HOMEAWAY INC
Form 10-Q
July 30, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

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: 001-35215

HomeAway, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**20-0970381**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1011 W. Fifth Street, Suite 300

Austin, Texas 78703

(Address of principal executive offices, including zip code)

(512) 684-1100

(Registrant s telephone number, including area code)

Indicate by check mark whether 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. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ¨ No

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

Large accelerated filer x	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 x No

Indicate the number of shares outstanding of each of the issuer s classes of stock, as of the latest practicable date.

Class	**Outstanding at July 24, 2014**
Common Stock, $0.0001 par value per share	**93,989,464**

HomeAway, Inc.

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

HomeAway, Inc.

Condensed Consolidated Balance Sheets

(In thousands, except for share and per share information)

(unaudited)

	June 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 492,953	$ 324,608
Short-term investments	299,596	66,798
Accounts receivable, net of allowance for doubtful accounts of $1,086 and $1,038 as of June 30, 2014 and December 31, 2013, respectively	24,366	20,375
Income tax receivable	4,623	3,340
Prepaid expenses and other current assets	11,198	7,702
Restricted cash	731	1,607
Deferred tax assets	8,319	8,146
Total current assets	841,786	432,576
Property and equipment, net	44,621	39,807
Goodwill	532,219	507,611
Intangible assets, net	82,408	80,665
Restricted cash	887	573
Deferred tax assets	1,066	1,120
Other non-current assets	27,143	18,320
Total assets	$ 1,530,130	$ 1,080,672
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 7,114	$ 3,539
Income tax payable	2,074	1,992
Accrued expenses	53,618	54,625
Deferred revenue	187,920	151,991
Total current liabilities	250,726	212,147
Convertible senior notes, net	307,360	
Deferred revenue, less current portion	2,881	2,983

Deferred tax liabilities	27,383	24,046
Other non-current liabilities	8,906	7,557
Total liabilities	597,256	246,733
Redeemable noncontrolling interests (see Note 9)	9,883	10,584
Stockholders equity		
Common stock: $0.0001 par value; 350,000,000 shares authorized; 93,988,613 and 92,361,069 shares issued and outstanding as of June 30, 2014 and December 31, 2013, respectively	9	9
Additional paid-in capital	991,779	908,632
Accumulated other comprehensive income (loss)	1,432	(6,747)
Accumulated deficit	(70,229)	(78,539)
Total stockholders equity	922,991	823,355
Total liabilities and stockholders equity	$ 1,530,130	$ 1,080,672

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

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HomeAway, Inc.

Condensed Consolidated Statements of Operations

(In thousands, except for per share information)

(unaudited)

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Revenue:				
Listing	$ 94,526	$ 73,432	$ 181,858	$ 140,377
Other	19,730	13,176	38,080	25,695
Total revenue	114,256	86,608	219,938	166,072
Costs and expenses:				
Cost of revenue (exclusive of amortization shown separately below)	17,428	13,845	33,365	27,126
Product development	18,427	14,441	36,740	26,840
Sales and marketing	39,400	28,867	75,017	55,234
General and administrative	22,846	18,069	46,472	34,118
Amortization expense	3,492	2,995	6,766	6,175
Total costs and expenses	101,593	78,217	198,360	149,493
Operating income	12,663	8,391	21,578	16,579
Other income (expense):				
Interest expense	(4,469)		(4,469)	
Interest income	401	299	565	542
Other income (expense), net	(2,483)	66	(5,018)	(1,525)
Total other income (expense)	(6,551)	365	(8,922)	(983)
Income before income taxes	6,112	8,756	12,656	15,596
Income tax expense	(2,676)	(3,286)	(5,064)	(4,831)
Net income	3,436	5,470	7,592	10,765
Less: Net loss attributable to noncontrolling interests	(431)		(718)	
Net income attributable to HomeAway, Inc.	$ 3,867	$ 5,470	$ 8,310	$ 10,765
Net income per share attributable to HomeAway, Inc.:				
Basic	$ 0.04	$ 0.06	$ 0.09	$ 0.13
Diluted	$ 0.04	$ 0.06	$ 0.09	$ 0.12

Weighted average number of shares outstanding:				
Basic	93,671	84,920	93,188	84,482
Diluted	96,011	87,647	96,202	87,183

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

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HomeAway, Inc.

Condensed Consolidated Statements of Comprehensive Income

(In thousands)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
Net income	$ 3,436	$ 5,470	$ 7,592	$ 10,765
Other comprehensive income (loss):				
Foreign currency translation adjustments (net of $0 tax)	3,295	(324)	8,330	(4,743)
Unrealized loss on short-term investments (net of $0 tax)	(6)	(495)	(151)	(597)
Total other comprehensive income (loss)	3,289	(819)	8,179	(5,340)
Less: Comprehensive loss attributable to noncontrolling interests	(431)		(718)	
Comprehensive income attributable to HomeAway, Inc.	$ 7,156	$ 4,651	$ 16,489	$ 5,425

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

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HomeAway, Inc.

Consolidated Statement of Changes in Stockholders Equity

(In thousands)

(unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders Equity
Balance at December 31, 2013	92,361	$ 9	$ 908,632	$ (6,747)	$ (78,539)	$ 823,355
Issuance of stock under Company plans, net of shares withheld for taxes	1,628		19,156			19,156
Stock-based compensation			22,911			22,911
Equity component of convertible note issuance, net			87,434			87,434
Purchase of convertible note hedge			(85,853)			(85,853)
Sale of warrants			38,278			38,278
Excess tax benefits related to employee stock options			1,221			1,221
Other comprehensive income				8,179		8,179
Net income attributable to HomeAway, Inc.					8,310	8,310
Balance at June 30, 2014	93,989	$ 9	$ 991,779	$ 1,432	$ (70,229)	$ 922,991

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

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HomeAway, Inc.

Condensed Consolidated Statements of Cash Flows

(In thousands)

(unaudited)

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Cash flows from operating activities		
Net income	$ 7,592	$ 10,765
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	7,893	6,357
Amortization of intangible assets	6,766	6,175
Amortization of debt discount and transaction costs	4,329	
Amortization of premiums on securities and other	1,844	1,897
Stock-based compensation	22,911	17,592
Excess tax benefit from stock-based compensation	(1,221)	(4,245)
Deferred income taxes	539	(1,695)
Unrealized foreign exchange (gain) loss	(3,366)	257
Realized loss on foreign currency forwards	7,949	765
Changes in operating assets and liabilities, net of assets and liabilities assumed in business combinations:		
Accounts receivable	(3,532)	(2,529)
Income tax receivable	(1,298)	(1,212)
Prepaid expenses and other assets	(2,437)	2
Accounts payable	3,423	(1,570)
Accrued expenses	(3,555)	1,944
Income tax payable	1,265	(5,883)
Deferred revenue	35,445	29,379
Other non-current liabilities	1,341	1,293
Net cash provided by operating activities	85,888	59,292
Cash flows from investing activities		
Acquisition of businesses, net of cash acquired	(17,847)	(150)
Change in restricted cash	590	(246)
Purchases of intangibles and other assets	(226)	(551)
Purchases of non-marketable equity investment	(9,385)	(3,667)
Purchases of short-term investments	(243,570)	(100,460)
Proceeds from maturities and redemptions of marketable securities	4,717	23,880
Proceeds from sales of marketable securities	4,358	
Net settlement of foreign currency forwards	(7,949)	(765)
Purchases of property and equipment	(13,349)	(11,006)

Net cash used in investing activities	(282,661)	(92,965)
Cash flows from financing activities		
Proceeds from borrowings on convertible senior notes, net	391,568	
Proceeds from issuance of warrants	38,278	
Purchase of convertible note hedge	(85,853)	
Other financing activities	(919)	
Proceeds from exercise of options to purchase common stock	19,156	23,960
Excess tax benefit from stock-based compensation	1,221	4,245
Net cash provided by financing activities	363,451	28,205
Effect of exchange rate changes on cash	1,667	(2,131)
Net increase (decrease) in cash and cash equivalents	168,345	(7,599)
Cash and cash equivalents at beginning of period	324,608	189,478
Cash and cash equivalents at end of period	$ 492,953	$ 181,879
Cash paid for taxes	$ 3,262	$ 12,116

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

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HomeAway, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

1. Description of Business

HomeAway, Inc. (the Company) operates an online vacation rental property marketplace that enables property owners and managers to market properties available for rental to vacation travelers who rely on the Company s websites to search for and find available properties. Property owners and managers pay listing fees to provide detailed listings of their properties on the Company s websites and reach a broad audience of travelers seeking vacation rentals. Listing fees are typically annual subscriptions or payments on a performance basis, based on bookings or inquiries made by travelers to property owners and managers. A listing includes published detailed property listings, including photographs, descriptions, location, pricing, availability and contact information. The Company also sells, itself or through third parties, complementary products, including travel guarantees, insurance products and property management software and services. Travelers use the network of websites to search for vacation rentals that meet their desired criteria, including location, size and price. Travelers that find properties that meet their requirements through the Company s marketplace are able to contact property owners and managers directly by phone or through form-based communication tools on the Company s websites.

The Company is a Delaware corporation headquartered in Austin, Texas.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of HomeAway, Inc. and all of its wholly and majority owned subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP, for interim financial reporting and applicable quarterly reporting regulations of the Securities and Exchange Commission, or the SEC. All significant intercompany transactions and balances have been eliminated in consolidation. In the opinion of the Company s management, the accompanying interim unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments, consisting of normal recurring adjustments and those items discussed in these Notes, necessary for a fair presentation of the Company s financial position, as of June 30, 2014, the results of operations for the three and six months ended June 30, 2014 and June 30, 2013, the comprehensive income for the three and six months ended June 30, 2014 and June 30, 2013, the cash flows for the six months ended June 30, 2014 and June 30, 2013, and the changes in stockholders equity for the six months ended June 30, 2014. Certain information and disclosures normally included in the notes to the annual financial statements prepared in accordance with GAAP have been omitted from these interim condensed consolidated financial statements pursuant to the rules and regulations of the SEC. Accordingly, these unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2013. Operating results for this interim period are not necessarily indicative of the results that may be expected for the year ending December 31, 2014 or for any other period.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods.

Actual results could differ from those estimates. These differences could have a material effect on the Company s future results of operations and financial position. Significant items subject to estimates and assumptions include certain unbilled revenues, the allowance for doubtful accounts, the fair value of short-term investments, the carrying amounts of goodwill and other indefinite-lived intangible assets, depreciation and amortization, the valuation of stock options, deferred income taxes and the fair value of noncontrolling interests.

Fair Value of Financial Instruments

Fair value is defined as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To increase the comparability of fair value measures, the following hierarchy prioritizes the inputs to valuation methodologies used to measure fair value:

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

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

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

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The following section describes the valuation methodologies used to measure certain financial assets and financial liabilities at fair value.

