may in the future experience system interruptions that make some or all of these systems unavailable or prevent us from efficiently fulfilling orders or providing content and services to users and third parties. Significant interruptions, outages or delays in internal systems, or systems of third parties that we rely upon including multiple co-location providers for data centers and network access, or deterioration in the performance of any such systems, would impair our ability to process transactions or display content and decrease the quality of the services we offer to travelers and users. These interruptions could include security intrusions and attacks on our systems for fraud or service interruption (called denial of service or bot attacks). If we were to experience frequent or persistent system failures, our business, reputations and brand could be harmed.

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In addition, we lack backup systems or contingency plans for certain critical aspects of our operations or business processes. Many other systems are not fully redundant and their disaster recovery or business continuity planning may not be sufficient. Fire, flood, power loss, telecommunications failure, break-ins, earthquakes, acts of war or terrorism, acts of God, computer viruses, electronic intrusion attempts from both external and internal sources and similar events or disruptions may damage or impact or interrupt computer or communications systems or business processes at any time. Although we have put measures in place to protect certain portions of our facilities and assets, any of these events could cause system interruption, delays and loss of critical data, and could prevent us from providing content and services to users, travelers and/or third parties for a significant period of time. Remediation may be costly and we may not have adequate insurance to cover such costs. Moreover, the costs of enhancing infrastructure to attain improved stability and redundancy may be time consuming and expensive and may require resources and expertise that are difficult to obtain.

***We process, store and use personal information and other data, which subjects us to risks stemming from possible failure to comply with governmental regulation and other legal obligations and potential liability related to security breaches.***

We may acquire personal or confidential information from users of our websites and mobile applications. There are numerous laws regarding privacy and the storing, sharing, use, processing, disclosure and protection of personal information and other consumer data, the scope of which are changing, subject to differing interpretations, and may be inconsistent between countries or conflict with other rules. We strive to comply with all applicable laws, policies, legal obligations and industry codes of conduct relating to privacy and data protection. It is possible, however, that these obligations may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices. Any failure or perceived failure by us to comply with our privacy policies, privacy-related obligations to users or other third parties, or privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personally identifiable information or other user data, may result in governmental enforcement actions, litigation or public statements against the relevant company by consumer advocacy groups or others and could cause our customers and members to lose trust in us, which could have an adverse effect on our business.

The regulatory framework for privacy issues worldwide is currently in flux and is likely to remain so for the foreseeable future. Practices regarding the collection, use, storage, transmission and security of personal information by companies operating over the Internet have recently come under increased public scrutiny. The U.S. Congress and federal agencies, including the Federal Trade Commission and the Department of Commerce, are reviewing the need for greater regulation for the collection and use of information concerning consumer behavior on the Internet, including regulation aimed at restricting certain targeted advertising practices. U.S. courts are also considering the applicability of existing federal and state statutes, including computer trespass and wiretapping laws, to the collection and exchange of information online. In addition, the European Union is in the process of proposing reforms to its existing data protection legal framework, which may result in a greater compliance burden for companies, including us, with users in Europe and increased costs of compliance. We have collaborations with other online service providers that involve exchanges of user information, and these practices may attract increased regulatory scrutiny in the United States and Europe in the future.

Potential security breaches to our systems, whether resulting from internal or external sources, could significantly harm our business. There can be no guarantee that our existing security measures will prevent all possible security breaches or attacks. A party, whether internal or external, that is able to circumvent our security systems could misappropriate user information or proprietary information or cause significant interruptions in our operations. In the past, we have experienced denial-of-service type attacks on our systems that have made portions of our websites unavailable for short periods of time as well as unauthorized access of our systems and data. We may need to expend significant resources to protect against security breaches or to address problems caused by breaches, and reductions in website availability could cause a loss of substantial business volume during the occurrence of any such incident. Because the techniques used to sabotage security change frequently, often are not recognized until launched against a target and may originate from less regulated and remote areas

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around the world, we may be unable to proactively address these techniques or to implement adequate preventive measures. Security breaches could result in negative publicity, damage to reputation, exposure to risk of loss or litigation and possible liability due to regulatory penalties and sanctions. Security breaches could also cause travelers and potential users to lose confidence in our security, which would have a negative effect on the value of our brand. Failure to adequately protect against attacks or intrusions, whether for our own systems or systems of vendors, could expose us to security breaches that could have an adverse impact on financial performance.

