

TripAdvisor, Inc.
Form 10-K/A
July 31, 2014
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K/A
(Amendment No. 1)

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

For the fiscal year ended December 31, 2013

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

80-0743202

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

**(I.R.S. Employer
Identification No.)**

141 Needham Street

Newton, MA 02464

(Address of principal executive office) (Zip Code)

Registrant's telephone number, including area code:

(617) 670-6300

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

Title of each class:
Common Stock, \$0.001 par value

Name of each exchange on which registered:
The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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.

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Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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 \$6,817,578,784 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 6, 2014
Common Stock, \$0.001 par value per share	129,432,796 shares
Class B Common Stock, \$0.001 par value per share	12,799,999 shares

Documents Incorporated by Reference

Portions of the proxy statement for the 2014 annual meeting of stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K, as amended.

Table of Contents

Table of Contents

	Page
<u>PART II</u>	
Item 8. <u>Financial Statements and Supplementary Data</u>	1
<u>PART IV</u>	47
Item 15. <u>Exhibits and Financial Statement Schedules</u>	47
<u>SIGNATURES</u>	48

Table of Contents

EXPLANATORY NOTE

The Registrant is filing this Amendment No. 1 on Form 10-K/A (Form 10-K/A) to its Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (Form 10-K) to include a corrected report of independent registered public accounting firm as the report previously provided inadvertently included a reference to a financial statement schedule which was not included in the Form 10-K.

As required by Rule 12b-15, the Registrant's principal executive officer and principal financial officer are providing currently dated certifications on Exhibits 31.3, 31.4, 32.3 and 32.4. Accordingly, the Registrant hereby amends Item 15 in the Form 10-K to add such reports as Exhibits.

Except as described above, this Form 10-K/A does not amend, update or change any other items or disclosures in the Form 10-K, including any of the financial information disclosed in Parts II and IV of the Form 10-K, and does not purport to reflect any information or events subsequent to the filing thereof. As such, this Form 10-K/A speaks only as of the date the Form 10-K was filed, and the Company has not undertaken herein to amend, supplement or update any information contained in the Form 10-K to give effect to any subsequent events. Accordingly, this Form 10-K/A should be read in conjunction with the Form 10-K.

We refer to TripAdvisor, Inc. as the Company, TripAdvisor, Registrant, us, we and our in this report.

Table of Contents

PART II

Item 8. Financial Statements and Supplementary Data

Index to Financial Statements and Supplementary Data:

<u>Report of Independent Registered Public Accounting Firm</u>	2
<u>Consolidated and Combined Statements of Operations for the years ended December 31, 2013, 2012 and 2011</u>	3
<u>Consolidated and Combined Statements of Comprehensive Income for the years ended December 31, 2013, 2012 and 2011</u>	4
<u>Consolidated Balance Sheets as of December 31, 2013 and 2012</u>	5
<u>Consolidated and Combined Statements of Changes in Stockholders' Equity for the years ended December 31, 2013, 2012 and 2011</u>	6
<u>Consolidated and Combined Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011</u>	8
<u>Notes to Consolidated and Combined Financial Statements</u>	9
<u>Quarterly Financial Information (Unaudited)</u>	46

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

of TripAdvisor, Inc.

We have audited the accompanying consolidated balance sheets of TripAdvisor, Inc. as of December 31, 2013 and 2012, and the related consolidated and combined statements of operations, comprehensive income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of TripAdvisor, Inc. at December 31, 2013 and 2012, and the consolidated and combined results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), TripAdvisor, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated February 11, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts

February 11, 2014

Table of Contents**TRIPADVISOR, INC.****CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS****(in thousands, except per share data)**

	Year Ended December 31,		
	2013	2012	2011
Revenue	\$ 727,236	\$ 559,215	\$ 426,045
Revenue from Expedia	217,425	203,751	211,018
Total revenue	944,661	762,966	637,063
Costs and expenses:			
Cost of revenue (exclusive of amortization) (1)	17,714	12,074	10,873
Selling and marketing (2)	368,353	266,239	209,176
Technology and content (2)	130,673	86,640	57,448
General and administrative (2)	98,121	75,641	44,770
Depreciation	29,495	19,966	18,362
Amortization of intangible assets	5,731	6,110	7,523
Shared services fee with Expedia			9,222
Spin-off costs			6,932
Total costs and expenses	650,087	466,670	364,306
Operating income	294,574	296,296	272,757
Other income (expense):			
Interest income	1,738	510	808
Interest expense	(10,074)	(11,381)	(417)
Other, net	(1,536)	(3,450)	(1,254)
Total other expense, net	(9,872)	(14,321)	(863)
Income before income taxes	284,702	281,975	271,894
Provision for income taxes	(79,259)	(87,387)	(94,103)
Net income	205,443	194,588	177,791
Net (income) loss attributable to noncontrolling interest		(519)	(114)
Net income attributable to TripAdvisor, Inc.	\$ 205,443	\$ 194,069	\$ 177,677
Earnings Per Share attributable to TripAdvisor, Inc:			
Basic	\$ 1.44	\$ 1.39	\$ 1.33
Diluted	\$ 1.41	\$ 1.37	\$ 1.32
Weighted Average Common Shares Outstanding:			
Basic	142,854	139,462	133,461
Diluted	145,263	141,341	134,865

(1) Excludes amortization as follows:

Amortization of acquired technology included in amortization of intangibles	\$ 949	\$ 708	\$ 578
Amortization of website development costs included in depreciation	19,602	12,816	12,438

\$ 20,551 \$ 13,524 \$ 13,016

(2) Includes stock-based compensation as follows:

Selling and marketing	\$ 10,643	\$ 4,622	\$ 3,216
Technology and content	21,053	11,400	3,931
General and administrative	17,257	14,080	10,197

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

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

	Year Ended December 31,		
	2013	2012	2011
Net income	\$ 205,443	\$ 194,588	\$ 177,791
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	548	1,945	(781)
Unrealized gains (losses) on available for sale securities, net of tax benefits of \$6, \$72, and \$0, ⁽¹⁾	(4)	(104)	
Total other comprehensive income (loss), net of tax	544	1,841	(781)
Comprehensive income	205,987	196,429	177,010
Less: comprehensive income attributable to noncontrolling interest		(519)	(114)
Comprehensive income attributable to TripAdvisor, Inc.	\$ 205,987	\$ 195,910	\$ 176,896

(1) Net gains (losses) recognized and reclassified during the years ended December 31, 2013, 2012 and 2011 were immaterial.

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

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

(in thousands, except share and per share data)

	December 31, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 351,148	\$ 367,515
Short-term marketable securities (note 5)	131,220	118,970
Accounts receivable, net of allowance of \$3,300 and \$2,818 at December 31, 2013 and December 31, 2012, respectively (note 2)	97,034	81,459
Receivable from Expedia, net (note 15)	15,828	23,971
Taxes receivable (note 9)	14,291	24,243
Deferred income taxes, net (note 9)	4,550	5,971
Prepaid expenses and other current assets	16,214	10,365
Total current assets	630,285	632,494
Long-term marketable securities (note 5)	188,338	99,248
Property and equipment, net (note 6)	81,528	43,802
Deferred income taxes, net (note 9)	893	502
Other long-term assets	18,144	13,274
Intangible assets, net (note 7)	51,842	38,190
Goodwill (note 7)	501,984	471,684
TOTAL ASSETS	\$ 1,473,014	\$ 1,299,194
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 9,869	\$ 12,796
Deferred merchant payables (note 2)	29,612	1,303
Deferred revenue	43,970	31,563
Credit facility borrowings (note 8)	28,461	32,145
Borrowings, current (note 8)	40,000	40,000
Taxes payable (note 9)	5,443	14,597
Accrued expenses and other current liabilities (note 10)	85,534	63,236
Total current liabilities	242,889	195,640
Deferred income taxes, net (note 9)	13,114	11,023
Other long-term liabilities (note 11)	52,531	25,563
Borrowings, net of current portion (note 8)	300,000	340,000
Total Liabilities	608,534	572,226