Cash Equivalents, Restricted Cash and Short-Term Investments

The Company s cash equivalents, restricted cash and short-term investments classified as Level 1 are valued using quoted prices generated by market transactions involving identical assets. Short-term investments classified as Level 2 are valued using non-binding market consensus prices that are corroborated with observable market data; quoted market prices for similar instruments in active markets; or pricing models, such as a discounted cash flow model, with all significant inputs derived from or corroborated with observable market data. The Company did not hold any cash equivalents, restricted cash or short-term investments categorized as Level 3 as of June 30, 2014 or December 31, 2013.

Short-term investments include certificates of deposit, corporate bonds, municipal bonds and commercial paper and are classified as available-for-sale and reported at fair value using the specific identification method. Unrealized gains and losses are excluded from earnings and reported as a component of other comprehensive income (loss), net of related estimated tax provisions or benefits. Additionally, the Company periodically assesses whether an other than temporary impairment loss on investments has occurred due to declines in fair value or other market conditions. Declines in fair value that are considered other than temporary are recorded as an impairment in the consolidated statement of operations. The Company did not record any impairments of its investments for any of the periods presented.

The carrying amounts of certain of the Company s financial instruments, including cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable, accrued liabilities and deferred revenue approximate fair value because of the relatively short maturity of these instruments.

The following table summarizes the basis used to measure certain financial assets at fair value on a recurring basis in the Company s consolidated balance sheets at June 30, 2014 (in thousands):

	Balance as of June 30, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash equivalents				
Money market funds	$ 353,674	$ 353,674	$	$
Corporate and municipal bonds	11,094		11,094	
Total cash equivalents	364,768	353,674	11,094	
Restricted cash				
Money market funds	1,618	1,618		
Total restricted cash	1,618	1,618		
Short-term investments				

Certificates of deposit		20,958				20,958	
Corporate bonds		208,050				208,050	
Municipal bonds		46,604				46,604	
Commercial paper		23,984				23,984	
Total short-term investments		299,596				299,596	
Total financial assets	$	665,982	$	355,292	$	310,690	$

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The following table summarizes the basis used to measure certain financial assets at fair value on a recurring basis in the Company s consolidated balance sheets at December 31, 2013 (in thousands):

	Balance as of December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash equivalents				
Money market funds	$ 26,451	$ 26,451	$	$
Total cash equivalents	26,451	26,451		
Restricted cash				
Money market funds	758	758		
Total restricted cash	758	758		
Short-term investments				
Certificates of deposit	2,054		2,054	
Corporate bonds	33,257		33,257	
Municipal bonds	31,487		31,487	
Total short-term investments	66,798		66,798	
Total financial assets	$ 94,007	$ 27,209	$ 66,798	$

Business Segment

The Company has one operating segment consisting of various products and services related to its online marketplace of accommodation rental listings. The Company s chief operating decision maker is considered to be the Chief Executive Officer. The chief operating decision maker allocates resources and assesses performance of the business and other activities at the single operating segment level.

Cash and Cash Equivalents

Cash and cash equivalents include investments in money market funds, corporate and municipal bonds and certificates of deposit that are readily convertible into cash. Cash and cash equivalents are stated at cost, which approximates fair value. The Company considers all highly liquid investments purchased with an original maturity date of three months or less to be cash equivalents. Cash and cash equivalents consisted of the following at June 30, 2014 and December 31, 2013 (in thousands):

	June 30, 2014	December 31, 2013

Demand deposit accounts	$ 128,185	$ 298,157
Money market funds	353,674	26,451
Corporate and municipal bonds	11,094	
Total	$ 492,953	$ 324,608

Restricted Cash

Restricted cash of $1,618,000 and $2,180,000 at June 30, 2014 and December 31, 2013, respectively, was held in accounts owned by the Company in conjunction with property license requirements and leased office space and to secure credit card availability and reimbursable direct debits due from the Company.

Short-term Investments

Short-term investments generally consist of marketable securities that have original maturities greater than ninety days as of the date of purchase. Investments in which the Company has the ability and intent, if necessary, to liquidate in order to support its current operations, including those with contractual maturities greater than one year from the date of purchase, are classified as short-term. The Company s investment securities are classified as available-for-sale and are presented at estimated fair value with any unrealized gains and losses included in other comprehensive income (loss).

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Cash flows from purchases, sales and maturities of available-for-sale securities are classified as cash flows from investing activities and reported gross, including any related premiums or discounts. Premiums related to purchases of available-for-sale securities were $3,168,000 and $6,435,000 during the six months ended June 30, 2014 and 2013, respectively. Fair values are based on quoted market prices. Short-term investments consisted of the following at June 30, 2014 and December 31, 2013 (in thousands):

	June 30, 2014			
	Gross Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Certificates of deposit	$ 20,959	$	$ (1)	$ 20,958
Corporate bonds	208,278	32	(260)	208,050
Municipal bonds	46,541	69	(6)	46,604
Commercial paper	23,984			23,984
Total short-term investments	$ 299,762	$ 101	$ (267)	$ 299,596

	December 31, 2013			
	Gross Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Certificates of deposit	$ 2,055	$	$ (1)	$ 2,054
Corporate bonds	33,274	33	(50)	33,257
Municipal bonds	31,486	16	(15)	31,487
Total short-term investments	$ 66,815	$ 49	$ (66)	$ 66,798

For fixed income securities that have unrealized losses as of June 30, 2014, the Company does not intend to sell any of these investments and it is not more likely than not that it will be required to sell any of these investments before recovery of the entire amortized cost basis. The Company has evaluated these fixed income securities and determined that no credit losses exist. Accordingly, the Company has determined that the unrealized losses on fixed income securities as of June 30, 2014 are temporary in nature.

The following table summarizes the contractual underlying maturities of the Company s short-term investments at June 30, 2014 and December 31, 2013 (in thousands):

	June 30, 2014		
	Less than 12 Months	12 Months or Greater	Total
Certificates of deposit	$ 20,709	$ 249	$ 20,958

Corporate bonds	134,901	73,149	208,050
Municipal bonds	18,301	28,303	46,604
Commercial paper	23,984		23,984
Total short-term investments	$ 197,895	$ 101,701	$ 299,596

	December 31, 2013		
	Less than 12 Months	12 Months or Greater	Total
Certificates of deposit	$ 500	$ 1,554	$ 2,054
Corporate bonds	11,164	22,093	33,257
Municipal bonds	3,031	28,456	31,487
Total short-term investments	$ 14,695	$ 52,103	$ 66,798

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Non-marketable Cost Investment

During the six months ended June 30, 2014, the Company invested an additional $9,385,000 for a non-controlling equity interest in a privately-held company in China. As of June 30, 2014, the total carrying value of the Company s investment in the privately-held company was $19,498,000. The Company s investment in the privately-held company is reported using the cost method of accounting or marked down to fair value when an event or circumstance indicates an other-than-temporary decline in value has occurred. No event or circumstance indicating an other-than-temporary decline in value of the Company s interest in the non-marketable cost investment was identified. This investment is recorded in other non-current assets on the consolidated balance sheets.

Accounts Receivable

Accounts receivable are primarily generated from three sources. Amounts due from credit card merchants who process the Company s credit card sales from property listings and remit the proceeds to the Company are the primary source of accounts receivable. Accounts receivable are also generated from Internet display advertising amounts due in the ordinary course of business as well as amounts due to the Company for property listings, other products purchased on account or amounts due from partners who provide products and services such as advertising the properties of our property owners and managers on their websites, insurance products and payment processing services. Accounts receivable from Internet display advertising revenue and products purchased on account are recorded at the invoiced amount and are non-interest bearing. Accounts receivable outstanding longer than the contractual payment terms are considered past due. The Company determines its allowance for doubtful accounts by estimating losses on receivables based on known troubled accounts and historical experiences of losses incurred.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Computer equipment and purchased software are generally depreciated over three years. Furniture and fixtures are generally depreciated over five to ten years. Leasehold improvements are depreciated on a straight-line basis over the shorter of the contractual lease period or their estimated useful life. Upon disposal, property and equipment and the related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in the statements of operations. Ordinary maintenance and repairs are charged to expense, while expenditures that extend the physical or economic life of the assets are capitalized.

The Company capitalizes certain internally developed software and website development costs. These capitalized costs were approximately $34,440,000 and $30,523,000 at June 30, 2014 and December 31, 2013, respectively, and are included in property and equipment, net, in the consolidated balance sheets. Internally developed software costs are generally depreciated over five years.

The Company recorded depreciation expense on internally developed software and website development costs as follows for the three and six months ended June 30, 2014 and 2013 (in thousands):

	Three Months Ended June 30,	**Six Months Ended June 30,**

	2014	2013	2014	2013
Depreciation expense on internally developed software and website development costs	$ 1,323	$ 1,020	$ 2,617	$ 1,752

Goodwill and Intangible Assets

Goodwill arises from business combinations and is measured as the excess of the purchase consideration over the sum of the acquisition-date fair values of tangible and identifiable intangible assets acquired, less any liabilities assumed. While the Company uses the best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date, the Company s estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, adjustments to the assets acquired and liabilities assumed are recorded with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the consolidated statements of operations.

Goodwill and intangible assets deemed to have indefinite useful lives, such as certain trade names, are not amortized. Tests for impairment of goodwill and indefinite-lived intangible assets are performed on an annual basis or when events or circumstances indicate that the carrying amount may not be recoverable.

Circumstances that could trigger an impairment test outside of the annual test include but are not limited to: a significant adverse change in the business climate or legal factors; adverse cash flow trends; an adverse action or assessment by a regulator; unanticipated competition; loss of key personnel; decline in stock price; and the results of tests for recoverability of a significant asset group. The Company determined that no triggering event occurred during any of the periods presented.

For goodwill and indefinite lived intangible assets, the Company completes what is referred to as the Step 0 analysis, which involves evaluating qualitative factors, including macroeconomic conditions, industry and market considerations, cost factors, and overall financial performance related to its goodwill and its indefinite lived intangible assets. If the Company s Step 0 analysis indicates that it is more likely than not that the fair value of a reporting unit or of an indefinite lived intangible asset is less than its carrying amount, then the Company would perform a quantitative two-step impairment test. The quantitative analysis compares the fair value of the Company s reporting unit or indefinite-lived intangible assets to its carrying amount, and an impairment loss is recognized equivalent to the excess of the carrying amount over fair value. If, after assessing the totality of events or circumstances, the Company determines that it is more likely than not that the fair value of a reporting unit or indefinite lived intangible asset exceeds its carrying amount, then the quantitative impairment tests are unnecessary.

The Company performs an evaluation of goodwill and indefinite-lived intangible assets for impairment annually in October.

The determination of whether or not goodwill or indefinite-lived intangible assets have become impaired involves a significant level of judgment. Changes in the Company s strategy and/or market conditions could significantly impact these judgments and require adjustments to recorded amounts of goodwill or intangible assets.