### ***Acquisitions and investments by us could result in operating and financial difficulties.***

We have acquired a number of businesses in the past, and our future growth may depend, in part, on future acquisitions, any of which could be material to our financial condition and results of operations. Certain financial and operational risks related to acquisitions that may have a material impact on our business are:

Use of cash resources and incurrence of debt and contingent liabilities in funding acquisitions may limit other potential uses of our cash, including stock repurchases, dividend payments and retirement of outstanding indebtedness;

Amortization expenses related to acquired intangible assets and other adverse accounting consequences;

Expected and unexpected costs incurred in identifying and pursuing acquisitions, and performing due diligence on potential acquisition targets that may or may not be successful;

Diversion of management's attention or other resources from our existing business;

Difficulties and expenses in integrating the operations, products, technology, privacy protection systems, information systems or personnel of the acquired company;

Impairment of relationships with employees, suppliers and affiliates of our business and the acquired business;

The assumption of known and unknown debt and liabilities of the acquired company;

Failure of the acquired company to achieve anticipated traffic, revenues, earnings or cash flows or to retain key management or employees;

Failure to generate adequate returns on acquisitions and investments;

Entrance into markets in which we have no direct prior experience and increased complexity in our business;

Impairment of goodwill or other intangible assets such as trademarks or other intellectual property arising from acquisitions; and

Adverse market reaction to acquisitions.

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Moreover, we rely heavily on the representations and warranties provided to us by the sellers of acquired companies, including as they relate to creation, ownership and rights in intellectual property and compliance with laws and contractual requirements. Our failure to address these risks or other problems encountered in connection with past or future acquisitions and investments could cause us to fail to realize the anticipated benefits of such acquisitions or investments, incur unanticipated liabilities and harm our business generally.

***We may be unable to access capital when necessary or desirable.***

The availability of funds depends in significant measure on capital markets and liquidity factors over which we have no control. In light of periodic uncertainty in the capital and credit markets, there can be no assurance that sufficient financing will be available on desirable or even any terms to fund investments, acquisitions, stock repurchases, dividends, debt refinancing or extraordinary actions or that counterparties in any such financings would honor their contractual commitments.

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Furthermore, we are also accumulating a greater portion of our cash flows in foreign jurisdictions than previously and the repatriation of such funds for use in the United States, including for corporate purposes such as acquisitions, stock repurchases, dividends or debt refinancings, may result in additional U.S. income tax expense.

*We are currently relying on the controlled company exemption under NASDAQ Stock Market Listing Rules, pursuant to which controlled companies are exempt from certain corporate governance requirements otherwise applicable under NASDAQ listing rules.*

The NASDAQ Stock Market Listing Rules exempt controlled companies, or companies of which more than 50% of the voting power is held by an individual, a group or another company, from certain corporate governance requirements, including those requirements that:

A majority of the Board of Directors consist of independent directors;

Compensation of officers be determined or recommended to the Board of Directors by a majority of its independent directors or by a compensation committee comprised solely of independent directors; and

Director nominees be selected or recommended to the Board of Directors by a majority of its independent directors or by a nominating committee that is composed entirely of independent directors.

We currently rely on the controlled company exemption from the above requirements. Accordingly, our stockholders will not be afforded the same protections generally as stockholders of other NASDAQ-listed companies with respect to corporate governance for so long as we rely on these exemptions from the corporate governance requirements.

*If we are unable to successfully maintain effective internal control over financial reporting, investors may lose confidence in our reported financial information and our stock price and business may be adversely impacted.*

As a public company, we are required to maintain internal control over financial reporting and our management is required to evaluate the effectiveness of our internal control over financial reporting as of the end of each fiscal year. Additionally, we are required to disclose in our Annual Reports on Form 10-K our management's assessment of the effectiveness of our internal control over financial reporting and a registered public accounting firm's attestation report on this assessment. If we are not successful in maintaining effective internal control over financial reporting, there could be inaccuracies or omissions in the consolidated financial information we are required to file with the SEC. Additionally, even if there are no inaccuracies or omissions, we could be required to publicly disclose the conclusion of our management that our internal control over financial reporting or disclosure controls and procedures are not effective. These events could cause investors to lose confidence in our reported financial information, adversely impact our stock price, result in increased costs to remediate any deficiencies, attract regulatory scrutiny or lawsuits that could be costly to resolve and distract management's attention, limit our ability to access the capital markets or cause our stock to be delisted from The NASDAQ Global Select Market or any other securities exchange on which we are then listed.

*We will incur significant increased costs as a result of operating as a public company, and our management will be required to devote substantial time to new compliance initiatives.*

Until recently, we have never operated as a stand-alone public company. As a public company, we incur significant legal, accounting and other expenses and are subject to rules and regulations that regulate corporate governance practices of public companies, including the Securities Exchange Act of 1934, as amended, the Sarbanes-Oxley Act of 2002, as amended, and rules promulgated by NASDAQ. We expect that compliance with these public company requirements will make some activities more time consuming and may result in a diversion of management's time and attention from revenue-generating activities. For example, in 2012 we created new board committees, adopted new internal controls and disclosure controls and procedures, and devoted and will continue to devote significant management resources to our SEC reporting requirements.