Commitments and Contingencies (note 12)		
Stockholders' equity: (note 14)		
Preferred stock \$0.001 par value		
Authorized shares: 100,000,000		
Shares issued and outstanding: 0 and 0		
Common stock \$0.001 par value	131	130
Authorized shares: 1,600,000,000		
Shares issued: 131,537,798 and 130,060,138		
Shares outstanding: 129,417,089 and 130,060,138		
Class B common stock \$0.001 par value	13	13
Authorized shares 400,000,000		
Shares issued and outstanding: 12,799,999 and 12,799,999		
Additional paid-in capital	608,001	531,256
Retained earnings	401,881	196,438
Accumulated other comprehensive loss	(325)	(869)
Treasury stock - Common stock, at cost, 2,120,709 and 0 shares, at December 31, 2013 and December 31, 2012 respectively	(145,221)	
Total stockholders' equity	864,480	726,968
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,473,014	\$ 1,299,194

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

Table of Contents

TRIPADVISOR, INC.

CONSOLIDATED AND COMBINED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands, except share data)

	Invested Capital	Common stock Shares	Common stock Amount	Class B common stock Shares	Class B common stock Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock Shares	Treasury stock Amount	Total
Balance as of December 31, 2010	\$ 541,561		\$		\$	\$	\$	\$ (1,929)		\$	\$ 539,632
Net income attributable to TripAdvisor, Inc. prior to Spin-Off	175,308										175,308
Net income attributable to TripAdvisor, Inc. after the Spin-Off							2,369				2,369
Currency translation adjustments								(781)			(781)
Tax benefits on equity awards	1,453										1,453
Stock- based compensation expense- pre-Spin-Off	16,260										16,260
Acquisition of common control subsidiary from Expedia	(40,564)										(40,564)
Adjustment to the fair value of redeemable noncontrolling interest	(571)										(571)
Extinguishment of receivable	(1,525)										(1,525)

due from Expedia related to Spin- Off, including transfers of assets and liabilities									
Distribution to Expedia related to Spin-Off, net	(398,488)								(398,488)
Capitalization of TripAdvisor as a result of Spin-Off from Expedia, including issuance of Common and Class B shares	(293,434)	120,661,808	121	12,799,999	13	293,300			
Stock-based compensation expense- post Spin-Off						444			444
Balance as of December 31, 2011	\$	120,661,808	\$ 121	12,799,999	\$ 13	\$ 293,744	\$ 2,369	\$ (2,710)	\$ 293,537
Net income attributable to TripAdvisor, Inc.							194,069		194,069
Currency translation adjustments								1,945	1,945
Unrealized loss on marketable securities, net of tax								(104)	(104)
Issuance of common stock related to exercise of options and warrants and vesting of RSUs		9,398,330	9			230,702			230,711
Tax benefits on equity awards						3,933			3,933
Minimum withholding taxes on net						(6,675)			(6,675)

share settlements of equity awards		
Adjustment to the fair value of redeemable noncontrolling interest	(14,617)	(14,617)
Reclassification of non-employee equity awards to liability	(1,462)	(1,462)
Stock-based compensation expense	25,631	25,631

Table of Contents

	Invested Capital	Common stock Shares	Common stock Amount	Class B common stock Shares	Class B common stock Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive (loss) income	Treasury stock Shares	Treasury stock Amount	Total
Balance as of December 31, 2012	\$	130,060,138	\$ 130	12,799,999	\$ 13	\$ 531,256	\$ 196,438	\$ (869)		\$	\$ 726,960
Net income attributable to TripAdvisor, Inc.							205,443				205,443
Currency translation adjustments								548			548
Unrealized loss on marketable securities, net of tax and classification adjustments								(4)			(4)
Issuance of common stock related to exercise of options and vesting of RSUs		1,477,660	1			27,067					27,068
Repurchase of common stock									(2,120,709)	\$(145,221)	\$(145,221)
Provision for deferred tax benefits on equity awards						12,227					12,227
Minimum cash holding requirements on net share											
Settlements of equity awards and stock-based compensation expense						(13,907)					(13,907)
						51,358					51,358
Balance as of December 31, 2013	\$	131,537,798	\$ 131	12,799,999	\$ 13	\$ 608,001	\$ 401,881	\$ (325)	(2,120,709)	\$(145,221)	\$ 864,480

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

Table of Contents**TRIPADVISOR, INC.****CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS****(in thousands)**

	Year Ended December 31,		
	2013	2012	2011
Operating activities:			
Net income	\$ 205,443	\$ 194,588	\$ 177,791
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of property and equipment, including amortization of internal-use software and website development	29,495	19,966	18,362
Stock-based compensation	48,953	30,102	17,344
Amortization of intangible assets	5,731	6,110	7,523
Amortization of deferred financing costs	779	889	21
Amortization of discounts and premiums on marketable securities, net	4,905	527	
Deferred tax (benefit) expense	5,473	(4,960)	(931)
Excess tax benefits from stock-based compensation	(12,425)	(2,717)	(1,571)
Provision (recovery) for doubtful accounts	1,485	(1,050)	909
Foreign currency transaction (gains) losses, net	(154)	1,644	209
Other, net	1,691	187	(131)
Changes in operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable	(16,184)	(11,810)	(15,910)
Receivable from Expedia, net	8,099	(16,921)	
Taxes receivable	9,952	(24,243)	
Prepaid expenses and other assets	(3,655)	(3,305)	(1,821)
Accounts payable	(5,884)	15,322	4,133
Deferred merchant payable	16,767	(1,345)	1,752
Taxes payable	16,852	7,073	3,244
Accrued expenses and other liabilities	23,404	17,067	82
Deferred revenue	8,796	11,942	6,876
Net cash provided by operating activities	349,523	239,066	217,882
Investing activities:			
Acquisitions, net of cash acquired	(34,819)	(3,007)	(7,894)
Capital expenditures, including internal-use software and website development costs	(55,455)	(29,282)	(21,323)
Purchases of marketable securities	(432,373)	(218,922)	
Sales of marketable securities	174,723		
Maturities of marketable securities	150,780		20,090
Distribution to Expedia related to Spin-Off		7,028	(405,516)
Acquisitions, net of cash acquired, from Expedia			(28,099)
Transfers to Expedia, net			(95,967)
Other, net	350		(153)

Net cash used in investing activities	(196,794)	(244,183)	(538,862)
Financing activities:			
Repurchase of common stock	(145,221)		
Proceeds from credit facilities	10,201	15,372	18,158
Payments on credit facilities	(14,728)	(10,000)	
Principal payments on long-term debt	(40,000)	(20,000)	
Proceeds from issuance of long-term debt, net of issuance costs			396,516
Proceeds from exercise of stock options and warrants	23,703	230,711	
Payment of minimum withholding taxes on net share settlements of equity awards	(13,907)	(6,675)	
Excess tax benefits from stock-based compensation	12,425	2,717	1,571
Payments on construction in process related to build to suit lease obligations	(2,148)		
Payments to purchase subsidiary shares from noncontrolling interest		(22,304)	
Acquisitions funded by Expedia			5,135
Payments on acquisition earn-out			(9,546)
Net cash (used) provided by financing activities	(169,675)	189,821	411,834
Effect of exchange rate changes on cash and cash equivalents	579	(721)	(455)
Net (decrease) increase in cash and cash equivalents	(16,367)	183,983	90,399
Cash and cash equivalents at beginning of year	367,515	183,532	93,133
Cash and cash equivalents at end of year	\$ 351,148	\$ 367,515	\$ 183,532
Supplemental disclosure of cash flow information:			
Income taxes paid directly to taxing authorities, net of refunds	\$ 49,989	\$ 107,799	\$ 42,220
Income taxes paid to Expedia			49,570
Total income taxes paid, net of refunds	\$ 49,989	\$ 107,799	\$ 91,790
Cash paid during the period for interest	\$ 8,291	\$ 9,792	\$ 313
Supplemental disclosure of non-cash investing and financing activities:			
Capitalization of construction in-process related to build to suit lease obligation	\$ 7,877		
Non-cash fair value increase for redeemable noncontrolling interests		\$ 14,617	\$ 571
Distribution receivable from Expedia, Inc.			(7,028)

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

Table of Contents

TRIPADVISOR, INC.