No impairment of goodwill or indefinite-lived intangible assets was identified in any of the periods presented.

Identifiable intangible assets consist of trade names, customer listings, technology, domain names and contractual non-competition agreements associated with acquired businesses. Intangible assets with finite lives are amortized over their estimated useful lives on a straight-line basis and reviewed for impairment whenever events or changes in circumstances indicate that an asset s carrying value may not be recoverable (see Note 4). The straight-line method of amortization represents the Company s best estimate of the distribution of the economic value of the identifiable intangible assets.

Impairment of Long-lived Assets

The Company evaluates long-lived assets held for use, such as property and equipment, for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when estimated future undiscounted cash flows expected to result from the use of the asset plus net proceeds expected from disposition of the asset, if any, are less than the carrying value of the asset. When an impairment loss is recognized, the carrying amount of the asset is reduced to its estimated fair value in the period in which the determination is made. No material impairments of long-lived assets have been recorded during any of the periods presented.

Leases

The Company leases facilities in several countries around the world and certain equipment under non-cancelable lease agreements. The terms of certain lease agreements provide for rental payments on a graduated basis. Rent expense is recognized on a straight-line basis over the lease period and accrued as rent expense incurred but not paid.

Revenue Recognition

The Company recognizes revenue when persuasive evidence of an agreement exists, delivery has occurred, the sales price is fixed or determinable and collectability is reasonably assured.

The Company generates a significant portion of its revenue from customers purchasing online advertising services related to the listing of their properties for rent, primarily on a subscription basis over a fixed-term. The Company also generates revenue based on the number of traveler inquiries and reservation bookings for property listings on the Company s websites, local and national Internet display advertisers, license of property management software and ancillary products and services.

Payments for term-based subscriptions received in advance of services being rendered are recorded as deferred revenue and recognized on a straight-line basis over the listing period.

Revenue for inquiry-based contracts are determined on a fixed fee-per-inquiry as stated in the arrangement and recognized when the service has been performed.

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The Company earns commission revenue for reservations made online through its websites, which is calculated as a percentage of the value of the reservation. This revenue is earned as the services are performed or as the customers refund privileges lapse and is included in listing revenue in the consolidated statement of operations.

Internet display advertising revenue is generated primarily from advertisements appearing on the Company s websites. There are several types of Internet advertisements, and the way in which advertising revenue is earned varies among them. Depending upon the terms, revenue might be earned each time an impression is delivered, each time a user clicks on an ad, each time a graphic ad is displayed, or each time a user clicks-through on the ad and takes a specified action on the destination site.

The Company sells gift cards with no expiration date to travelers and does not charge administrative fees on unused cards. There is a portion of the gift card obligation that, based on historical redemption patterns, will not be used by the Company s customers and is not required to be remitted to relevant jurisdictions (breakage). At the point of sale, the Company recognizes breakage as deferred revenue and amortizes it over 48 months based on historical redemption patterns. The Company also records commission revenue for each gift card sale over the same 48-month redemption period.

Through its professional software for bed and breakfasts and professional property managers, the Company makes selected, online bookable properties available to online travel agencies and channel partners. The Company receives a percentage of the transaction value or a fee from the property manager for making this inventory available, which is recognized when earned. This revenue is included in other revenue in the consolidated statement of operations.

The Company generates revenue from the licensing of software products, the sale of maintenance agreements and the sale of hosted software solutions. For software license sales, one year of maintenance is typically included as part of the initial purchase price of the bundled offering with annual renewals of the maintenance component of the agreement following in subsequent years.

The Company recognizes revenue from the sale of perpetual licenses upon delivery, which generally occurs upon electronic transfer of the license key that makes the product available to the purchaser.

As software is usually sold with maintenance, the amount of revenue allocated to the software license is determined by estimating the fair value of the maintenance and subtracting it from the total invoice or contract amount. Vendor-specific objective evidence, or VSOE, of the fair value of maintenance services is determined by the standard published list pricing for maintenance renewals, as the Company generally charges list prices for maintenance renewals. In determining VSOE, the Company requires that a substantial majority of the selling price for maintenance services fall within a reasonably narrow pricing range. Maintenance and support revenue is recognized ratably over the term of the agreement beginning on the activation date. Amounts that have been invoiced are recorded in accounts receivable and in deferred revenue or revenue, depending on whether the revenue recognition criteria have been met.

Sales of hosted software solutions are generally for a one-year period. Revenue is recognized on a straight-line basis over the contract term. Certain implementation services related to the hosting services are essential to the customer s use of the hosting services. For sales of these hosting services where the Company is responsible for implementation, the Company recognizes implementation revenue ratably over the estimated period of the hosting relationship, which the Company considers to be three years. Recognition starts once the product has been made available to the customer.

Training and consulting revenue is recognized upon delivery of the training or consulting services to the end customer.

The Company accounts for sales incentives to customers as a reduction of revenue at the time that the revenue is recognized from the related product sale. The Company also reports revenue net of any sales tax collected.

Stock-Based Compensation

The cost of stock-based compensation is recognized in the financial statements based upon the estimated grant date fair value of the awards measured using the Black Scholes valuation model. The fair value of restricted stock awards and units is determined based on the number of shares granted and the fair value of the Company s common stock as of the grant date. Fair value is generally recognized as an expense on a straight-line basis, net of estimated forfeitures, over the employee requisite service period. When estimating forfeitures, the Company considers voluntary termination behaviors as well as trends of actual option forfeitures.

The Company uses the with and without approach in determining the order in which tax attributes are utilized. As a result, the Company only recognizes a tax benefit from stock-based awards in additional paid-in capital if an incremental tax benefit is realized after all other tax attributes currently available to the Company have been utilized. When tax deductions from stock-based awards are less than the cumulative book compensation expense, the tax effect of the resulting difference is charged first to additional paid-in capital to the extent of the Company s pool of windfall tax benefits with any remainder recognized in income tax expense. The Company has determined that it has a sufficient windfall pool available and therefore no amounts have been recognized in income tax expense. In addition, the Company accounts for the indirect effects of stock-based awards on other tax attributes through the consolidated statements of operations.

The benefits of tax deductions in excess of recognized compensation costs are reported as financing cash inflows, but only when such excess tax benefits are realized by a reduction to current taxes payable.

The following table summarizes the excess tax (expense) benefit that the Company recorded for the three and six months ended June 30, 2014 and 2013 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Excess tax (expense) benefit from stock-based compensation	$ (2,358)	$ 2,887	$ 1,221	$ 4,245

This tax benefit has been recorded as additional paid-in capital on the Company s consolidated balance sheets.

Income Taxes

The Company recognizes income taxes using an asset and liability approach. This approach requires the recognition of deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the Company s consolidated financial statements or tax returns. The measurement of deferred taxes is based on provisions of the enacted tax law and the effects of future changes in tax laws or rates are not anticipated. A valuation allowance is recognized if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized. Evaluating the need for an amount of a valuation allowance for deferred tax assets requires significant judgment and analysis of the positive and negative evidence available, including past operating results, estimates of future taxable income, reversals of existing taxable temporary differences and the feasibility of tax planning in order to determine whether all or some portion of the deferred tax assets will not be realized. Based on the available evidence and judgment, the Company has determined that it is more likely than not that certain loss carryforwards will not be realized; therefore, the Company has established a valuation allowance for such deferred tax assets to reduce the loss carryforward assets to amounts expected to be utilized.

The Company may be subject to income tax audits by the respective tax authorities in any or all of the jurisdictions in which the Company operates. The Company is currently undergoing an audit at its subsidiary in the United Kingdom. Significant judgment is required in determining uncertain tax positions. The Company recognizes the benefit of uncertain income tax positions only if these positions are more likely than not to be sustained. Also, the recognized income tax benefit is measured at the largest amount that is more than 50% likely of being realized. The Company adjusts these reserves in light of changing facts and circumstances, such as the closing of an audit or the refinement of an estimate. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest and penalties related to unrecognized tax benefits as a component of income tax expense. The countries in which the Company may be subject to potential examination by tax authorities include Australia, Brazil, Colombia, France, Germany, Italy, the Netherlands, New Zealand, Singapore, Spain, Switzerland, Thailand, the United Kingdom and the United States.

The calculation of the Company s tax liabilities involves the inherent uncertainty associated with the application of complex tax laws. As a multinational corporation, the Company conducts its business in many countries and is subject to taxation in many jurisdictions. The taxation of the Company s business is subject to the application of various and sometimes conflicting tax laws and regulations as well as multinational tax conventions. The Company s effective tax rate is highly dependent upon the geographic distribution of its worldwide earnings or losses, the tax regulations and tax rates in each geographic region, the availability of tax credits and carryforwards, and the effectiveness of its tax planning strategies. The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws themselves are subject to change as a result of changes in fiscal policy, changes in legislation, and the evolution of regulations and court rulings. Consequently, taxing authorities may impose tax assessments or judgments against the Company that could materially impact its tax liability and/or its effective income tax rate. The Company believes it has adequately provided in its financial statements for additional taxes that it estimates may be assessed by the various taxing authorities. While the Company believes that it has adequately provided for all uncertain tax positions, amounts asserted by tax authorities could be greater or less than the Company s accrued position. These tax liabilities, including the interest and penalties, are adjusted pursuant to a settlement with tax authorities, completion of audit, refinement of estimates or expiration of various statutes of limitation.

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Foreign Currency Translation

The functional currency of the Company s foreign subsidiaries is generally their respective local currency. The financial statements of the Company s international operations are translated into U.S. dollars using the exchange rate at each balance sheet date for assets and liabilities, the historical exchange rate for stockholders equity, and a weighted average exchange rate for each period for revenue, expenses, and gains and losses. Foreign currency translation adjustments are recorded as a separate component of stockholders equity. Gains and losses from foreign currency denominated transactions are recorded in other income (expense) in the Company s consolidated statements of operations.

The following table summarizes the foreign exchange gain (loss) that the Company recorded for the three and six months ended June 30, 2014 and 2013 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
Foreign exchange gain (loss)	$ (2,464)	$ 67	$ (4,990)	$ (1,468)

Derivative Financial Instruments

As a result of the Company s international operations, it is exposed to various market risks that may affect its consolidated results of operations, cash flows and financial position. These market risks include, but are not limited to, fluctuations in currency exchange rates. The Company s primary foreign currency exposures are in Euros, British Pound Sterling and Australian Dollars. As a result, the Company faces exposure to adverse movements in currency exchange rates as the financial results of its operations are translated from local currency into U.S. dollars upon consolidation. Additionally, foreign exchange rate fluctuations on transactions denominated in currencies other than the functional currency result in gains and losses that are reflected in other income (expense) in the Company s consolidated statements of operations.