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We may need to implement additional systems or transition to other new systems that require new expenditures in order to function effectively as a public company. For example, we must document and test our internal control procedures, our management will need to assess and report on our internal control over financial reporting and our registered public accounting firm will need to issue an opinion on that assessment and the effectiveness of those controls. Furthermore, if we identify any issues in complying with those requirements (for example, if we or our registered public accounting firm identify a material weakness or significant deficiency in our internal control over financial reporting), we may be required to devote additional management attention to rectify those issues, and the existence of those issues could adversely affect our reputation or investor perceptions of us. There can be no assurance that our implementation of additional systems or transition to new systems will be successful, or that such implementation or transition will not present unforeseen costs or demands on our management.

### ***The price of our common stock may be volatile.***

There has been a public market for our common stock only since December 2011. The market price of our common stock is affected by a number of factors, including:

Changes in earnings estimates or recommendations by securities analysts;

The announcement of new products or product enhancements by us or our competitors;

Developments in our industry;

Developments in administrative proceedings or litigation related to intellectual property rights;

Changes in governmental regulations;

Quarterly variations in our or our competitors' results of operations; and

General market conditions and other factors, including factors unrelated to our operating performance or the operating performance of our competitors.

### ***Future sales of shares of our common stock in the public market, or the perception that such sales may occur, may depress our stock price.***

For the period ended December 31, 2012, the average daily trading volume of our common stock on The NASDAQ Global Select Market was approximately 2.5 million shares. If our existing stockholders or their distributees sell substantial amounts of our common stock in the public market, the market price of the common stock could decrease significantly. The perception in the public market that our existing stockholders might sell shares of common stock could also depress the trading price of our common stock. In addition, certain stockholders have rights, subject to some conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or other stockholders. If Liberty or some other stockholder sells substantial amounts of our common stock in the public market, or if there is a perception in the public market that Liberty might sell shares of our common stock, the market price of our common stock could decrease significantly. A decline in the price of shares of our common stock might impede our ability to raise capital through the issuance of additional shares of our common stock or other equity securities.

### ***Anti-takeover provisions in our organizational documents and Delaware law may discourage or prevent a change of control, even if an acquisition would be beneficial to our stockholders, which could affect our stock price adversely and prevent attempts by our stockholders to replace or remove our current management.***

Our certificate of incorporation and bylaws contain provisions that could delay or prevent a change of control of our company or changes in our Board of Directors that our stockholders might consider favorable. Some of these provisions:



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Authorize the issuance of preferred stock which can be created and issued by the Board of Directors without prior stockholder approval, with rights senior to those of our common stock; and

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Prohibit our stockholders from filling board vacancies or calling special stockholder meetings.

We are subject to the provisions of Section 203 of the Delaware General Corporation Law, which may prohibit certain business combinations with stockholders owning 15% or more of our outstanding voting stock. These and other provisions in our certificate of incorporation, bylaws and Delaware law could make it more difficult for stockholders or potential acquirers to obtain control of our Board of Directors or initiate actions that are opposed by our then-current Board of Directors, including a merger, tender offer or proxy contest involving our company. Any delay or prevention of a change of control transaction or changes in our Board of Directors could cause the market price of our common stock to decline.

### **Item 1B. Unresolved Staff Comments**

None.

### **Item 2. Properties**

We lease approximately 119,000 square feet for our corporate headquarters in Newton, Massachusetts, pursuant to a lease with an expiration date of April 2015.

We also lease an aggregate of approximately 144,000 square feet at 21 other locations across North America, Europe and Asia Pacific, primarily for our international management teams, sales offices, and subsidiary headquarters, pursuant to leases with expiration dates through June 2023.

We believe that our current facilities are adequate for our current operations and that additional leased space can be obtained on reasonable terms if needed. We do not own any real estate as of December 31, 2012.

### **Item 3. 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 would have a material adverse effect on us.

### **Item 4. Mine Safety Disclosures**

Not applicable.

**Table of Contents****Part II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**  
**Market Information**

Our common stock began trading on The NASDAQ Global Select Market, or NASDAQ, on December 21, 2011 under the trading symbol TRIP. Before then, there was no public market for our common stock. On February 8, 2013, the closing price of our common stock reported on NASDAQ was \$47.02 per share.

The following table sets forth, for the periods indicated, the high and low sale prices per share of our common stock as reported on NASDAQ during the period indicated.

	<b>High</b>	<b>Low</b>
<b>Year ended December 31, 2012:</b>		
Fourth Quarter 2012:	\$ 47.00	\$ 28.63
Third Quarter 2012:	\$ 47.81	\$ 31.71
Second Quarter 2012:	\$ 46.30	\$ 33.23
First Quarter 2012:	\$ 36.86	\$ 24.57
<b>Year ended December 31, 2011:</b>		
Fourth Quarter 2011:	\$ 30.00	\$ 23.99

There is no established public trading market for our shares of Class B common stock.