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND BUSINESS DESCRIPTION

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

During 2011, Expedia, Inc., or Expedia, announced its plan to separate into two independent public companies in order to better achieve certain strategic objectives of its various businesses. We refer to this transaction as the Spin-Off. On December 20, 2011, following the close of trading on the NASDAQ Global Select Market (NASDAQ), the Spin-Off was completed, and TripAdvisor began trading as 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. In connection with the Spin-Off, Expedia contributed or transferred all of the subsidiaries and assets relating to Expedia's TripAdvisor Media Group to TripAdvisor and TripAdvisor assumed all of the liabilities relating to Expedia's TripAdvisor Media Group.

On December 11, 2012, Liberty Interactive Corporation, or Liberty, purchased an aggregate of 4,799,848 shares of common stock of TripAdvisor from Barry Diller, our former Chairman of the Board of Directors and Senior Executive, and certain of his affiliates (the Stock Purchase). As a result, as of December 31, 2013, Liberty beneficially owned 18,159,752 shares of our common stock and 12,799,999 shares of our Class B common stock, which shares constitute 14.0% of the outstanding shares of Common Stock and 100% of the outstanding shares of Class B Common Stock. Assuming the conversion of all of the Liberty's shares of Class B common stock into common stock, Liberty would beneficially own 21.8% of the outstanding common stock (calculated in accordance with Rule 13d-3). Because each share of Class B common stock generally is entitled to ten votes per share and each share of common stock is entitled to one vote per share, Liberty may be deemed to beneficially own equity securities representing approximately 56.8% of our voting power.

Our common stock trades on the NASDAQ under the trading symbol TRIP.

Description of Business

TripAdvisor is an online travel company, empowering users to plan and have the perfect trip. TripAdvisor's travel research platform aggregates reviews and opinions of members about destinations, accommodations (hotels, B&Bs, specialty lodging and vacation rentals), restaurants and activities throughout the world through our flagship TripAdvisor brand. TripAdvisor-branded websites include tripadvisor.com in the United States and localized versions of the website in 33 countries, including in China under the brand daodao.com. Beyond travel-related content, TripAdvisor websites also include links to the websites of our travel advertisers allowing travelers to directly book their travel arrangements. In addition to the flagship TripAdvisor brand, we manage and operate 20 other travel brands, connected by the common goal of providing comprehensive travel planning resources across the travel sector. We derive substantially all of our revenue from advertising, primarily through click-based advertising and display-based advertising sales. In addition, we earn revenue through a combination of subscription-based offerings from our Business Listings and Vacation Rental products, transaction revenue from making hotel room nights available for booking on our transactional sites, and other revenue including licensing our content to third-parties. We have one operating and reportable segment: TripAdvisor. The segment is determined based on how our chief operating decision maker manages our business, makes operating decisions and evaluates operating performance.

Seasonality

Expenditures by travel advertisers tend to be seasonal. Traditionally, our strongest quarter has been the third quarter, which is a key travel research period, with the weakest quarter being the fourth quarter. However,

Table of Contents

adverse economic conditions or continued growth of our international operations with differing holiday peaks may influence the typical trend of our seasonality in the future.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES***Basis of Presentation***

The accompanying consolidated and combined financial statements include TripAdvisor, our wholly-owned subsidiaries, and entities we control, or in which we have a variable interest and are the primary beneficiary of expected cash profits or losses. We record our investments in entities that we do not control, but over which we have the ability to exercise significant influence, using the equity method. We record noncontrolling interest in our consolidated and combined financial statements to recognize the minority ownership interest in our consolidated and combined subsidiaries. Noncontrolling interest in the earnings and losses of consolidated and combined subsidiaries represent the share of net income or loss allocated to members or partners in our consolidated and combined entities. We have eliminated significant intercompany transactions and accounts. The accounting for income taxes was computed for TripAdvisor on a separate tax return basis (see Note 9 *Income Taxes* for further information). The accompanying consolidated and combined financial statements have been prepared in accordance with generally accepted accounting principles in the United States (GAAP).

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

The financial statements and related financial information pertaining to the period preceding December 21, 2011 have been presented on a combined basis and reflect the results of TripAdvisor that were ultimately transferred to us as part of the Spin-Off. The financial statements and related financial information pertaining to the period from December 21, 2011 onward have been presented on a consolidated basis. Prior to the Spin-Off, certain functions, including accounting, legal, tax, corporate development, treasury, employee benefits, financial reporting and real estate management, were historically managed by the corporate division of Expedia on behalf of its subsidiaries. The assets, liabilities and expenses related to the support of these centralized corporate functions have been allocated to us on a specific identification basis to the extent possible. Otherwise, allocations related to these services, in the form of a shared services fee, were primarily based upon an estimate of the proportion of corporate amounts applicable to us. These allocations were determined on a basis that Expedia and we considered to be a reasonable reflection of the cost of services provided or the benefit received by us. These expenses were allocated based on a number of factors including headcount, estimated time spent and operating expenses. In the opinion of management, the assumptions and allocations were made on a reasonable basis. Management believes that amounts allocated to TripAdvisor reflect a reasonable representation of the types of costs that would have been incurred if we had performed these functions as a stand-alone company. However, as estimation is inherent within the aforementioned allocation process, these combined financial statements do not include all of the actual amounts that would have been incurred had we been a stand-alone entity during the periods presented and also do not necessarily reflect our future financial position, results of operations and cash flows.

Accounting Estimates

We use estimates and assumptions in the preparation of our consolidated and combined financial statements in accordance with GAAP. Our estimates and assumptions affect the reported amounts of assets and liabilities and

disclosure of contingent assets and liabilities as of the date of our consolidated and combined financial statements. These estimates and assumptions also affect the reported amount of net income or loss during any

Table of Contents

period. Our actual financial results could differ significantly from these estimates. The significant estimates underlying our consolidated and combined financial statements include recoverability of long-lived assets and investments, recoverability of intangible assets and goodwill; income taxes; useful lives of property and equipment; purchase accounting and stock-based compensation.

Reclassifications

Certain reclassifications have been made to conform the prior period to the current presentation. These reclassifications had no net effect on our consolidated and combined financial statements and were not material.

Revenue Recognition

We recognize revenue from the advertising services rendered when the following four revenue recognition criteria are met: persuasive evidence of an arrangement exists, services have been rendered, the price is fixed or determinable, and collectability is reasonably assured.

Click-based Advertising. Revenue is derived primarily from click-through fees charged to our travel partners for traveler leads sent to the travel partners' website. We record revenue from click-through fees after the traveler makes the click-through to the travel partners' websites.

Display and Other Advertising. We recognize display advertising revenue ratably over the advertising period or upon delivery of advertising impressions, depending on the terms of the advertising contract. Subscription-based revenue is recognized ratably over the related subscription period. We recognize revenue from all other sources either upon delivery or when we provide the service.

Deferred revenue, which primarily relates to our subscription-based programs, is recorded when payments are received in advance of our performance as required by the underlying agreements.

Cost of Revenue

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

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.

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, content support, and maintenance of our websites. Other costs include licensing and maintenance expense.

General and Administrative

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

Table of Contents

Interest Income

Interest income primarily consists of interest earned and amortization of discounts and premiums on our marketable securities.