The Company may enter into derivative instruments to hedge certain net exposures of nonfunctional currency denominated assets and liabilities, primarily related to intercompany loans, even though it does not elect to apply hedge accounting or hedge accounting does not apply. Gains and losses resulting from a change in fair value for these derivatives are reflected in the period in which the change occurs and are recognized on the consolidated statement of operations in other income (expense). Cash flows from these contracts are classified within cash flows from investing activities on the consolidated statements of cash flows.

The Company does not use financial instruments for trading or speculative purposes. The Company recognizes all derivative instruments on the balance sheet at fair value and its derivative instruments are generally short-term in duration. The Company is exposed to the risk that counterparties to derivative contracts may fail to meet their contractual obligations.

The following tables show the fair value and notional principal amounts of the Company s outstanding or unsettled derivative instruments that are not designated as hedging instruments at June 30, 2014 and December 31, 2013 (in thousands). In addition to the notional amounts listed below, the Company also had $170,000,000 of derivatives entered into on June 30, 2014 that had a fair value of zero on June 30, 2014.

	Balance Sheet Caption	June 30, 2014 Significant Other Observable Inputs (Level 2) Gross Amount of Recognized Assets/Liabilities	Gross Amounts Offset in the Balance Sheet	Net Amount Presented in the Balance Sheet	U.S. Dollar Notional
Foreign exchange-forward contracts (current)	Prepaid expenses and other current assets	$ 274	$	$ 274	$ 26,592
Foreign exchange-forward contracts (current)	Accrued expenses	(6,494)	2,159	(4,335)	616,669
	Total	$ (6,220)	$ 2,159	$ (4,061)	$ 643,261

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	Balance Sheet Caption	December 31, 2013 Significant Other Observable Inputs (Level 2) Gross Amount of Recognized Assets/Liability	Gross Amounts Offset in the Balance Sheet	Net Amount Presented in the Balance Sheet	U.S. Dollar Notional
Foreign exchange-forward contracts (current)	Prepaid expenses and other current assets	$ 363	$	$ 363	$ 20,520
Foreign exchange-forward contracts (current)	Accrued expenses	(979)		(979)	84,292
	Total	$ (616)	$	$ (616)	$ 104,812

Net Income Per Share Attributable to HomeAway, Inc.

Basic net income per share is computed by dividing net income attributable to HomeAway, Inc. by the weighted average number of common shares outstanding during the period. Diluted income per share is computed by dividing net income attributable to HomeAway, Inc. by the weighted average common shares outstanding plus potentially dilutive common shares. The dilutive effect of outstanding options, warrants and awards is reflected in diluted earnings per share by application of the treasury stock method.

Restricted stock awards provide the holder of unvested shares the right to participate in dividends declared on the Company s common stock. Accordingly, these shares are included in the weighted average shares outstanding for the computation of basic earnings per share in periods of undistributed earnings. Restricted stock awards are excluded from the basic earnings per share in periods of undistributed losses as the holders are not contractually obligated to participate in the losses of the Company. Unvested restricted stock units do not provide the holder the right to participate in dividends declared on the Company s common stock. Accordingly, these shares are excluded in the weighted average shares outstanding for the computation of basic earnings per share in periods of undistributed earnings or losses.

Comprehensive Income (Loss) Attributable to HomeAway, Inc.

Comprehensive income (loss) attributable to HomeAway, Inc. consists of net income (loss), cumulative foreign currency translation adjustments, unrealized gain (loss) on available-for-sale securities and comprehensive income (loss) attributable to noncontrolling interests.

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (FASB) issued amended guidance for reporting discontinued operations and disposals of components of an entity. The amended guidance requires that a disposal representing a strategic shift that has or will have a major effect on an entity s financial results, or a business activity classified as held for sale, should be reported as discontinued operations. This new guidance also expands the disclosure requirements for discontinued operations and adds new disclosures for individually significant dispositions that do not qualify as discontinued operations. The amended guidance is effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2014. Early adoption is permitted only for disposals that have not been previously reported. This guidance is not expected to have a material impact on the Company s consolidated financial position or results of operations.

In May 2014, the FASB issued Accounting Standard Update (ASU) No. 2014-09, Revenue from Contracts with Customers, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. Early adoption is not permitted. The updated standard is effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2016. The Company has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

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3. Business Combinations

Glad to Have You, Inc.

In March 2014, the Company acquired Glad to Have You, Inc. (Glad To Have You), a United States company that is the creator of a mobile guest management solution for the vacation rental industry, for cash consideration of approximately $16,791,000. The direct acquisition costs incurred by the Company were not significant to the Company s operating results, and all such costs were expensed as incurred and included in general and administrative expenses in the consolidated statement of operations.

Of the total consideration paid, $250,000 of the cash consideration was deposited in escrow as security for the benefit of the Company against breaches of representations and warranties, covenants and certain other expressly enumerated matters by the sellers. The escrow funds not used to satisfy such seller obligations will be released to the sellers two business days following the first anniversary date of the acquisition. In addition, $250,000 of the total cash consideration was deposited in escrow as security and pending final net working capital related purchase price adjustments. The net working capital related escrow funds were released in June 2014.

The acquired goodwill primarily represents synergies associated with adding Glad To Have You s mobile applications to the Company s marketplace of websites to provide property owners and managers with an additional way to manage and communicate with guests during their stay. Goodwill is not deductible for tax purposes. The acquired trade name has an estimated useful life of 10 years from the date of acquisition, the developed technology has an estimated useful life of 5 years from the date of acquisition and the customer relationships have an estimated useful life of 10 years from the date of acquisition. Non-compete agreements have an estimated useful life of 3 years. The total weighted average amortization period for the intangibles acquired is 7 years.

The results of Glad To Have You have been included in the Company s consolidated results since the acquisition date in March 2014. Pro forma results of operations related to this acquisition have not been presented since Glad To Have You s operating results up to the date of acquisition were not material to the Company s consolidated financial statements.

The following table summarizes the Company s acquisition during the six months ended June 30, 2014, with amounts shown below as fair values at the acquisition date (in thousands):

		Glad to Have You, Inc.
Net tangible assets (liabilities) acquired		
Cash	$	25
Deferred revenue		(65)
Other		17
Total net tangible assets (liabilities) acquired		(23)
Deferred tax liabilities		(1,653)
Trade name		1,177
Developed technology		3,760
Customer relationships		1,643
Goodwill		11,647
Non-competition agreements		240

Purchase price		16,791
Less: Cash acquired		(25)
Net purchase price	$	16,766

Tangible net assets (liabilities) were valued at their respective carrying amounts, which the Company believes approximate their current fair values at the respective acquisition dates.

The valuation of identifiable intangible assets acquired reflects management s estimates based on, among other factors, use of established valuation methods. The value of the acquired trade names was determined using a relief from royalty method. Developed technology was valued on a combination of the income and market approach. Customer relationships were valued by projecting the estimated cash flow from the Company s existing customer relationships. Non-competition agreements have been valued based on the present value of estimated future cash flows with and without this asset. Identifiable intangible assets with definite lives are amortized over the period of estimated benefit using the straight-line method and the estimated useful lives of three to ten years. The straight-line method of amortization represents the Company s best estimate of the distribution of the economic value of the identifiable intangible assets. Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired.

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Stayz

In December 2013, the Company acquired 100% of the outstanding stock of Stayz Pty Limited (Stayz), the leading online vacation rental marketplace in Australia, for total consideration of approximately $197,820,000. Consideration included $196,739,000 in cash paid directly to the sellers and $1,081,000 paid to the sellers in April 2014 based on completed working capital purchase price adjustments pursuant to the purchase agreement. The Company incurred approximately $3,802,000 in direct acquisition costs, all of which were expensed as incurred, and are included in general and administrative expenses in the consolidated statement of operations. The Company also entered into certain transitional service agreements with the prior owners of Stayz to have accounting, infrastructure and support services provided to the Company for a defined period of time in 2014. Amounts paid for these services are recorded as incurred and are included in the Company s consolidated results as general and administrative expenses.

The following unaudited pro forma supplemental information presents an aggregated summary of the results of operations of the Company for the three and six months ended June 30, 2013 and the year ended December 31, 2013, assuming the completion of the 2013 acquisition of Stayz occurred on January 1, 2012 (in thousands).

The unaudited pro forma supplemental information is based on estimates and assumptions that the Company believes are reasonable. Accordingly, the Company adjusted the pro forma results for quantifiable items such as direct acquisition costs, amortization of acquired intangible assets and the estimated tax provision of the pro form combined results. Further, the Company has revised the pro forma revenue and net income for the year ended December 31, 2013 by a decrease of $1.9 million and $1.3 million, respectively, based on adjustments of certain estimates, as the Company obtained additional information about the facts and circumstances that existed as of the acquisition date. The average foreign exchange rate during each of the presented years was used in preparing the supplemental information. The unaudited pro forma supplemental information prepared by the Company is not necessarily indicative of the results expected in future periods or the results that actually would have been realized had the acquired business and the Company been a combined company during the specified periods.

	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013	Year Ended December 31, 2013
Pro forma total revenue	$ 92,086	$ 179,445	$ 370,620
Pro forma net income	6,980	13,944	28,687

4. Goodwill and Other Intangible Assets

Goodwill

Changes in the Company s goodwill balance for the year ended December 31, 2013 and the six months ended June 30, 2014 are summarized in the table below (in thousands):

Balance at December 31, 2012	$ 312,412
Acquired in business combinations	198,124
Foreign currency translation adjustment	(2,925)
Balance at December 31, 2013	507,611
Acquired in business combinations	11,647

Foreign currency translation adjustment	12,450
Post-acquisition goodwill adjustment for the Stayz acquisition	511
Balance at June 30, 2014	$ 532,219

Pursuant to its goodwill and intangible assets accounting policy, the Company records goodwill adjustments for the effect on goodwill of changes to net assets and liabilities acquired during the measurement period (up to one year from the date of an acquisition). The goodwill arising from the Stayz acquisition was increased by $511,000 up to $178,288,000 due to certain income taxes and changes in fair value estimates derived from additional information gained during the measurement period. Goodwill adjustments were not significant to the Company s previously reported operating results or financial position. Therefore, the Company elected not to retrospectively adjust the acquisition date accounting and instead recorded the adjustment in the six months ended June 30, 2014.

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Intangible Assets

The Company s intangible assets, excluding goodwill, consist of intangible assets acquired primarily in business combinations and were recorded at their estimated fair values on the date of acquisition. The finite-lived intangible assets that are being amortized are summarized in the table below (in thousands):

		June 30, 2014			December 31, 2013		
	Useful Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trade names and trademarks	10	$ 31,896	$ (6,694)	$ 25,202	$ 30,066	$ (5,050)	$ 25,016
Developed technology	2-8	35,495	(25,436)	10,059	31,513	(23,646)	7,867
Customer relationships	6-14	83,137	(44,894)	38,243	80,510	(41,739)	38,771
Noncompete agreements and domain names	2-5	5,509	(3,634)	1,875	5,163	(3,181)	1,982
Total		$ 156,037	$ (80,658)	$ 75,379	$ 147,252	$ (73,616)	$ 73,636

Amortization of noncompete agreements is recorded over the term of the agreements.