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**Performance Comparison Graph**

The following graph provides a comparison of the total stockholder return from December 21, 2011 to December 31, 2012 of an investment of \$100 in cash on December 21, 2011 for TripAdvisor, Inc. common stock and an investment of \$100 in cash on December 21, 2011 for (i) the NASDAQ Composite Index, (ii) the Standard and Poor's 500 Index (the "S&P 500 Index"), (iii) the Standard and Poor's Information Technology Index (the "S&P Information Technology Index") and (iv) the Research Data Group ("RDG") Internet Composite Index. The RDG Internet Composite Index is an index of stocks representing the Internet industry, including Internet software and service companies and e-commerce companies. The stock price performance shown on the graph below is not necessarily indicative of future price performance. Data for the S&P 500 Index, the S&P Information Technology Index, the NASDAQ Composite Index, and the RDG Internet Composite Index assume reinvestment of dividends. We have never paid dividends on our common stock.

*This performance comparison graph is not soliciting material, is not deemed filed with the Securities and Exchange Commission and is not deemed to be incorporated by reference by any general statement incorporating by reference this Annual Report on Form 10-K into any filing of TripAdvisor, Inc. under the Securities Act of 1933, as amended (the "Securities Act"), or any filing under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), except to the extent that we specifically request that the information be treated as soliciting material or specifically incorporate this information by reference into any such filing, and will not otherwise be deemed incorporated by reference into any other filing under the Securities Act or the Exchange Act, except to the extent that we specifically incorporate it by reference.*

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### **Holders of Record**

As of February 8, 2013, there were 130,105,917 outstanding shares of our common stock held by 3,170 stockholders of record, and 12,799,999 outstanding shares of our Class B common stock held by one stockholder of record.

### **Dividends**

We have never declared or paid dividends. Our ability to pay dividends is limited by the terms of a credit agreement, dated as of December 20, 2011, that provides for a revolving credit facility and a term loan. Any future determination as to the declaration and payment of dividends, if any, will be at the discretion of our Board of Directors and will depend on then-existing conditions, including our financial condition, operating results, contractual restrictions, capital requirements, business prospects and other factors our Board of Directors may deem relevant.

### **Unregistered Sales of Equity Securities**

During the year ended December 31, 2012, we did not issue or sell any shares of our common stock or other equity securities pursuant to unregistered transactions in reliance upon an exemption from the registration requirements of the Securities Act.

### **Issuer Purchases of Equity Securities**

Our Board of Directors did not authorize the repurchase of any shares during the year ended December 31, 2012. In February 2013, we announced that our Board of Directors authorized the repurchase of \$250 million of our shares of common stock under a share repurchase program. We intend to use available cash and future cash from operations to fund repurchases under the share repurchase program. The repurchase program has no expiration but may be suspended or terminated by the Board of Directors at any time. The Executive Committee of our Board of Directors will determine the price, timing, amount and method of such repurchases based on its evaluation of market conditions and other factors, and any shares repurchased will be in compliance with applicable legal requirements, at prices determined to be attractive and in the best interests of both the company and its stockholders.

### **Equity Compensation Plan Information**

Our equity plan information required by this item is incorporated by reference to the information in Part III, Item 12 of this Annual Report on Form 10-K.

**Table of Contents****Item 6. Selected Financial Data**

We have derived the following selected financial data presented below from the consolidated and combined financial statements and related notes. The information set forth below is not necessarily indicative of future results and should be read in conjunction with the consolidated and combined financial statements and related notes appearing in Item 8 Financial Statements and Supplementary Data and Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report on Form 10-K. Historical results are not necessarily indicative of the results to be expected in any future period.

	Year Ended December 31,				
	2012	2011	2010	2009	2008
<b>(in thousands, except per share data)</b>					
<b>Consolidated and Combined Statements of Operations Data:</b>					
Revenue	\$ 559,215	\$ 426,045	\$ 313,525	\$ 212,375	\$ 200,578
Related-party revenue from Expedia	203,751	211,018	171,110	139,714	97,668
Total revenue	762,966	637,063	484,635	352,089	298,246
Operating income	296,296	272,757	226,300	168,178	124,883
Net income attributable to TripAdvisor, Inc.	194,069	177,677	138,776	102,427	72,371
Net income per share attributable to TripAdvisor, Inc. available to common shareholders:					
Basic(1)	\$ 1.39	\$ 1.33	\$ 1.04	\$ 0.77	\$ 0.54
Diluted(1)	1.37	1.32	1.04	0.77	0.54
Shares used in computing net income per share:					
Basic(1)	139,462	133,461	133,461	133,461	133,461
Diluted(1)	141,341	134,865	133,461	133,461	133,461