Interest Expense

Interest expense primarily consists of interest incurred, commitment fees and debt issuance cost amortization related to our Credit Agreement and Chinese Credit Facilities.

Cash, Cash Equivalents and Marketable Securities

Our cash equivalents consist of highly liquid investments with maturities of 90 days or less at the date of purchase. Our marketable debt and equity securities have been classified and accounted for as available-for-sale. We determine the appropriate classification of our investments at the time of purchase and reevaluate the designations at each balance sheet date. We invest in highly-rated securities, and our investment policy limits the amount of credit exposure to any one issuer, industry group and currency. The policy requires investments to be investment grade, with the primary objective of minimizing the potential risk of principal loss and providing liquidity of investments sufficient to meet our operating and capital spending requirements and debt repayments.

We classify our marketable debt securities as either short-term or long-term based on each instrument's underlying contractual maturity date and as to whether and when we intend to sell a particular security prior to its maturity date. Marketable debt securities with maturities greater than 90 days at the date of purchase and 12 months or less remaining at the balance sheet date will be classified as short-term and marketable debt securities with maturities greater than 12 months from the balance sheet date will generally be classified as long-term. We classify our marketable equity securities, limited to money market funds and mutual funds, as either short-term or long-term based on the nature of each security and its availability for use in current operations. Our marketable debt and equity securities are carried at fair value, with the unrealized gains and losses, net of taxes, reported in accumulated other comprehensive income (loss) as a component of shareholders' equity. Fair values are determined for each individual security in the investment portfolio.

Realized gains and losses on the sale of securities are determined by specific identification of each security's cost basis. We may sell certain of our marketable securities prior to their stated maturities for strategic reasons including, but not limited to, anticipation of credit deterioration and liquidity and duration management. The weighted average maturity of our total invested cash shall not exceed 18 months, and no security shall have a final maturity date greater than three years.

We continually review our available for sale securities to determine whether a decline in fair value below the carrying value is other than temporary. When evaluating an investment for other-than-temporary impairment, we review factors such as the length of time and extent to which fair value has been below its cost basis, the financial condition of the issuer and any changes thereto, and our intent to sell, or whether it is more likely than not it will be required to sell the investment before recovery of the investment's cost basis. Once a decline in fair value is determined to be other than temporary, an impairment charge is recorded and a new cost basis in the investment is established. If we do not intend to sell the debt security, but it is probable that we will not collect all amounts due, then only the impairment due to the credit risk would be recognized in earnings and the remaining amount of the impairment would be recognized in accumulated other comprehensive loss within stockholders' equity.

Cash consists of cash deposits held in global financial institutions.

Table of Contents***Fair Value Measurements***

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

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

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

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

Derivative Financial Instruments

Our goal in managing our foreign exchange risk is to reduce, to the extent practicable, our potential exposure to the changes that exchange rates might have on our earnings, cash flows and financial position. We account for our derivative instruments as either assets or liabilities and carry them at fair value.

For derivative instruments that hedge the exposure to variability in expected future cash flows that are designated as cash flow hedges, the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income (loss) in shareholders' equity and reclassified into income in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of the gain or loss on the derivative instrument, if any, is recognized in current income. To receive hedge accounting treatment, cash flow hedges must be highly effective in offsetting changes to expected future cash flows on hedged transactions. For options designated as cash flow hedges, changes in the time value are excluded from the assessment of hedge effectiveness and are recognized in income. For derivative instruments that hedge the exposure to changes in the fair value of an asset or a liability and that are designated as fair value hedges, both the net gain or loss on the derivative instrument as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in earnings in the current period. The net gain or loss on the effective portion of a derivative instrument that is designated as an economic hedge of the foreign currency translation exposure of the net investment in a foreign operation is reported in the same manner as a foreign currency translation adjustment. For forward exchange contracts designated as net investment hedges, we exclude changes in fair value relating to changes in the forward carrying component from its definition of effectiveness. Accordingly, any gains or losses related to this component are recognized in current income. We have not entered into any cash flow, fair value or net investment hedges to date as of December 31, 2013.

Derivatives that do not qualify for hedge accounting must be adjusted to fair value through current income. In certain circumstances, we enter into foreign currency forward exchange contracts (forward contracts) to reduce the effects of fluctuating foreign currency exchange rates on our cash flows denominated in foreign currencies. Our derivative

instruments or forward contracts that were entered into and are not designated as hedges as of December 31, 2013 are disclosed below in Note 5 *Financial Instruments* in the notes to the consolidated and combined financial statements. Monetary assets and liabilities denominated in a currency other than the functional currency of a given subsidiary are remeasured at spot rates in effect on the balance sheet date

Table of Contents

with the effects of changes in spot rates reported in Other, net on our consolidated and combined statements of operations. Accordingly, fair value changes in the forward contracts help mitigate the changes in the value of the remeasured assets and liabilities attributable to changes in foreign currency exchange rates, except to the extent of the spot-forward differences. These differences are not expected to be significant due to the short-term nature of the contracts, which typically have average maturities at inception of less than one year.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are generally due within 30 days and are recorded net of an allowance for doubtful accounts. We record accounts receivable at the invoiced amount and do not charge interest. Collateral is not required for accounts receivable. We consider accounts outstanding longer than the contractual payment terms as past due. We determine our allowance by considering a number of factors, including the length of time trade accounts receivable are past due, previous loss history, a specific customer's ability to pay its obligations to us, and the condition of the general economy and industry as a whole.

The following table presents the changes in the allowance for doubtful accounts for the periods presented:

	2013	December 31, 2012	2011
	(in thousands)		
Allowance for doubtful accounts:			
Balance, beginning of period	\$ 2,818	\$ 5,370	\$ 5,184
Charges (recoveries) to earnings	1,485	(1,050)	909
Write-offs, net of recoveries and other adjustments	(1,003)	(1,502)	(723)
Balance, end of period	\$ 3,300	\$ 2,818	\$ 5,370

Property and Equipment, Including Website and Software Development Costs

We record property and equipment at cost, net of accumulated depreciation. We capitalize certain costs incurred during the application development stage related to the development of websites and internal use software when it is probable the project will be completed and the software will be used as intended. Capitalized costs include internal and external costs, if direct and incremental, and deemed by management to be significant. We expense costs related to the planning and post-implementation phases of software and website development as these costs are incurred. Maintenance and enhancement costs (including those costs in the post-implementation stages) are typically expensed as incurred, unless such costs relate to substantial upgrades and enhancements to the website or software resulting in added functionality, in which case the costs are capitalized.

We compute depreciation using the straight-line method over the estimated useful lives of the assets, which is three to five years for computer equipment and purchased software, capitalized software and website development and furniture and other equipment. We depreciate leasehold improvements using the straight-line method, over the shorter of the estimated useful life of the improvement or the remaining term of the lease.

Leases

We lease office space in several countries around the world under non-cancelable lease agreements. We generally lease our office facilities under operating lease agreements. Office facilities subject to an operating lease and the related lease payments are not recorded on our balance sheet. The terms of certain lease agreements provide for rental payments on a graduated basis, however, we recognize rent expense on a straight-line basis over the lease period in accordance with authoritative accounting guidance. Any lease incentives are recognized as reductions of rental expense on a straight-line basis over the term of the lease. The lease term begins on the date we become legally obligated for the rent payments or when we take possession of the office space, whichever is earlier.

Table of Contents

We establish assets and liabilities for the estimated construction costs incurred under lease arrangements where we are considered the owner for accounting purposes only, or build-to-suit leases, to the extent we are involved in the construction of structural improvements or take construction risk prior to commencement of a lease. Upon occupancy of facilities under build-to-suit leases, we assess whether these arrangements qualify for sales recognition under the sale-leaseback accounting guidance. If we continue to be the deemed owner, the facilities are accounted for as financing leases.