The following table summarizes the amortization expense that the Company recorded for the three and six months ended June 30, 2014 and 2013 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Amortization expense	$ 3,492	$ 2,995	$ 6,766	$ 6,175

The Company has the following indefinite-lived intangible assets recorded in its consolidated balance sheet as of June 30, 2014 and December 31, 2013, respectively (in thousands):

	June 30, 2014	December 31, 2013
Trademarks, trade names and other	$ 7,029	$ 7,029

5. Accrued Expenses

The Company s accrued expenses are comprised of the following at June 30, 2014, and December 31, 2013 (in thousands):

	June 30, 2014	December 31, 2013
Compensation and related benefits	$ 17,688	$ 21,700
Gift cards	5,067	6,090
Contracting, consulting and professional fees	3,052	4,494
Taxes	6,411	3,425
Marketing	6,569	3,197
Foreign exchange forward contracts	4,335	979
Traveler guarantee liability	1,821	956
Other	8,675	13,784
Total	$ 53,618	$ 54,625

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6. Convertible Senior Notes

Convertible Senior Notes

(In thousands)	Par Value	Equity Component Recorded at Issuance	Liability Component of Par Value as of June 30, 2014	Liability Component of Par Value as of December 31, 2013
0.125% Convertible Senior Notes due April 1, 2019	$ 402,500	$ 90,887(1)	$ 307,360	$

(1) This amount represents the equity component recorded at the initial issuance of the 0.125% convertible senior notes.

In March 2014, the Company issued at par value $402.5 million of 0.125% convertible senior notes (the Notes) due April 1, 2019, unless earlier purchased by the Company or converted. Interest is payable semi-annually, in arrears on April 1 and October 1 of each year commencing October 1, 2014.

The Notes are governed by an indenture between the Company, as issuer, and U.S. Bank National Association, as trustee. The Notes are unsecured and do not contain any financial covenants or any restrictions on the payment of dividends, the incurrence of senior debt or other indebtedness, or the issuance or repurchase of securities by the Company.

If converted, holders will receive cash and/or shares of the Company s common stock, at the Company s election. The Company s intent is to settle the principal amount of the Notes in cash upon conversion. As a result, upon conversion of the Notes, only the amounts payable in excess of the principal amounts of the Notes are considered in diluted earnings per share under the treasury stock method.

	Conversion Rate per $1,000 Par Value	Initial Conversion Price per Share	Free Convertibility Date
0.125% Senior Notes	19.1703	$ 52.16	October 1, 2018

Throughout the term of the Notes, the conversion rate may be adjusted upon the occurrence of certain events as described in the indenture governing the Notes. Holders of the Notes will not receive any cash payment representing accrued and unpaid interest upon conversion of a Note. Accrued but unpaid interest will be deemed to be paid in full upon conversion rather than cancelled, extinguished or forfeited. Holders may convert their Notes under the following circumstances:

during any calendar quarter commencing after June 30, 2014, if, for at least 20 trading days during the 30 consecutive trading day period ending on the last trading day of the immediately preceding calendar quarter, the last reported sales price of the Company s common stock for such trading day is greater than or equal to

130% of the applicable conversion price for the Notes on each applicable trading day;

during the five business day period after any five consecutive trading day period in which the trading price per $1,000 principal amount of the Notes is less than 98% of the product of the sale price of the Company s common stock and the conversion rate;

upon the occurrence of specified corporate transactions described under the indenture governing the Notes, such as a consolidation, merger or binding share exchange; or

at any time on or after October 1, 2018.

As of June 30, 2014, the Notes are not yet convertible.

Holders of the Notes have the right to require the Company to purchase with cash all or a portion of the Notes upon the occurrence of a fundamental change, such as a change of control, at a purchase price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest. Following certain corporate transactions that constitute a fundamental change, the Company will increase the conversion rate for a holder who elects to convert the Notes in connection with such make-whole fundamental change.

In accounting for the issuance of the Notes, the Company separated the Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the par value of the Notes as a whole. The excess of the principal amount of the liability component over its carrying amount (debt discount) is amortized to interest expense over the term of the Notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification.

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In accounting for the transaction costs related to the Note issuance, the Company allocated the total amount incurred to the liability and equity components based on their relative values. Transaction costs attributable to the liability component are being amortized to expense over the term of the Notes, and transaction costs attributable to the equity component were netted with the equity component in stockholders equity. Additionally, the Company recorded a deferred tax liability of $0.8 million in connection with the Notes.

The Notes consist of the following (in thousands):

	June 30, 2014	December 31, 2013
Liability component:		
Principal:		
0.125% Senior Notes	$ 402,500	$
Less: debt discount, net		
0.125% Senior Notes	(95,140)	
Net carrying amount	$ 307,360	$

The Notes are included in the consolidated balance sheets within Convertible senior notes, net, which are classified as a noncurrent liability. The debt discount is amortized over the life of the Notes using the effective interest rate method.

The total estimated fair value of the Company s Notes at June 30, 2014 was $315.6 million. The fair value of the Notes was determined based on inputs that are observable in the market (Level 2).

Based on the closing price of the Company s common stock of $34.82 on June 30, 2014, the if-converted value of the Notes was less than their principal amount.

Note Hedges

To minimize the impact of potential economic dilution upon conversion of the Notes, the Company entered into convertible note hedge transactions with respect to its common stock (the Note Hedges).

	Date	Purchase (in thousands)	Shares underlying Note Hedges
Note Hedges	March 2014	$ 85,853	7,716,049

The Note Hedges cover shares of the Company s common stock at a strike price that corresponds to the initial conversion price of the respective Notes, also subject to adjustment, and are exercisable upon conversion of the Notes. The Note Hedges will expire upon the maturity of the Notes. The Note Hedges are intended to reduce the potential economic dilution upon conversion of the Notes in the event that the market value per share of the Company s common stock, as measured under the Notes, at the time of exercise is greater than the conversion price of the Notes. The Note Hedges are separate transactions and are not part of the terms of the Notes. Holders of the Notes will not have any rights with respect to the Note Hedges.

Warrants

	Date	Proceeds (in thousands)	Shares	Strike Price
Warrants	March 2014	$ 38,278	7,716,049	$ 81.14

Separately, in March 2014, the Company also entered into warrant transactions (the Warrants), whereby the Company sold warrants to acquire, subject to anti-dilution adjustments, shares of the Company s common stock at $81.14 per share. The Warrants have a term of five years from the date of issuance. If the average market value per share of the Company s common stock for the reporting period, as measured under the Warrants, exceeds the strike price of the Warrants, the Warrants would have a dilutive effect on the Company s earnings per share if the Company reports net income for fiscal 2014. The Warrants were anti-dilutive for the period ending June 30, 2014. The Warrants are separate transactions, entered into by the Company and are not part of the terms of the Notes or Note Hedges. Holders of the Notes will not have any rights with respect to the Warrants.

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Interest Expense

The following table sets forth total interest expense recognized related to the Notes (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
0.125% coupon	$ 126	$	$ 126	$
Amortization of debt issuance costs	13		13	
Amortization of debt discount	4,316		4,316	
Total	$ 4,455	$	$ 4,455	$

7. Commitments and Contingencies

Leases

The Company leases its facilities and certain office equipment under noncancellable operating leases.

The following table summarizes the total rental expense that the Company recorded for the three and six months ended June 30, 2014 and 2013 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Rental expense	$ 1,783	$ 1,262	$ 3,223	$ 2,494

Guarantees

The Company offers two guarantee products to travelers: Basic Rental Guarantee and Carefree Rental Guarantee. The Basic Rental Guarantee is offered to travelers that book a vacation rental property listed on any one of the Company s websites to protect 50% of their vacation rental payments up to $1,000 against Internet fraud. Travelers may also purchase additional protection to cover 100% of vacation rental payments up to $10,000 against Internet fraud, misrepresentation, wrongful denial of entry, wrongful deposit loss or, beginning in 2012, losses from phishing claims by the purchase of the Carefree Rental Guarantee. The Company does not maintain insurance from any third party for claims under these guarantees, and any amounts payable for claims made under these guarantees are payable by the Company. Amounts recorded for estimated future claims under the guarantees are based on historical experience and estimates of potential future claims are recorded either in cost of revenue or in general and administrative expense in the Company s consolidated statement of operations depending on whether the expense is related to estimated claims under the Basic Rental Guarantee or to the Carefree Rental Guarantee.

Expected future claims for traveler guarantees, which are presented as a current liability in the Company s consolidated balance sheets, and changes for the guarantees are as follows (in thousands):

Traveler guarantee liability at December 31, 2012	$ 566
Costs accrued for new vacation rentals	2,230
Guarantee obligations honored	(1,840)
Traveler guarantee liability at December 31, 2013	$ 956
Costs accrued for new vacation rentals	2,054
Guarantee obligations honored	(1,189)
Traveler guarantee liability at June 30, 2014	$ 1,821

The Company maintains a guarantee of £5,000,000 (approximately $8,557,000 as of June 30, 2014) in favor of a bank in the United Kingdom for extending credit to the Company in connection with the wholly owned United Kingdom subsidiary s business of collecting its subscription revenue in advance via credit card payments.

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Legal

From time to time, the Company is involved in litigation relating to claims arising in the ordinary course of business. The Company assesses its potential liability by analyzing specific litigation and regulatory matters using available information. Views on estimated losses are developed by management in consultation with inside and outside counsel, which involves a subjective analysis of potential results and outcomes, assuming various combinations of appropriate litigation and settlement strategies. After taking all of the above factors into account, the Company determines whether an estimated loss from a contingency related to litigation should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. The Company further determines whether an estimated loss from a contingency related to litigation should be disclosed by assessing whether a material loss is deemed reasonably possible. Such disclosures will include an estimate of the additional loss or range of loss or will state that such an estimate cannot be made.

Management believes that there are no claims or actions pending or threatened against the Company, the ultimate disposition of which would have a material impact on the Company s consolidated financial position, results of operations or cash flows.

8. Stock-Based Compensation

During the three and six months ended June 30, 2014, the Company issued an aggregate of 1,129,158 and 1,248,246 restricted stock units, respectively, under its 2011 Equity Incentive Plan (the 2011 Plan), for an aggregate fair value of $41,287,000 and $46,356,000, respectively. Additionally, during the three and six months ended June 30, 2014, the Company issued an aggregate of 763,584 and 822,155 options, respectively, to purchase common stock under the 2011 Plan for an aggregate fair value of $10,315,000 and $11,291,000, respectively.