	Year Ended December 31,				
	2012	2011	2010	2009	2008
<b>(in thousands)</b>					
<b>Consolidated and Combined Balance Sheet Data:</b>					
Cash and cash equivalents, short and long term marketable securities(2)	\$ 585,733	\$ 183,532	\$ 93,133	\$ 31,364	\$ 8,001
Working capital (deficit)(2)	436,854	151,792	34,112	(78,560)	(201,962)
Total assets(2)	1,299,194	835,886	722,889	574,826	515,963
Long-term debt, less current portion(3)	340,000	380,000			
Total stockholders' equity and invested equity(4)	726,968	293,537	539,632	389,914	242,900

	Year Ended December 31,				
	2012	2011	2010	2009	2008
<b>(in thousands)</b>					
<b>Other Financial Data:</b>					
Adjusted EBITDA(5)	\$ 352,474	\$ 322,918	\$ 260,963	\$ 197,219	\$ 146,626

- (1) See Note 2 *Significant Accounting Policies* in the notes to the consolidated and combined financial statements in Item 8 below regarding our calculation of earnings per share numbers.
- (2) Includes one-time exercise proceeds of \$214.5 million related to stock warrant exercises for the year ended December 31, 2012. See Note 4 *Stock Based Awards and Other Equity Instruments* in the notes to the consolidated and combined financial statements in Item 8 below for additional information on our equity based instruments.
- (3) See Note 8 *Debt* in the notes to the consolidated and combined financial statements in Item 8 below for information regarding our long-term debt.



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- (4) See our consolidated and combined statements of changes in stockholders' equity and Note 15 *Stockholders' Equity* in the notes to the consolidated and combined financial statements in Item 8 below for additional information on changes to our stockholders' equity and invested capital.
- (5) To provide investors with additional information regarding our financial results, we have disclosed Adjusted EBITDA, a non-GAAP financial measure, within this Annual Report on Form 10-K. Adjusted EBITDA is the primary metric by which management evaluates the performance of our business and on which internal budgets are based. We define Adjusted EBITDA as operating income, 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 affect the Spin-Off from Expedia during the year ended December 31, 2011. See a discussion of Adjusted EBITDA in Item 7 *Management's Discussion and Analysis of Financial Condition and Results of Operations* within this Annual Report on Form 10-K.

We have provided a reconciliation below of adjusted EBITDA to operating income, the most directly comparable GAAP financial measure.

	Year Ended December 31,				
	2012	2011	2010	2009	2008
<i>(in thousands)</i>					
<b>Reconciliation of Adjusted EBITDA:</b>					
<b>Adjusted EBITDA</b>	<b>\$ 352,474</b>	<b>\$ 322,918</b>	<b>\$ 260,963</b>	<b>\$ 197,219</b>	<b>\$ 146,626</b>
Depreciation	(19,966)	(18,362)	(12,871)	(9,330)	(5,022)
Amortization of intangible assets	(6,110)	(7,523)	(14,609)	(13,806)	(11,161)
Stock-based compensation(1)	(30,102)	(17,344)	(7,183)	(5,905)	(5,560)
Spin-off costs		(6,932)			
<b>Operating income</b>	<b>\$ 296,296</b>	<b>\$ 272,757</b>	<b>\$ 226,300</b>	<b>\$ 168,178</b>	<b>\$ 124,883</b>

- (1) Includes a one-time expense of \$8 million for the year ended December 31, 2011, the majority of which was recorded to general and administrative expense, primarily due to the modification of vested Expedia stock options that were unexercised at the date of the Spin-Off. See Note 4 *Stock Based Awards and Other Equity Instruments* in the notes to the consolidated and combined financial statements in Item 8 below for additional information on our stock-based compensation.



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**Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**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 China under the brand daodao.com. Our branded websites globally have received more than 60 million unique visitors (according to July 2012 comScore), and we have built a base of more than 44 million marketable members, which are members we have permission to email on a regular basis, and we feature over 75 million reviews and opinions, as measured by our own log files. Beyond travel-related content, our websites also include links to the websites of our customers, including travel advertisers, allowing travelers to directly book their travel arrangements. In addition to the flagship TripAdvisor brand, we now manage and operate 20 other travel brands, connected by the common goal of providing comprehensive travel planning resources across the travel sector.

***Executive Summary***

Our financial results are currently principally dependent on our ability to drive our click-based advertising revenue. We continue to invest in areas of potential click-based revenue growth, including our social, mobile and global initiatives, while also focusing on growing both our subscription-based products, such as 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 an important 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 years ended December 31, 2012 and 2011, 77% and 79%, respectively, of our total revenue came from our core cost-per-click, or CPC, based lead generation product. 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 track and analyze sub-segments of traffic and its correlation to revenue generation and utilize hotel shoppers as an 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 are 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 products, such as Vacation Rentals and Business Listings.