Recoverability of Goodwill and Indefinite-Lived Intangible Assets***Goodwill***

We account for acquired businesses using the purchase method of accounting which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. We assess goodwill, which is not amortized, for impairment annually as of October 1, or more frequently, if events and circumstances indicate impairment may have occurred. We test goodwill for impairment at the reporting unit level (operating segment or one level below an operating 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.

In the evaluation of goodwill for impairment, we first perform a qualitative assessment to determine whether it is more likely than not (i.e., a likelihood of more than 50%) that the fair value of the reporting unit is less than the carrying amount. If we determine that it is not more likely than not that the fair value of the goodwill is less than its carrying amount, no further testing is necessary. If, however, we determine that it is more likely than not that the fair value of the goodwill is less than its carrying amount, we then perform a quantitative assessment and compare the fair value of the reporting unit to the carrying value. If the carrying value of a reporting unit exceeds its fair value, the goodwill of that reporting unit is potentially impaired and we proceed to step two of the impairment analysis. In step two of the analysis, we will record an impairment loss equal to the excess of the carrying value of the reporting unit's goodwill over its implied fair value should such a circumstance arise.

Indefinite-Lived Intangible Assets

Intangible assets that have indefinite lives are not amortized and are tested for impairment annually on October 1, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Similar to the qualitative assessment for goodwill, we may assess qualitative factors to determine if it is more likely than not that the fair value of the indefinite-lived intangible asset is less than its carrying amount. If we determine that it is not more likely than not that the fair value of the indefinite-lived intangible asset is less than its carrying amount, no further testing is necessary. If, however, we determine that it is more likely than not that the fair value of the indefinite-lived intangible asset is less than its carrying amount, we compare the fair value of the indefinite-lived asset with its carrying amount. If the carrying value of an individual indefinite-lived intangible asset exceeds its fair value, the individual asset is written down by an amount equal to such excess. The assessment of qualitative factors is optional and at our discretion. We may bypass the qualitative assessment for any indefinite-lived intangible asset in any period and resume performing the qualitative assessment in any subsequent period.

As part of our qualitative assessment for our 2013 impairment analysis, the factors that we considered for our goodwill and indefinite-lived intangible assets included, but were not limited to: (a) changes in macroeconomic conditions in the overall economy and the specific markets in which we operate, (b) our ability to access capital, (c) changes in the online travel industry, (d) changes in the level of competition, (e) comparison of our current

financial performance to historical and budgeted results, (f) changes in excess market capitalization over book value based on our current common stock price and latest consolidated balance sheet, and (g) comparison of the excess of the fair value of our trade names and trademarks to the carrying value of

Table of Contents

those same assets, using the results of our most recent quantitative assessment. After considering these factors and the impact that changes in such factors would have on the inputs used in our previous quantitative assessment, we determined for our goodwill and indefinite-lived intangible assets that it was more likely than not that these assets were not impaired.

Since the annual impairment tests in October 2013, there have been no events or changes in circumstances to indicate any potential impairment to goodwill or our indefinite lived intangible assets. In the event that future circumstances indicate that any portion of our goodwill or our indefinite-lived intangibles is impaired, an impairment charge would be recorded.

Recoverability of Intangible Assets with Definite Lives and Other Long-Lived Assets

Intangible assets with definite lives and other long-lived assets are carried at cost and are amortized on a straight-line basis over their estimated useful lives of two to eleven years. The straight-line method of amortization is currently used for our definite-lived intangible assets as it approximates, or is our best estimate, of the distribution of the economic use of our identifiable intangible assets. We review the carrying value of long-lived assets or asset groups, including property and equipment, to be used in operations whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable.

Factors that would necessitate an impairment assessment include a significant adverse change in the extent or manner in which an asset is used, a significant adverse change in legal factors or the business climate that could affect the value of the asset, or a significant decline in the observable market value of an asset, among others. If such facts indicate a potential impairment, we assess the recoverability of the asset by determining if the carrying value of the asset exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the asset over the remaining economic life of the asset. If the recoverability test indicates that the carrying value of the asset is not recoverable, we will estimate the fair value of the asset using appropriate valuation methodologies which would typically include an estimate of discounted cash flows. Any impairment would be measured by the amount that the carrying value of such assets exceeds their fair value. We have not identified any circumstances that would warrant an impairment assessment as of December 31, 2013.

Income Taxes

We compute and account for our income taxes on a stand-alone basis. We record income taxes under the liability method. Deferred tax assets and liabilities reflect our estimation of the future tax consequences of temporary differences between the carrying amounts of assets and liabilities for book and tax purposes. We determine deferred income taxes based on the differences in accounting methods and timing between financial statement and income tax reporting. Accordingly, we determine the deferred tax asset or liability for each temporary difference based on the enacted tax rates expected to be in effect when we realize the underlying items of income and expense. We consider all relevant factors when assessing the likelihood of future realization of our deferred tax assets, including our recent earnings experience by jurisdiction, expectations of future taxable income, and the carryforward periods available to us for tax reporting purposes, as well as assessing available tax planning strategies. We may establish a valuation allowance to reduce deferred tax assets to the amount we believe is more likely than not to be realized. Due to inherent complexities arising from the nature of our businesses, future changes in income tax law, tax sharing agreements or variances between our actual and anticipated operating results, we make certain judgments and estimates. Therefore, actual income taxes could materially vary from these estimates.

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

Table of Contents

Foreign Currency Translation and Transaction Gains and Losses

Our consolidated and combined financial statements are reported in U.S. dollars. Certain of our subsidiaries outside of the United States use the related local currency as their functional currency and not the U.S. dollar. Therefore assets and liabilities of our foreign subsidiaries are translated at the spot rate in effect at the applicable reporting date, and the consolidated and combined statements of operations are translated at the average exchange rates in effect during the applicable period. The resulting unrealized cumulative translation adjustment, net of applicable income taxes, is recorded as a component of accumulated other comprehensive earnings in stockholders' equity.

Due to the nature of our operations and our corporate structure, we also have subsidiaries that have transactions in foreign currencies other than their functional currency. Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses which are reflected in the accompanying consolidated and combined statements of operations as unrealized (based on the applicable period-end exchange rate) or realized upon settlement of the transactions.

Accordingly, we have recorded foreign exchange losses of \$0.2 million, 3.2 million and \$1.0 million for the years ended December 31, 2013, 2012 and 2011, respectively, in Other, net. These losses are net of those realized and unrealized on foreign currency forward contracts.

Advertising Expense

We incur advertising expense consisting of traffic generation costs from search engines and Internet portals, other online and offline (including television) advertising expense, promotions and public relations to promote our brands. We expense the costs associated with communicating the advertisements in the period in which the advertisement takes place. We expense the production costs associated with advertisements in the period in which the advertisement first takes place. For the years ended December 31, 2013, 2012 and 2011, our advertising expense was \$236.5 million, \$175.0 million, and \$135.6 million, respectively. As of December 31, 2013 and 2012, we had \$1.3 million and \$1.4 million of prepaid marketing expenses included in prepaid expenses and other current assets.

Stock-Based Compensation

Stock Options. The exercise price for all stock options granted by us to date has been equal to the market price of the underlying shares of common stock at the date of grant. In this regard, when making stock option awards, our practice is to determine the applicable grant date and to specify that the exercise price shall be the closing price of our common stock on the date of grant.

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

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

exercise data on our common stock. Our expected dividend yield is zero, as we have not paid any dividends on our common stock to date and do not expect to pay any cash dividends for the foreseeable future.