The following table summarizes the total stock-based compensation expense that the Company recorded for the three and six months ended June 30, 2014 and 2013 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Cost of revenue	$ 867	$ 827	$ 1,568	$ 1,672
Product development	3,390	2,501	6,104	4,228
Sales and marketing	2,933	2,278	5,105	3,886
General and administrative	5,500	4,530	10,134	7,806
Total	$ 12,690	$ 10,136	$ 22,911	$ 17,592

9. Redeemable Noncontrolling Interests

During the year ended December 31, 2013, the Company acquired 68.5% of the outstanding stock of travelmob Pte. Ltd. and 55% of the outstanding stock of Bookabach Limited. The redeemable noncontrolling interests are reported on the Consolidated Balance Sheets in mezzanine equity in Redeemable noncontrolling interests.

Changes in the Company s redeemable noncontrolling interests for the year ended December 31, 2013 and the six months ended June 30, 2014 are summarized in the table below (in thousands):

Balance at December 31, 2012	$
Fair value at acquisition	10,966
Net loss attributable to noncontrolling interests	(395)
Currency translation adjustments	13
Balance at December 31, 2013	$ 10,584
Net loss attributable to noncontrolling interests	(718)
Currency translation adjustments	17
Balance at June 30, 2014	$ 9,883

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10. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) consists of the following at June 30, 2014 and December 31, 2013, respectively (in thousands):

	June 30, 2014	December 31, 2013
Foreign currency translation	$ 1,602	$ (6,728)
Unrealized losses on short-term investments	(170)	(19)
Total	$ 1,432	$ (6,747)

11. Income Taxes

The following table summarizes the total income tax expense that the Company recorded, and the related effective tax rate, for the three and six months ended June 30, 2014 and 2013 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Income tax expense	$ 2,676	$ 3,286	$ 5,064	$ 4,831
Effective tax rate	43.8%	37.5%	40.0%	31.0%

At June 30, 2014, the Company s effective tax rate estimate for the year ended December 31, 2014 differed from the statutory rate primarily due to the non-deductible stock compensation charges and state taxes, which is partially offset by the benefit of disqualifying dispositions of incentive stock options, adjustments to the recognized value of federal and Texas research and experimentation tax credit carryforwards and the effect of different statutory tax rates in foreign jurisdictions. At June 30, 2013, the Company s effective tax rate estimate for the year ended December 31, 2013 differed from the statutory rate primarily due to non-deductible stock compensation charges, state taxes, amortization of tax charges on the intercompany sale of assets that were deferred in prior periods, which was partially offset by the benefit of disqualifying dispositions of incentive stock options, the effect of different statutory tax rates in foreign jurisdictions, and the federal research and experimentation tax credit.

12. Net Income Per Share Attributable to HomeAway, Inc.

The following table sets forth the computation of basic and diluted net income per share of common stock (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Numerator				
Net income attributable to HomeAway, Inc.	$ 3,867	$ 5,470	$ 8,310	$ 10,765

Denominator				
Weighted average common shares outstanding-basic	93,671	84,920	93,188	84,482
Dilutive effect of stock options, warrants and restricted stock units	2,340	2,727	3,014	2,701
Weighted average common shares outstanding-diluted	96,011	87,647	96,202	87,183
Net income per share:				
Basic	$ 0.04	$ 0.06	$ 0.09	$ 0.13
Diluted	$ 0.04	$ 0.06	$ 0.09	$ 0.12

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The following common equivalent shares were excluded from the calculation of net income per share as their inclusion would have been anti-dilutive (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Stock options	2,565	3,525	1,864	3,368
Restricted stock units	841	3	37	467
Warrants	7,716		7,716	
Total common equivalent shares excluded	11,122	3,528	9,617	3,835

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Item 2: Management s Discussion and Analysis of Financial Condition and Results of Operations

Safe Harbor Cautionary Statement

This quarterly report on Form 10-Q contains forward-looking statements that are based on our management s beliefs and assumptions and on information currently available to our management. The statements contained in this quarterly report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may be signified by terms such as anticipates, believes, could, seeks, estimates, expects, intends, may, plans, potential, predicts, projects, should, will, would or similar expressions and the negatives of those terms. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in other documents we file with the Securities and Exchange Commission. Given these risks and uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our management s beliefs and assumptions only as of the date of this quarterly report on Form 10-Q. You should read this quarterly report on Form 10-Q completely and with the understanding that our actual future results may be materially different from what we expect. We hereby qualify our forward-looking statements by these cautionary statements. Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

The following discussion should be read in conjunction with our interim condensed consolidated financial statements contained elsewhere in this quarterly report on Form 10-Q and in our other Securities and Exchange Commission, or SEC, filings including our Annual Report on Form 10-K for the year ended December 31, 2013 and subsequent reports on Form 8-K, which discuss our business in greater detail.

Overview

We operate the world s largest online marketplace for the vacation rental industry. Our marketplace brings together millions of travelers seeking vacation rentals online with hundreds of thousands of property owners and managers of vacation rental properties located in 190 countries around the world. Our portfolio includes leading vacation rental websites in Australia, Brazil, France, Germany, New Zealand, Singapore, Spain, the United Kingdom and the United States. During the three and six months ended June 30, 2014, according to our internal metrics, our websites attracted approximately 230 million and 475 million website visits, respectively, and as of June 30, 2014, our global marketplace included over one million paid listings.

In the second quarter of 2014, consistent with our stated strategy, we focused our efforts on providing the largest selection of properties to travelers and the most qualified inquiries and bookings to property owners and managers. We added over 265,000 paid listings, net of non-renewals, to our network from June 30, 2013 to June 30, 2014, representing a 34.2% growth rate over the comparable prior year period.

Historically, property owners and managers have paid us to list on our marketplace by paying for a subscription that generally is for an annual period. Our listing business, which is made up largely of subscription listings, comprises the majority of our revenues at 82.7% for both the three and six months ended June 30, 2014, as compared to 84.8% and 84.5% for the three and six months ended June 30, 2013, respectively. We continued to improve monetization of our paid listing base from pricing and product changes through continued adoption of our tiered pricing structure, where available, and from an increase in purchases by property owners and managers of bundled listings products. This improved monetization can be seen in the increase of our average revenue per subscription listing from $416 in the second quarter of 2013 to $473 in the second quarter of 2014. For the three and six months ended June 30, 2014, average revenue per subscription listing, excluding the impact of foreign exchange rates, increased by 11.5% and 11.1% as compared to the three and six months ended June 30, 2013, respectively. Tiered pricing allows property owners and managers with paid subscriptions to improve their position in search results by purchasing a higher subscription level or tier. We believe property owners and managers increasingly will elect to purchase higher tiers, which would increase average revenue per subscription listing in future periods. At the same time, by keeping base prices low, we believe the number of paid listings can continue to grow. Although we plan to launch tiered pricing on our other websites as well, we may use different strategies as we enter new markets and geographies or attempt to further penetrate the professional property manager market, which could result in lower average revenue per listing.

Enablement of e-commerce on our websites has been and will continue to be a focus for our Company. In the second quarter of 2014, we continued to see adoption of our online payments platform, which is currently available on HomeAway.com and VRBO.com in the United States, HomeAway.co.uk in the United Kingdom, Abritel.fr in France and HomeAway.de in Germany. Subscribers are encouraged but not required to use the platform. Those owners and managers who are not fully integrated with our websites, who elect

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to pay by commission, are required to accept bookings and payments online via the platform. Using this platform enables property owners and managers to respond to and manage inquiries, prepare and send rental quotes and payment invoices. It also allows travelers to book online, including via online rental agreements and to process online payments via credit card or eCheck. Additionally in some countries, property owners and managers can make value-added products available for purchase. We believe that adoption and increased use of our payments platform over time will allow us to earn more revenue from ancillary products while providing a more secure and efficient payment mechanism for travelers. We plan to introduce new products and services for travelers, property owners and managers, which we believe will provide further opportunities to generate revenue through our marketplace.

We believe that bringing travelers to our online marketplace is necessary to attract and retain vacation rental owners and managers. It is also critical for us to increase the rate at which travelers book vacation rentals with our property owners and managers. To meet these challenges, which are even more important with the increase in performance-based listings, we are focused on a combination of marketing tactics, including pay-per-click advertising, search engine optimization, and display advertising, with a goal of driving more travelers and bookings to our websites as well as increasing the exposure of the vacation rental category. We are also investing in product enhancements to make it easier for travelers visiting our websites to search and find the right property, to inquire and to book their stay. Online booking enables travelers to reserve a vacation rental directly on any of our listing websites that utilize our platform, rather than requiring correspondence with a property owner or manager to reserve a vacation rental.

Key Financial Highlights

We have achieved significant growth since our commercial launch in 2005. Our revenue growth is attributable to our acquisitions of other online listings businesses, the organic growth in the number of listings that property owners and managers purchase from us, increases in the average revenue we receive per listing due to additional features and price increases, and the introduction of additional products and services related to our marketplace. We view our market opportunity as global and have historically generated strong cash flows. Additionally, we have had predictable financial results because of our advance payment, subscription-based model and our high annual listing renewal rates.

Key financial highlights for the three months ended June 30, 2014 include the following:

- Total revenue was $114.3 million compared to $86.6 million in the second quarter of 2013, or an increase of 31.9%;

- Percentage of total revenue from outside the United States was 42.7% in the second quarter, compared to 39.2% in the second quarter of 2013; total revenue from outside the United States in the second quarter of 2014 included 35.2% from Europe and 7.5% from South America and the Asia Pacific region;

- Listing revenue was $94.5 million compared to $73.4 million in the second quarter of 2013 and contributed 82.7% of total revenue compared to 84.8% in the second quarter of 2013;

- Net income attributable to HomeAway, Inc. was $3.9 million compared to $5.5 million in the second quarter of 2013, or a decrease of 29.3%;

Cash from operating activities was $45.9 million compared to $21.8 million in the second quarter of 2013, or an increase of 110.5%, which includes a positive impact from an excess tax expense as a result of stock-based compensation of $2.4 million compared to a negative impact for an excess tax benefit of $2.9 million in the second quarter of 2013;

Adjusted EBITDA was $33.0 million compared to $24.8 million in the second quarter of 2013, or an increase of 32.7%; Adjusted EBITDA as a percentage of revenue was 28.8%, an increase of approximately 10 basis points from 28.7% in the second quarter of 2013;

Free cash flow was $35.0 million compared to $19.2 million in the second quarter of 2013, or an increase of 82.5%; on a trailing twelve month basis, free cash flow increased 24.7% to $114.2 million from $91.6 million in the comparable trailing twelve month period for the prior year;

Non-GAAP net income was $14.3 million, or $0.15 per diluted share, compared to non-GAAP net income of $14.0 million, or $0.16 per diluted share, in the second quarter of 2013; and

Cash, cash equivalents and short-term investments as of June 30, 2014 were $792.5 million.

For further discussion regarding Adjusted EBITDA, free cash flow and non-GAAP net income, along with reconciliations of such numbers to the most directly comparable financial measures calculated and presented in accordance with GAAP, please see the information under the caption Discussion of Non-GAAP Financial Measures in Item 2 of this Quarterly Report on Form 10-Q.