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*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. As of December 31, 2012, and according to AppData, an independent application tracking traffic service, TripAdvisor has averaged more than 40 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.

*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, 2012, we saw strong mobile user uptake, as aggregate downloads of our TripAdvisor, City Guides, and SeatGuru apps more than doubled to 31 million and during the fourth quarter of 2012 we averaged more than 45 million monthly unique users on mobile devices, as measured by our own log files. We believe that travelers will increasingly use mobile devices, including smartphones and tablets, to conduct travel research and planning.

*Vacation Rentals.* Our Vacation Rentals product addresses a highly-fragmented \$85 billion per-year vacation rental 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 HolidayLettings businesses, but during the fourth quarter of 2011 we announced partnerships aimed at increasing our supply content. We had more than 300,000 properties as of December 31, 2012, up more than 50% during the year, and we believe our highly-engaged and motivated community create a competitive advantage for us in this market.

*Business Listings.* Created in early 2010, our Business Listings product enables hotel and accommodation owners to list pertinent property information on TripAdvisor, bringing them closer to potential customers and thereby increasing direct bookings. In the year ended December 31, 2012, we grew our Business Listings customer base over 40% to 50,000 subscribers, still representing just over 7% of our current hotel and accommodation listings on TripAdvisor branded sites. We continue to expand our sales force and improve features to grow our subscriber 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, continue to be 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. We are also continually adapting our user experience in response to a changing internet environment and usage trends. For example, in 2012 we invested in building a hotel metasearch product for our smartphone platforms and we currently plan to roll out our hotel metasearch product on our desktop and tablet platforms during the next three to six months. We expect to continue to develop our metasearch capabilities, because we believe that by showing users real-time pricing and availability wherever possible across our global points of sale, we can provide a better user experience while delivering highly qualified leads to our advertising partners.

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*Increasing Mobile Usage.* Consumers are increasingly using smartphone and tablet computing devices to access the Internet. To address these demands, we continue to extend the platform to develop smartphone and tablet applications to allow greater access to our travel information and resources. Although the substantial majority of our smartphone users also access and engage with our websites on personal computers and tablets where we display advertising, our users could decide to increasingly access our products primarily through smartphone devices. Historically we have not displayed graphic advertising on smartphones and our smartphone monetization strategies are still developing. Improvement of our mobile offerings is a key company priority which we believe is necessary 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 and an increase in the volume of clicks on our advertisers' placements. 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. 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 effected by the economic issues overseas.

### ***Spin-Off***

On April 7, 2011, 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. Non-recurring expenses incurred to affect the Spin-Off during the year ended December 31, 2011 have been included within Spin-Off costs in the consolidated and combined statements of operations.

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 an 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.

In connection with the Spin-Off, on December 20, 2011, TripAdvisor Holdings, LLC distributed approximately \$406 million in cash to Expedia in the form of a dividend. This distribution was funded through borrowings under a credit agreement, dated as of December 20, 2011, by and among TripAdvisor, TripAdvisor Holdings, LLC, and TripAdvisor LLC, the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent, and J.P. Morgan Europe Limited, as London agent (this credit agreement, together with all exhibits,

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schedules, annexes, certificates, assignments and related documents contemplated thereby, is referred to herein as the *Credit Agreement* ). Refer to *Note 8 Debt* in the notes to our consolidated and combined financial statements and our debt discussion in *Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Financial Position, Liquidity and Capital Resources* below for further information on the *Credit Agreement*.

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 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 on this Annual Report on Form 10-K 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. For information on our current relationship with Expedia and recent material transactions, refer to *Note 16 Related Party Transactions* in the notes to our consolidated and combined financial statements.