Table of Contents

Restricted Stock Units. RSUs are stock awards that are granted to employees entitling the holder to shares of our common stock as the award vests. RSUs are measured at fair value based on the number of shares granted and the quoted price of our common stock at the date of grant. We amortize the fair value of stock options and RSUs, net of estimated forfeitures, as stock-based compensation expense over the vesting term of generally four years on a straight-line basis, with the amount of compensation expense recognized at any date at least equaling the portion of the grant-date fair value of the award that is vested at that date. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by employees who receive these awards, and subsequent events are not indicative of the reasonableness of our original estimates of fair value. We use historical data to estimate pre-vesting stock option and RSU forfeitures and record share-based compensation expense only for those awards that are expected to vest. Changes in estimated forfeitures are recognized through a cumulative catch-up adjustment in the period of change which also impacts the amount of stock compensation expense to be recognized in future periods.

Performance-based stock options and RSUs vest upon achievement of certain company-based performance conditions and a requisite service period. On the date of grant, the fair value of performance-based awards is determined based on the fair value, which is calculated using the same method as our service based stock options and RSUs described above. We then assess whether it is probable that the performance targets would be achieved. If assessed as probable, compensation expense will be recorded for these awards over the estimated performance period. At each reporting period, we will reassess the probability of achieving the performance targets and the performance period required to meet those targets. The estimation of whether the performance targets will be achieved and of the performance period required to achieve the targets requires judgment, and to the extent actual results or updated estimates differ from our current estimates, the cumulative effect on current and prior periods of those changes will be recorded in the period estimates are revised, or the change in estimate will be applied prospectively depending on whether the change affects the estimate of total compensation cost to be recognized or merely affects the period over which compensation cost is to be recognized. The ultimate number of shares issued and the related compensation expense recognized will be based on a comparison of the final performance metrics to the specified targets.

Deferred Merchant Payables

We receive cash from travelers at the time of booking related to our vacation rental and transaction-based businesses and we record these amounts, net of commissions, on our consolidated balance sheets as deferred merchant payables. We pay the hotel or vacation rental owners after the travelers use and subsequent billing from the hotel or vacation rental owners. Therefore, we receive cash from the traveler prior to paying the hotel or vacation rental owners, and this operating cycle represents a working capital source of cash to us. As long as our transaction-based businesses grow, we expect that changes in working capital related to these transactions will positively impact operating cash flows. As of December 31, 2013, our deferred merchant payables balance was \$29.6 million and for the year ended December 31, 2013, the related transactions generated positive operating cash flow of \$16.8 million. A payable balance of \$11.5 million was acquired with our business acquisitions during the year ended December 31, 2013, and therefore is included within investing activities in our consolidated and combined cashflow statements. For additional information on our business acquisitions refer to Note 3 *Acquisitions* below. The deferred merchant payables balance at December 31, 2012 was \$1.3 million.

Credit Risk and Concentrations

Financial instruments, which potentially subject us to concentration of credit risk, consist primarily of cash and cash equivalents, corporate debt securities, foreign exchange contracts, accounts receivable and customer concentrations. We maintain some cash and cash equivalents balances with financial institutions that are in excess of Federal Deposit Insurance Corporation insurance limits. Our cash and cash equivalents are primarily composed of prime institutional money market funds as well as bank account balances primarily denominated in U.S. dollars, Euros, British pound

sterling, Chinese renminbi and Singapore dollars. We invest in highly-rated corporate debt securities, and our investment policy limits the amount of credit exposure to any one issuer,

Table of Contents

industry group and currency. Our credit risk related to corporate debt securities is also mitigated by the relatively short maturity period required by our investment policy. Foreign exchange contracts are transacted with various international financial institutions with high credit standing.

Our business is also subject to certain risks due to concentrations related to dependence on our relationships with our customers. We are highly dependent on our advertising and media relationship with Expedia, (see Note 15 *Related Party Transactions*). For the years ended December 31, 2013, 2012 and 2011 our two most significant advertising customers, Expedia and Priceline, accounted for a combined 47%, 48% and 49% of total revenue, respectively. As of December 31, 2013 and 2012, there were no customers that accounted for 10% or more of our accounts receivable. Our overall credit risk related to accounts receivable is mitigated by the relatively short collection period.

Contingent Liabilities

Periodically, we review the status of all significant outstanding matters to assess any potential financial exposure. When (i) it is probable that an asset has been impaired or a liability has been incurred and (ii) the amount of the loss can be reasonably estimated, we record the estimated loss in our consolidated and combined statements of operations. We provide disclosure in the notes to the consolidated and combined financial statements for loss contingencies that do not meet both these conditions if there is a reasonable possibility that a loss may have been incurred that would be material to the financial statements. Significant judgment is required to determine the probability that a liability has been incurred and whether such liability is reasonably estimable. We base accruals made on the best information available at the time which can be highly subjective. The final outcome of these matters could vary significantly from the amounts included in the accompanying consolidated and combined financial statements.

Comprehensive Income (Loss)

Comprehensive loss currently consists of net income (loss), cumulative foreign currency translation adjustments, and unrealized gains and losses on available-for-sale securities, net of tax.

Earnings per Share (EPS)

In connection with the Spin-Off a one-for-two reverse stock split of outstanding Expedia capital stock occurred immediately prior to the Spin-Off, which resulted in 120,661,020 shares of common stock and 12,799,999 shares of Class B common stock outstanding immediately following the Spin-Off.

Basic Earnings Per Share

We compute basic earnings per share by dividing net income attributable to TripAdvisor by the weighted average number of common shares outstanding during the period. We compute the weighted average number of common shares outstanding during the reporting period using the total of common stock and Class B common stock outstanding as of the last day of the previous year end reporting period plus the weighted average of any additional shares issued and outstanding less the weighted average of any treasury shares repurchased during the reporting period.

For the year ended December 31, 2011, we computed basic earnings per share using the number of shares of common stock and Class B common stock outstanding immediately following the Spin-Off, as if such shares were outstanding for the entire period prior to the Spin-Off, plus the weighted average of any additional shares issued and outstanding following the Spin-Off date through December 31, 2011.

Table of Contents*Diluted Earnings Per Share*

We compute diluted earnings per share by dividing net income attributable to TripAdvisor by the sum of the weighted average number of common and common equivalent shares outstanding during the period. We computed the weighted average number of common and common equivalent shares outstanding during the period using the sum of (i) the number of shares of common stock and Class B common stock used in the basic earnings per share calculation as indicated above, and (ii) if dilutive, the incremental weighted average common stock that we would issue upon the assumed exercise of outstanding common equivalent shares related to stock options, stock warrants and the vesting of restricted stock units using the treasury stock method, and (iii) if dilutive, performance based awards based on the number of shares that would be issuable as of the end of the reporting period assuming the end of the reporting period was also the end of the contingency period.

We treated all outstanding equity awards assumed at Spin-Off as if they were granted as of the Spin-Off and we included them in our diluted earnings per share calculation for the year ended December 31, 2011, based on the number of days they were outstanding.

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

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

	Year Ended December 31,		
	2013	2012	2011
Numerator:			
Net income attributable to TripAdvisor, Inc.	\$ 205,443	\$ 194,069	\$ 177,677
Denominator:			
Weighted average shares used to compute Basic EPS	142,854	139,462	133,461
Effect of dilutive securities:			
Stock options	2,131	1,207	1,164
RSUs	278	161	240
Stock warrants		511	
Weighted average shares used to compute Diluted EPS	145,263	141,341	134,865
Basic EPS	\$ 1.44	\$ 1.39	\$ 1.33
Diluted EPS	\$ 1.41	\$ 1.37	\$ 1.32

Table of Contents

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

	2013 (1)	December 31, 2012 (2)(3) (In thousands)	2011 (3)
Stock options	2,244	3,944	2,261
RSUs	27	21	80
Warrants			8,047
Total	2,271	3,965	10,388

- (1) These totals do not include 155,000 performance based options and 44,000 performance based RSUs representing the right to acquire 199,000 shares of common stock for which all targets required to trigger vesting have not been achieved; therefore, such awards were excluded from the calculation of weighted average shares used to compute diluted earnings per share for those reporting periods.
- (2) These totals do not include performance based options representing the right to acquire 110,000 shares of common stock, respectively, for which all targets required to trigger vesting had not been achieved; therefore, such awards were excluded from the calculation of weighted average shares used to compute diluted earnings per share for those reporting periods.
- (3) These totals do not include performance based RSUs representing the right to acquire 200,000 and 400,000 shares of common stock at December 31, 2012 and 2011, respectively, for which all targets required to trigger vesting had not been achieved; therefore, such awards were excluded from the calculation of weighted average shares used to compute diluted earnings per share for those reporting periods.