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Acquisitions

Since our inception, we have acquired 22 businesses as part of our growth strategy. Each of these acquisitions has been accounted for using the acquisition method of accounting. Accordingly, the financial statements for these businesses have been included in our consolidated financial results since the applicable acquisition dates. The most recent acquisition was in March 2014, when we acquired Glad to Have You, Inc. Glad To Have You is the creator of a mobile guest management solution that is designed for property managers and homeowners to improve the way they manage and communicate with guests during their vacation rental stay. We believe that this acquisition will enable us to enhance our travelers vacation rental stay experience and provide our owners and managers with additional tools to help them manage their vacation rentals.

Our acquisitions have presented, and certain of them continue to present, significant integration challenges. They have required us to integrate new operations, offices and employees and to formulate and execute on marketing, product and technology strategies associated with the acquired businesses. In some cases, we continue to manage multiple brands and technology platforms of the acquired businesses, which has increased our cost of operations. Challenges of this nature are likely to arise if we acquire businesses in the future.

Growth Opportunities and Trends

Our ability to continue to grow our revenue will depend largely on increasing the number of paid listings, increasing revenue per listing and increasing revenue from other products and services through our marketplace. This includes our ability to successfully enable e-commerce transactions on our websites, including allowing for online payments and online booking, and commission-based revenue streams for vacation rental listings including pay-per-booking listings. We continually assess opportunities for strategic acquisitions. We also use direct and indirect marketing as well as telesales to reach owners, professional property managers and travelers. We have seen other companies launch online businesses offering vacation rentals or other alternatives to hotels. We believe that the growing awareness of vacation rentals, as a favorable alternative to hotels, has and will continue to support growth of our business. In the future, we believe it will be important for us to not only use marketing to grow the industry, but to also support our brand.

Expenses

Our expenses are primarily composed of salaries and related expenses, marketing and professional fees. Our expenses from year to year may fluctuate due to timing of specific events or projects. We will continue to increase expenses across the organization on an annual basis to support our growth and expect our cost of revenue to grow in absolute dollars but remain consistent as a percentage of revenue in 2014. We expect to incur higher expenses for product development as we record a full year impact of personnel hired in 2013 and as we hire additional personnel to develop new features and products and expect product development expenses to increase as a percentage of revenue in 2014. We expect to incur higher expenses in both absolute dollars and as a percentage of revenue in 2014 for sales and marketing as we continue to build our sales team to address the professional property managers, increase our marketing activities to generate additional traveler demand to support both subscription and performance based listings and continue to build brand and category awareness. The level of increased expenses related to demand driven marketing activities during 2014 will be determined based on the results of those activities. We expect to incur higher expenses in absolute dollars and remain relatively flat as a percentage of revenue in 2014 for general and administrative expenses as we support the growth of our business internationally and the requirements of being a publicly traded company. We plan for additional capital investments in 2014 to support the growth of our business and expect our investment in capital expenditures to increase as a percentage of revenue as compared to 2013, primarily due to the expansion of our office facilities in Austin, Texas. We believe that the reorganization of our global corporate structure will lower our tax expense over the longer term, and we are continuously seeking to optimize tax expense in line with our global expansion plans.

Key Business Metrics

In addition to traditional financial and operational metrics, we use the following business metrics to monitor and evaluate results.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Paid listings, end of period	1,040,547	775,232	1,040,547	775,232
Average revenue per subscription listing	$ 473	$ 416	$ 459	$ 407
Renewal rate, end of period	72.8%	72.4%	72.8%	72.4%
Visits to websites (in millions)	230	201	475	408

Following the migration of VRBO.com to our global technology platform in 2012, property owners and managers that have listings on both HomeAway.com and VRBO.com are able to consolidate their listings into one listing that is displayed on both websites. Additionally, the platform consolidation allows property owners and managers to purchase bundled listings that include display on both HomeAway.com and VRBO.com. As a result, we now count each of these bundled listings as one listing. This impacts the comparability of our current period reported metrics to our previously reported historical metrics for paid listings, renewal rate and average revenue per listing. As it has been over one year since the migration of VRBO.com to our global platform, a majority of customers who had listings on both VRBO.com and HomeAway.com, have consolidated their listings. However, some customers still have listings on both websites. As a result, further consolidations will continue to impact the comparability of our results. In the three months ended June 30, 2014, we migrated Homelidays.com to our global technology platform and expect to see consolidation of subscription listings in the coming year. Furthermore, we expect that there will be future platform migrations for certain of our websites, such as the future migration of Stayz.com.au to our global technology platform. When this occurs, property owners and managers who have purchased subscriptions on the website being migrated as well as other HomeAway websites will be given the opportunity to consolidate their listings through the purchase of a bundled listing. We expect these migrations will also impact comparability of our operating metrics. We will disclose and discuss the trends of the business resulting from these consolidated listings when there is a significant impact to the operating metrics.

As a result of consolidated listings and bundled listings, our paid listing counts will be lower since these listings previously would have been counted as two paid listings had they been purchased on both websites. In the future, as property owners and managers renew their subscriptions into a bundled listing, we will count these as one listing. The lower paid listing counts from consolidations and bundles will in turn lower our reported renewal rate. Additionally, our bundled listing products generally have a higher overall price and will increase our average revenue per listing.

Paid Listings. In the three months ended June 30, 2014 and 2013, 82.7% and 84.8%, respectively, of our revenue was derived from paid listings. We regularly track paid listings as a key revenue growth indicator and to identify trends in our business and industry. From June 30, 2013 to June 30, 2014, paid listings increased by 34.2%, contributing to listing revenue growth of 28.7%. The growth in paid listings is due to our marketing and selling new and additional listings to property owners and managers, the introduction of pay-per-booking listings, listings acquired in acquisitions and organic growth from property owners and managers who become aware of our websites and choose to market their properties. From June 30, 2013 to June 30, 2014, we reduced the number of pay-per-lead listings and added a significant number of pay-per-booking listings, resulting in a net impact of 328.5% ending listing growth from performance-based listings. A portion of the growth in listings came from 2013 acquisitions of travelmob Pte. Ltd. (travelmob), Bookabach Limited (Bookabach) and Stayz, which added approximately 73,000 paid listings to our network, most of which are performance-based listings. Growth in new listings is partially offset by loss of listings through attrition and through consolidations.

Adjusting for the impact of consolidated listings and new bundled listings, we estimate that our paid listing growth would have been approximately 36.3% from June 30, 2013 to June 30, 2014. We do not expect these changes to have any negative impact on the number of unique properties on our websites.

As the number of paid listings increases, we believe that we will generate additional revenue while also expanding the value of the marketplace to travelers, thus increasing the likelihood that travelers will find a property that is suitable to their needs. It is possible that a specific property may be listed on more than one of our websites without indicating that the multiple listings refer to the same property.

Average Revenue per Subscription Listing. We believe that trends in total revenue per listing, over an extended period, are important to understanding the value we bring to property owners and managers, and the overall health of our marketplace. As the majority of our listing business is generated from subscriptions, we use trends in revenue per subscription listing, as well as trends in paid listings, in order to formulate financial projections and make strategic business decisions. At a consolidated level, increases in revenue per subscription listing may increase our earnings or may be used for future investment. The average revenue per subscription listing may fluctuate based on the timing and nature of acquisitions, changes in our pricing, the impact of consolidated and bundled listing products, uptake of listing enhancements, changes in the pricing of enhancements, seasonality, changes in brand and listing type mix, and the impact of foreign exchange rates on our listing revenue outside of the United States.

For the three and six months ended June 30, 2014, average revenue per subscription listing was $473 and $459, respectively, an increase of 13.7% and 12.8% compared to the three and six months ended June 30, 2013, respectively. Excluding the impact of foreign exchange rates, average revenue per subscription listing would have been $464 and $452 in the three and six months ended June 30, 2014, respectively, an increase of 11.5% and 11.1% compared to the three and six months ended June 30, 2013 respectively.

Adjusting for the impact of consolidated listings and new bundled listings on the number of paid listings, our average revenue per subscription listing would have been $437 and $425 in the three and six months ended June 30, 2014, respectively, or an increase of 9.3% and 7.9% as compared to the three and six months ended June 30, 2013, respectively.

We compute average revenue per subscription listing as annualized subscription listing revenue divided by the average of paid subscription listings at the beginning and end of the period. Our paid listings included in the calculation only include subscription listings. The price of subscription listings varies by website and can include various additional fees associated with listing enhancements.

In order to increase revenue per subscription listing, we rely on increases in base pricing, increases in adoption of tiered pricing alternatives as well as bundled listings for our property owners and managers. We began offering tiered pricing on HomeAway.com in the United States in 2011, which allows our property owners and managers to purchase a higher subscription level to increase the position of their listings in search results. In 2012, we migrated VRBO.com in the United States to the same tiered pricing structure. Also in 2012, we launched tiered pricing on HomeAway.com.uk in the United Kingdom, Abritel.fr in France and HomeAway.de in Germany. In 2013, tiered pricing was launched on HomeAway.es in Spain, HomeAway.it in Italy and AlugueTemporada.com.br in Brazil. In 2014, tiered pricing was launched on Homelidays.com in France upon the migration of that brand to the global network. As we continue to implement tiered pricing on other websites, or change the prices or structure of tiered pricing, we may see an impact on listing sales in the current period and on revenue during the length of the subscription period.

Renewal Rate. Renewal of paid subscription listings is a key driver of revenue for our business. We track renewal rate in order to understand and improve property owners and managers satisfaction and to help us more accurately estimate our future revenue and cash flows. Our overall renewal rate increased from 72.4% at June 30, 2013 to 72.8% at June 30, 2014. This increase of 0.4% is primarily due to increased renewals in the United Kingdom and the United States. After adjusting for consolidated listings, our renewal rate as of June 30, 2014 is estimated to be 74.3%, or a decrease of 0.2% as compared to June 30, 2013.

We expect continued product improvements, demand generation for property owners and managers and the resulting increases in customer satisfaction to result in long-term improvements in renewal rates. Our renewal rate is impacted by the level of traveler demand our websites deliver to listed properties. In addition, several other factors as affect renewal rates including our property owners and managers ability to consolidate their listings, their ability to purchase geographic bundled listings and our use of promotional pricing to attract new subscribers. Additionally, our paid subscription listing renewal rate could be impacted by property owners and managers who elect to list their properties through our recently launched pay-per-booking commission offering, rather than paying a subscription fee.