***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.

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

	Year ended December 31,			% Change	
	2012	2011	2010	2012 vs. 2011	2011 vs. 2010
Revenue	\$ 559,215	\$ 426,045	\$ 313,525	31%	36%
Related-party revenue from Expedia	203,751	211,018	171,110	(3%)	23%
<b>Total revenue</b>	<b>762,966</b>	<b>637,063</b>	<b>484,635</b>	<b>20%</b>	<b>31%</b>
Costs and expenses:					
Cost of revenue (exclusive of amortization) (1)	12,074	10,873	7,345	11%	48%
Selling and marketing (2)	266,239	209,176	140,470	27%	49%
Technology and content (2)	86,640	57,448	43,321	51%	33%
General and administrative (2)	75,641	44,770	31,819	69%	41%
Related-party shared services fee		9,222	7,900	(100%)	17%
Depreciation	19,966	18,362	12,871	9%	43%
Amortization of intangible assets	6,110	7,523	14,609	(19%)	(49%)
Spin-off costs		6,932		(100%)	100%
<b>Total costs and expenses</b>	<b>466,670</b>	<b>364,306</b>	<b>258,335</b>	<b>28%</b>	<b>41%</b>
Operating income	296,296	272,757	226,300	9%	21%
Other income (expense):					
Interest (expense) income, net	(10,871)	391	(241)	(2,880%)	262%
Other, net	(3,450)	(1,254)	(1,644)	175%	(24%)
<b>Total other expense, net</b>	<b>(14,321)</b>	<b>(863)</b>	<b>(1,885)</b>	<b>1,559%</b>	<b>(54%)</b>
Income before income taxes	281,975	271,894	224,415	4%	21%
Provision for income taxes	(87,387)	(94,103)	(85,461)	(7%)	10%
Net income	194,588	177,791	138,954	9%	28%
Net (income) loss attributable to noncontrolling interest	(519)	(114)	(178)	355%	(36%)
<b>Net income attributable to TripAdvisor, Inc.</b>	<b>\$ 194,069</b>	<b>\$ 177,677</b>	<b>\$ 138,776</b>	<b>9%</b>	<b>28%</b>
<b>Earnings per share attributable to TripAdvisor, Inc :</b>					
Basic	\$ 1.39	\$ 1.33	\$ 1.04	5%	28%
Diluted	\$ 1.37	\$ 1.32	\$ 1.04	4%	27%
Weighted average common shares outstanding:					
Basic	139,462	133,461	133,461	4%	0%
Diluted	141,341	134,865	133,461	5%	1%
<b>Other financial data:</b>					
Adjusted EBITDA (3)	\$ 352,474	\$ 322,918	\$ 260,963	9%	24%

(1) Excludes amortization as follows:

Amortization of acquired technology included in amortization of intangibles	\$ 708	\$ 578	\$ 1,080		
Amortization of website development costs included in depreciation	12,816	12,438	8,104		

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	\$ 13,524	\$ 13,016	\$ 9,184
(2) Includes stock-based compensation as follows:			
Selling and marketing	\$ 4,622	\$ 3,216	\$ 2,101
Technology and content	11,400	3,931	2,661
General and administrative	14,080	10,197	2,421

- (3) See Adjusted EBITDA discussion 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 U.S. generally accepted accounting principles, or GAAP.

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***Adjusted EBITDA***

To provide investors with additional information regarding our financial results, we have disclosed Adjusted EBITDA, a non-GAAP financial measure, within this Annual Report on Form 10-K. 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, 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 in connection with the Spin-Off or those costs that do not require a cash outlay, such as stock-based compensation. Adjusted EBITDA also excludes depreciation and amortization expense, which are 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.

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The following table is a reconciliation of Adjusted EBITDA to operating income, the most directly comparable GAAP financial measure for the periods presented:

	Year ended December 31, (in thousands)		
	2012	2011	2010
<b>Adjusted EBITDA</b>	<b>\$ 352,474</b>	<b>\$ 322,918</b>	<b>\$ 260,963</b>
Depreciation (1)	(19,966)	(18,362)	(12,871)
<b>OIBA (2)</b>	<b>332,508</b>	<b>304,556</b>	<b>248,092</b>
Amortization of intangible assets	(6,110)	(7,523)	(14,609)
Stock-based compensation	(30,102)	(17,344)	(7,183)
Spin-Off costs		(6,932)	
<b>Operating income</b>	<b>296,296</b>	<b>272,757</b>	<b>226,300</b>

- (1) Includes internal use software and website development costs.
- (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 as we converted to a new operating metric post Spin-Off and is also currently used to calculate our annual obligation for our charitable foundation. Refer to, *Contractual Obligations, Commercial Commitments and Off-Balance Sheet Arrangements*, below, in the section entitled *Management's Discussion and Analysis of Financial Condition and Results of Operations* in this Annual Report on Form 10-K for information on our charitable foundation.

**Reclassifications**

Certain reclassifications have been made to conform the prior period's data to the current format, which include the reclassifications of our redeemable noncontrolling interest on the consolidated balance sheets from accrued expenses and other current liabilities and the reclassification of accrued marketing costs from accounts payable to accrued expenses and other current liabilities. These reclassifications had no net effect on our consolidated and combined financial statements.

**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 related to our Business Listings and Vacation Rentals products, transaction revenue from selling room nights on our transactional sites SniqueAway and Tingo, and other revenue including content licensing.