The earnings per share amounts are the same for common stock and Class B common stock because the holders of each class are legally entitled to equal per share distributions whether through dividends or in liquidation.

Recently Adopted Accounting Pronouncements***Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income***

In February 2013, the Financial Accounting Standards Board, or FASB, issued new accounting guidance which adds new disclosure requirements for items reclassified out of accumulated other comprehensive income. The new guidance requires that companies present, either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified based on its source and is effective for public companies in interim and annual reporting periods beginning after December 15, 2012. Accordingly, we have adopted these presentation requirements during the first quarter of 2013. The adoption of this new guidance did not have a material impact on our consolidated and combined financial statements or related disclosures.

New Accounting Pronouncements Not Yet Adopted

Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists

In July 2013, the FASB issued new accounting guidance on the presentation of unrecognized tax benefits. The new guidance requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows: to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use the deferred tax

Table of Contents

asset for such purpose, then the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2013, with early adoption permitted. Accordingly, we plan to adopt these presentation requirements during the first quarter of 2014. The adoption of this new guidance is not expected to have a material impact on our consolidated and combined financial statements or related disclosures.

NOTE 3: ACQUISITIONS

During the year ended December 31, 2013, we completed six acquisitions for total cash consideration paid of \$34.8 million, net of cash acquired. The total cash consideration is subject to adjustment based on the finalization of working capital adjustments and amounts retained with payment subject to certain indemnification obligations by the respective sellers for our benefit in future periods. We acquired TinyPost, the developer of a product that enables users to write over photos and turn them into stories, Jetsetter, a members-only private sale site for hotel bookings; CruiseWise, a cruise research and planning site; Niumba, a Spain-based vacation rental site; GateGuru, a mobile app with flight and airport information around the world; Oyster, a hotel review website featuring expert reviews and photos covering about 150 cities, all of which complement our existing brands in those areas of the travel ecosystem.

The total purchase price of these acquisitions, all of which were accounted for as purchases of businesses under the acquisition method, have been allocated to the tangible and identifiable intangible assets acquired and the net liabilities assumed based on their respective fair values on the acquisition date. The purchase price allocation of our 2013 acquisitions are preliminary and subject to revision as more information becomes available, but in any case will not be revised beyond 12 months after the acquisition date and any change to the fair value of net liabilities acquired will lead to a corresponding change to the purchase price allocable to goodwill on a retroactive basis. The primary areas of the purchase price allocation that are not yet finalized are related to the fair values of certain liabilities and income tax balances. Acquisition-related costs were expensed as incurred and were \$1.6 million during the year ended December 31, 2013 and were not material during the years ended December 31, 2012 and 2011. All acquisition related expenses were included in general and administrative expenses on our consolidated and combined statements of operations.

As no individual acquisition was material, the following table presents the aggregate components of the purchase prices initially recorded for all businesses on our consolidated balance sheets at the respective acquisition dates for the periods presented:

	December 31,		
	2013	2012	2011
	(In thousands)		
Goodwill (1)	\$ 29,551	\$ 3,043	\$ 6,390
Intangible assets (2)	19,195		1,642
Net (liabilities)/assets (3)	(9,936)	7	(16)
Deferred tax assets	693		
Total (4)	\$ 39,503	\$ 3,050	\$ 8,016

(1)

The goodwill represents the excess value over both tangible and intangible assets acquired. The goodwill in these transactions is primarily attributable to expected operational synergies, the assembled workforces, and the future development initiatives of the assembled workforces. Goodwill in the amount of \$14.1 million is expected to be deductible for tax purposes.

- (2) Identifiable definite-lived intangible assets acquired during 2013 were comprised of developed technology of \$2.4 million, trade names of \$7.6 million, customer relationships of \$8.0 million, and other intangibles of \$1.2 million. The overall weighted-average life of the identifiable definite-lived intangible assets acquired in the purchase of the companies during 2013 was 8.0 years, which will be amortized on a straight-line basis

Table of Contents

over their estimated useful lives from acquisition date. The overall weighted average life of acquired intangible assets during 2011 was 2.8 years.

- (3) Includes cash acquired of \$2.9 million, \$0 million and \$0.1 million during 2013, 2012 and 2011, respectively.
- (4) Subject to adjustment based on (i) final working capital adjustment calculations to be determined, and (ii) indemnification obligations of the acquired company stockholders that remains to be paid of \$1.8 million at December 31, 2013.

Our consolidated and combined financial statements include the operating results of all acquired businesses from the date of each acquisition. We did not have any material acquisitions, individually or in the aggregate, during the years 2013, 2012 and 2011; therefore no pro-forma results have been provided.

Other Acquisition Activity

During 2012 we also paid \$22.3 million for the remaining noncontrolling interest subsidiary shares related to a 2008 acquisition, which brought our ownership to 100%. This amount is included in financing activities in the consolidated statement of cash flows for 2012.

During 2011, we paid \$13 million of contingent purchase consideration under prior acquisitions. The amount in 2011 represented an earn-out payment, of which approximately \$10 million and \$3 million are recorded to financing activities and operating activities, respectively, in the consolidated and combined statement of cash flows. All contingent consideration accrued and paid was calculated based on the financial performance of the acquired entity to which it relates. We also purchased a subsidiary in China from Expedia for \$37 million, or \$28 million net of acquired cash. This acquisition was accounted for as a common control transaction, with net liabilities recorded at a carrying value of \$4 million, including an additional \$7 million of short term borrowings from the Chinese Credit Facilities (refer to Note 8 *Debt* below for further information on the Chinese Credit Facilities). No goodwill or other intangibles were recorded as a result of this acquisition and no contingent payments are outstanding. The difference between the purchase price and the carrying value of the net liabilities was recorded to additional paid in capital. The results of operations from this business are included in our consolidated and combined financial statements from the transaction closing date.

NOTE 4: STOCK BASED AWARDS AND OTHER EQUITY INSTRUMENTS**Stock-based Compensation Expense**

The following table presents the amount of stock-based compensation related to stock-based awards, primarily stock options and RSUs, on our consolidated and combined statements of operations during the periods presented:

	Year Ended December 31,		
	2013	2012	2011
	(In thousands)		
Selling and marketing	\$ 10,643	\$ 4,622	\$ 3,216
Technology and content	21,053	11,400	3,931
General and administrative	17,257	14,080	10,197
Total stock-based compensation	48,953	30,102	17,344
Income tax benefit from stock-based compensation	(18,014)	(10,648)	(6,504)

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Total stock-based compensation, net of tax effect	\$ 30,939	\$ 19,454	\$ 10,840
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The year ended December 31, 2011 includes a one-time modification charge of \$8.0 million related to the Spin-Off, primarily due to the modification of vested stock options that remained unexercised at the date of the Spin-Off, which the majority of was recorded to general and administrative expense. There were no material modifications to stock based awards for the years ended December 31, 2013 or 2012, respectively.