The following discussion of revenue includes references to the number of unique Internet protocol, or IP, addresses that visit TripAdvisor-branded sites each month. This metric is one of the metrics used by us to analyze revenue and is measured using internally developed analytical tools. Each unique IP address is only counted the first time it visits a TripAdvisor site during each calendar month. Our measurement of unique visitors does not include any visitors to our subsidiary sites that are not TripAdvisor-branded, nor does it include any individuals who view TripAdvisor content on other sites. While directionally indicative, unique IP address tracking has recently become less valuable as a revenue growth metric because of the continually increasing diversification of our site traffic and usage, particularly in light of our users' engagement with non-hotel based site content, such as



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restaurants and attractions. As such, we believe that using hotel shoppers as a metric is a more useful indicator of future revenue growth and began to track this metric using internally developed analytical tools in 2012.

	Year ended December 31,			% Change	
	2012	2011	2010	2012 vs. 2011	2011 vs. 2010
	(\$ in millions)				
Click-based advertising	\$ 588	\$ 500	\$ 384	18%	30%
Display-based advertising	94	86	72	10%	19%
Subscription, transaction and other	81	51	29	58%	76%
Total revenue	\$ 763	\$ 637	\$ 485	20%	31%

2012 vs. 2011

Revenue increased \$126 million during the year ended December 31, 2012 when compared to the same period in 2011, primarily due to an increase in click-based advertising revenue of \$88 million. The primary driver of the increase in click-based advertising revenue was an increase in hotel shoppers during the year ended December 31, 2012, when compared to the same period for 2011, of over 30%, partially offset by lower clicks per hotel shopper due to our site redesign in September 2011, and lower revenue per click. Subscription, transaction and other revenue increased by \$30 million during the year ended December 31, 2012, primarily due to growth in our subscription based products, Business Listings and Vacation Rentals products.

2011 vs. 2010

Revenue increased \$152 million or 31% during the year ended December 31, 2011 when compared to the same period in 2010, primarily due to an increase in click-based advertising revenue of \$116 million or 30%. A key driver of the increase in click-based advertising revenue was an increase of 29% in monthly visits from unique IP addresses to the TripAdvisor branded sites during the year ended December 31, 2011, compared to the same period for 2010 and, to a lesser extent, an increase in the average cost per click rates in 2011. Subscription, transaction and other revenue increased by \$22 million or 76% in 2011, primarily due to growth in Business Listings and having a full year of revenue from the 2010 acquisition of Holiday Lettings.

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

	Year ended December 31,			% Change	
	2012	2011	2010	2012 vs. 2011	2011 vs. 2010
	(\$ in millions)				
Related party revenue from Expedia	\$ 204	\$ 211	\$ 171	(3%)	23%
% of revenue	26.7%	33.1%	35.3%		

TripAdvisor and Expedia entered into new commercial arrangements in connection with the Spin-Off, as discussed in Note 16 *Related Party Transactions* in the notes to our consolidated and combined financial statements. The new arrangements had terms of up to one year. 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 this expected discount range. Related-party revenue from Expedia decreased \$7 million or 3% during the year ended December 31, 2012 when compared to the same period in 2011, primarily due to lower CPC pricing paid by Expedia, partially offset by higher click volume sent to Expedia in 2012.

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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.

	Year ended December 31,			% Change	
	2012	2011	2010	2012 vs. 2011	2011 vs. 2010
	(\$ in millions)				
Cost of revenue	\$ 12	\$ 11	\$ 7	11.0%	48%
% of revenue	1.6%	1.7%	1.5%		
	<u>2012 vs. 2011</u>				

Cost of revenue increased \$1 million during the year ended December 31, 2012 when compared to the same period in 2011, primarily due to increased credit card merchant fees.

2011 vs. 2010

Cost of revenue increased \$4 million during the year ended December 31, 2011 when compared to the same period in 2010, primarily due to increased data center costs in support of higher site traffic and increased credit card merchant fees.

**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.

	Year ended December 31,			% Change	
	2012	2011	2010	2012 vs. 2011	2011 vs. 2010
	(\$ in millions)				
Direct costs	\$ 177	\$ 137	\$ 88	29%	57%
Personnel and overhead	89	72	52	25%	36%
Total selling and marketing	\$ 266	\$ 209	\$ 140	27%	49%
% of revenue	34.9%	32.8%	29.0%		
	<u>2012 vs. 2011</u>				

Direct selling and marketing costs increased \$40 million during the year ended December 31, 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 year ended December 31, 2012 compared to the same period in 2011, in order to increase social engagement on our websites. Personnel and overhead costs increased \$17 million during the year ended December 31, 2012 when compared to the same period in 2011, primarily due to an increase in headcount to support business growth, including international expansion.

2011 vs. 2010

Direct selling and marketing costs increased \$49 million during the year ended December 31, 2011 when compared to the same period in 2010, primarily due to increased search engine marketing costs and other traffic acquisition costs. Personnel and overhead costs increased \$20 million during the year ended December 31, 2011 when compared to the same period in 2010, primarily due to an increase in headcount to support business growth, including international expansion.



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*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.