Table of Contents

Prior to the Spin-Off, we participated in the Amended and Restated Expedia, Inc. 2005 Stock and Annual Incentive Plan, under which we, through Expedia, granted RSUs, stock options, and other stock-based awards to our directors, officers, employees and consultants. At Spin-Off, these existing Expedia stock-based awards were converted into TripAdvisor stock-based equity awards and resulted in approximately 6,575,000 stock options (of which approximately 3,548,000 were fully vested at Spin-Off) and 893,000 RSUs outstanding. These awards accounted for our 2011 stock-based compensation expense. We will continue to amortize the fair value, net of estimated forfeitures, over the remaining vesting term on a straight-line basis, with the amount of compensation expense recognized at any date at least equaling the portion of the grant-date fair value of the award that is vested at that date. All remaining unrecognized stock-based compensation expense related to these awards is included in Unrecognized Stock-Based Compensation below.

Stock and Incentive Plan

On December 20, 2011, our 2011 Stock and Annual Incentive Plan became effective. On December 20, 2011, we filed Post-Effective Amendment No. 1 on Form S-8 to Registration Statement on Form S-4 (File No. 333-178637) (the Prior Registration Statement) with the Securities and Exchange Commission (the Commission), registering a total of 17,500,000 shares of our common stock, of which 17,400,000 shares were issuable in connection with grants of equity-based awards under our 2011 Incentive Plan (7,400,000 of which shares were originally registered on the Form S-4 and 10,000,000 of which shares were first registered on the Prior Registration Statement) and 100,000 shares were issuable under our Deferred Compensation Plan for Non-Employee Directors (refer to Note 13 *Employee Benefit Plans* below for information on our Deferred Compensation Plan for Non-Employee Directors).

At our annual meeting of stockholders held on June 28, 2013 (the Annual Meeting), our stockholders approved an amendment to our 2011 Stock and Annual Incentive Plan to, among other things, increase the aggregate number of shares of common stock authorized for issuance thereunder by 15,000,000 shares. We refer to our 2011 Stock and Annual Incentive Plan, as amended by the amendment as the 2011 Incentive Plan. A summary of the material terms of the 2011 Incentive Plan can be found in Proposal 3: Approval of the 2011 Stock and Annual Incentive Plan, as amended in our Proxy Statement for the Annual Meeting.

Pursuant to the 2011 Stock and Annual Incentive Plan, we may, among other things, grant RSUs, restricted stock, stock options and other stock-based awards to our directors, officers, employees and consultants. The summary of the material terms of the 2011 Incentive Plan is qualified in its entirety by the full text of the 2011 Incentive Plan previously filed.

As of December 31, 2013, the total number of shares available under the 2011 Incentive Plan is 18,085,169 shares. All shares of common stock issued in respect of the exercise of options or other equity awards since Spin-Off have been issued from authorized, but unissued common stock.

Stock Based Award Activity and Valuation

2013 Stock Option Activity

During the year ended December 31, 2013, we have issued 2,824,583 of primarily service based non-qualified stock options under the 2011 Incentive Plan. These stock options generally have a term of ten years from the date of grant and vest over a four-year requisite service period. We will amortize the fair value of the 2013 grants, net of estimated forfeitures, as stock-based compensation expense over the vesting term on a straight-line basis, with the amount of compensation expense recognized at any date at least equaling the portion of the grant-date fair value of the award that is vested at that date.

Table of Contents

A summary of the status and activity for stock option awards relating to our common stock for the year ended December 31, 2013, is presented below:

	Options Outstanding	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (In years)	Aggregate Intrinsic Value
	(In thousands)			(In thousands)
Options outstanding at January 1, 2013	8,654	\$ 31.41		
Granted	2,825	58.03		
Exercised (1)	1,487	23.81		
Cancelled or expired	522	38.09		
Options outstanding at December 31, 2013	9,470	\$ 40.18	5.9	\$ 403,828
Exercisable as of December 31, 2013	3,533	\$ 30.11	3.0	\$ 186,273
Vested and expected to vest after December 31, 2013	8,731	\$ 39.94	5.7	\$ 374,487

(1) Inclusive of 242,767 options which were not converted into shares due to net share settlement in order to cover the aggregate exercise price and the minimum amount of required employee withholding taxes. Potential shares which had been convertible under stock options that were withheld under net share settlement remain in the authorized but unissued pool under the 2011 Incentive Plan and can be reissued by the Company. We began net-share settling the majority of our stock option exercises during the third quarter of 2013. Total payments for the employees' tax obligations to the taxing authorities due to net share settlements are reflected as a financing activity within the consolidated statements of cash flows.

Aggregate intrinsic value represents the difference between the closing stock price of our common stock and the exercise price of outstanding, in-the-money options. Our closing stock price as reported on NASDAQ as of December 31, 2013 was \$82.83. The total intrinsic value of stock options exercised for the years ended December 31, 2013 and 2012 were \$58.2 million and \$25.1 million, respectively. No stock options were exercised between Spin-Off and December 31, 2011.

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

	December 31, 2013	2012
Risk free interest rate	1.41%	1.03%
Expected term (in years)	6.06	6.21

Expected volatility	50.78%	53.46%
Expected dividend yield	%	%

The weighted-average grant date fair value of options granted was \$28.30 and \$20.36 for the years ended December 31, 2013 and 2012, respectively. No stock options were granted under the 2011 Incentive Plan for the year ended December 31, 2011. The total fair value of stock options vested for the years ended December 31, 2013 and 2012 were \$26.6 million and \$9.8 million, respectively. No stock options were vested between Spin-Off and December 31, 2011.

2013 RSU Activity

During the year ended December 31, 2013, we issued 1,148,976 RSUs under the 2011 Incentive Plan for which the fair value was measured based on the quoted price of our common stock. These RSUs generally vest over a four-year requisite service period. We will amortize the fair value of the 2013 grants, net of estimated

Table of Contents

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

The following table presents a summary of RSU activity on our common stock during the year ended December 31, 2013:

	RSUs Outstanding	Weighted Average Grant- Date Fair Value Per Share (In thousands)	Aggregate Intrinsic Value
Unvested RSUs outstanding as of January 1, 2013	446	\$ 26.11	
Granted	1,149	50.72	
Vested and released (1)	363	22.95	
Cancelled	97	46.80	
Unvested RSUs outstanding as of December 31, 2013	1,135	\$ 49.64	\$ 94,125

- (1) Inclusive of 133,449 RSUs withheld to satisfy employee minimum tax withholding requirements due to net share settlement. Potential shares which had been convertible under RSUs that were withheld under net share settlement remain in the authorized but unissued pool under the 2011 Incentive Plan and can be reissued by the Company. Total payments for the employees' tax obligations to the taxing authorities due to net share settlements are reflected as a financing activity within the consolidated statements of cash flows.

Other Equity Activity

Upon Spin-Off, we entered into a warrant agreement (the *Warrant Agreement*) with Mellon Investor Services LLC and issued warrants exercisable for TripAdvisor common stock in respect of previously outstanding warrants exercisable for Expedia common stock that were adjusted on account of Expedia's reverse stock split and the Spin-Off. In total, at Spin-Off, the warrants could have been converted into a maximum of 8,046,698 shares of our common stock without any further adjustments to the *Warrant Agreement* and had an expiration date of May 7, 2012.

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

During the year ended December 31, 2012, and prior to the expiration date, there were a total of 32,186,791 warrants exercised which resulted in a total of 7,952,456 shares of our common stock being issued during that period, which

included 31,641,337 warrants for which the exercise price was paid in cash at a weighted average price of \$27.11. We received total exercise proceeds of \$214.5 million related to these warrant exercises, which is reflected as a financing activity within the consolidated statement of cash flows. In addition there were 545,454 cashless warrants exercised with a weighted average exercise price of \$25.92 of which we did not receive any exercise proceeds. As a result, we currently have no outstanding warrants remaining which could be convertible to shares of our common stock.

Table of Contents

Unrecognized Stock-Based Compensation

A summary of our remaining unrecognized compensation expense, net of estimated forfeitures, and the weighted average remaining amortization period at December 31, 2013 related to our non-vested stock options and RSU awards is presented below (in thousands, except per year information):

	Stock Options	RSUs
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