The renewal rate for our subscription listings at the end of any period is defined as the percentage of those paid listings that were active at the end of the period ended twelve months prior that are still active as of the end of the reported period. Unique property subscription listings that are removed from property managers accounts and subsequently replaced with new subscription listings within the same property manager s account listings are not considered as renewals in our renewal rate calculation. We include most brands in our calculation of renewal rate with the exception of BedandBreakfast.com, Toprural.com, and Bookabach.co.nz, which will remain excluded until we can further develop our database system. However, based on our review of other internal renewal rate data, we do not believe that the exclusion of these brands from the renewal rate calculation materially impacts the result. Property owners and managers satisfaction with our solutions is the primary driver of our renewal rate. We believe that property owners and managers measure their satisfaction with our websites based largely on the number of inquiries and rental bookings that they receive from travelers. When the underlying vacation properties are sold or taken off the market, the owner or manager has no further need for the listings, and this attrition is a natural and ongoing component of non-renewal of listings. We exclude pay-for-performance listings from our renewal rate analysis since they are not sold on a subscription basis.

Visits to Websites. We view visits to websites as a key indicator of growth in our brand awareness among users and our ability to provide our property owners and managers with inquiries and bookings from travelers. Growth in visits to websites will be driven by our marketing strategies and has a direct impact on our financial performance. We use a variety of tools to measure visits to our websites. These tools include solutions from third parties such as Omniture and Google Analytics. We also review third-party published reports to measure our results against comparable companies; however, these reports are frequently inconsistent with our internal measurements.

Growth in visits was 14.2% in the second quarter of 2014 as compared to the second quarter of 2013. We believe that certain quality initiatives aimed at reducing the number of visits required to secure a booking may have an impact on growth in visits. These initiatives include online booking, quotable rates, and continuous improvements to our search functionality to help travelers locate appropriate properties more quickly.

Key Components of Our Results of Operations

Revenue

We derive most of our revenue from paid subscription listings. Our customers generally pay for their subscription listings at the beginning of the listing term, and revenue is recognized monthly over the term of the listing, which is generally one year. We offer pay-for-performance listings to property owners and professional managers, which represented 5.5% and 6.1% of our revenue in the three and six months ended June 30, 2014, respectively. This offering allows the customer to list a property with no initial upfront fees and, instead, pay us fees based on traveler inquiries or commissions on bookings.

A major source of new property listings has been the introduction of pay-for-performance listings and the use of our inside sales organization which targets larger professional managers. We also generate new listings from search engines such as Google, where property owners and managers search to find vacation rental listings websites. In addition, word-of-mouth referrals are another source for new listings.

We believe that in order to grow our revenue in the future, it will be important to introduce new features and functionality for our property owners and managers, which will allow us to keep prices low while offering expanded distribution and search placement for additional fees. It will also be important for us to continually improve the functionality of our websites to attract a large audience of travelers to help ensure our property owners and managers receive sufficient inquiries and bookings.

Deferred revenue consists of payments received from listings in excess of the revenue that we have recognized from the same listings, sales from hosted software solutions for which the estimated period of the hosting relationship is longer than one year and sales of gift cards for which revenue is recognized over a period commensurate with the use of the gift card. Deferred revenue increases as a result of new and renewed listings and decreases as a result of the recognition each month of the pro-rata share of revenue from cash collected in previous periods. We expect an increase in deferred revenue on an annual basis as we grow our core listing business, but may experience seasonal decreases in deferred revenue in quarters with fewer new listings and renewals, as is discussed in more detail in the Management s Discussion and Analysis of Financial Condition and Results of Operations Seasonality and Quarterly Results section of this Quarterly Report on Form 10-Q. As with other balance sheet line items, deferred revenue is reflected at the current month-end exchange rate, and the change in deferred revenue may therefore be impacted by movements in foreign currency.

We earn revenue from the sales of Internet display-based advertising on our websites, property management software licenses and related maintenance, gift cards and commissions for online reservations. We also offer other services to property owners, managers and travelers that result in revenue and royalties.

Costs and Expenses

A large component of our costs and expenses consists of personnel costs. Personnel costs include salaries, benefits, bonuses and related expenses, including stock-based compensation. We grew from 1,408 employees at June 30, 2013 to 1,705 at June 30, 2014. We expect that personnel costs will be higher in absolute dollars in 2014 than in 2013 based on an expected increase in the number of employees in 2014.

Cost of Revenue. Cost of revenue consists of salaries, benefits and related expenses and stock-based compensation of our customer service and web-hosting personnel, merchant fees charged by credit card processors, costs associated with the hosting of our websites, costs associated with payments and reserves from our Carefree Rental Guarantee, and allocated facility expenses and depreciation costs. Personnel costs include salaries, benefits, bonuses and related expenses, including stock-based compensation. To the extent that the number of paid listings on our marketplace grows and as we add more features to our websites, we intend to invest additional resources in customer service systems and personnel. Our customer service personnel help our property owners and managers use our websites to list their properties, answer their questions, and perform listing reviews and other processes as a part of our efforts to ensure quality, trust and security. Our customer service personnel also help travelers use our websites to book their travel and answer their questions. As more property owners and travelers utilize our e-commerce products and services, such as our online booking functionality on our websites, we believe that more travelers will require help from our customer service personnel. Our merchant fees are based on a contractual rate per transaction and will increase in absolute dollars as sales of listings increase, but for 2014 we expect our merchant fees to remain relatively constant and commensurate with 2013 levels, as a percentage of revenue. In general, as we add more features and functionality to our websites and anticipate an increase in the number of travelers accessing our websites, we will increase our spending on hardware and software required for hosting. We expect these additional costs to cause our cost of revenue expenses to increase in absolute dollars but remain consistent as a percentage of revenue in 2014 as compared to 2013.

We view the operation of our websites as a foundation upon which different revenue streams are generated. Cost of revenue, as described above, which includes the cost of customer service personnel, web hosting and merchant fees, directly supports our listing revenue, and was 15.3% and 16.0% of total revenue in the three months ended June 30, 2014 and 2013, respectively and 15.2% and 16.3% of total revenue in the six months ended June 30, 2014 and 2013, respectively. These same expenses support the overall operation of our websites and therefore our other revenue. There are no other material distinct costs of revenue for any period presented. The reporting of cost of revenue as one category in our consolidated financial statements is consistent with the manner in which we manage our business.

Product Development. Product development expenses consist of personnel costs, third-party contracting and consulting fees associated with our research and development, costs associated with improvements to, and maintenance of, existing services, and allocated facility expenses and depreciation costs. We have historically focused our product development efforts on increasing the functionality and enhancing the ease of use of our websites, both for property owners and managers and for travelers. We intend to increase our technology and product resources by hiring additional personnel in future periods as we anticipate an increase in the number of listings and develop new features and products. We expect these additional investments to cause our product development expenses to increase both in absolute dollars and as a percentage of revenue in 2014 as compared to 2013.

Sales and Marketing. Sales and marketing expenses consist of pay-per-click costs, online display advertising, broad reach advertising, personnel costs for our marketing, search engine optimization (SEO), sales staff, consulting and other services firms fees, expenses associated with email marketing programs and public relations expenses, and allocated facility expenses and depreciation costs. We utilize pay-per-click advertising primarily to increase the number of travelers to our websites who are seeking properties in specific geographical areas in order to increase the number of inquiries and bookings. Our sales and marketing team also focuses on increasing the placement of our websites in search rankings on Google, Bing and other search engines, which results in owner, manager and traveler acquisition at relatively little incremental expense. We intend to increase our sales expense to drive additional listing sales to professional property managers and increase marketing efforts to support our new products, increase the traffic to our websites and increase overall brand awareness. It will be particularly important for us to increase bookings to our pay-for-performance customers while also continuing to deliver bookings for our subscription-based customers. Therefore, we expect to build and enhance our internal team of marketing professionals to manage this area. We expect our sales and marketing expenses to increase both in absolute dollars and as a percentage of revenue in 2014 as compared to 2013.

General and Administrative. General and administrative expenses consist of personnel costs for our executive, finance and accounting, and management information systems personnel, professional fees for legal, audit, and other consulting services, allocated facility expenses, depreciation and other corporate overhead expenses. We expect to increase headcount to support our anticipated growth and international expansion, which will result in an increase in other expenses, such as facilities and travel. We also expect to continue to incur costs associated with operating as a public company, including increases in our finance, accounting and legal personnel, additional consulting, legal and audit fees, insurance costs, board of directors compensation, and costs associated with compliance with the Sarbanes-Oxley Act and other requirements. As a result, we expect our general and administrative expenses to increase in absolute dollars and remain relatively flat as a percentage of revenue in 2014 as compared to 2013.

Depreciation

Property and equipment, office tenant improvements and software licenses are recorded at cost and are depreciated using the straight-line method over their estimated useful lives. Equipment and computer hardware are generally depreciated over three years and furniture and fixtures over five to ten years. Leasehold improvements are recorded at cost and depreciated over the shorter of the contractual lease period or their estimated useful life. We allocate depreciation to expense categories based on the relative number of employees in each category. Based on our current estimated level of capital expenditures, we expect our depreciation expense to increase in absolute dollars but remain relatively consistent as a percentage of revenue in 2014 as compared to 2013.

Amortization

Due to our historical acquisitions, we have recorded identifiable intangible assets, which are being amortized over their estimated useful lives. As a result, our amortization expense has grown as we have made acquisitions. We perform annual impairment testing of goodwill and indefinite-lived intangible assets, or when events or circumstances indicate that impairment may have occurred. We expect our amortization expenses to increase in absolute dollars in 2014 as compared to 2013 but decrease as a percentage of revenue in 2014. Amortization expense will depend on our future acquisition activity.

Other Income (Expense)

Other income (expense) includes interest expense associated with the Notes, net of interest income earned on our excess cash, which is invested in short-term instruments. At June 30, 2014, we had operations in Australia, Brazil, Colombia, France, Germany, Italy, the Netherlands, New Zealand, Singapore, Spain, Switzerland, Thailand, the United Kingdom and the United States. As a result of operating in multiple countries, we incur gains and losses on foreign currency transactions, primarily related to the valuation of intercompany loans and short-term advances, which are included as other income (expense). Due to the issuance of the Notes in March of 2014, we expect interest expense to increase significantly in 2014 as compared to 2013. This increase will result from both cash payments related to coupon interest rates as well as non-cash amortization of the recorded debt discount over the term of the Notes.

Income Taxes

We accrue federal, state, and foreign income taxes at the applicable statutory rates adjusted for certain items, including non-deductible expenses, the most significant of which is stock-based compensation, and changes in our reserves for uncertain tax positions and deferred tax asset valuation allowance.

Significant judgment is required in evaluating any uncertain tax positions and determining our provision for income taxes. Although we believe our reserves are reasonable, no assurance can be given that the final tax outcome of these matters will not be different from that which is reflected in our historical income tax provisions and accruals. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate due to additional information. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which the determination is made. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate, as well as any related net interest and penalties.

Significant judgment is also required in determining any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, we consider all available evidence, including past operating results, estimates of future taxable income, reversals of existing taxable temporary differences and the feasibility of tax planning. In the event that we change our determination as to the amount of deferred tax assets that can be realized, we will adjust our valuation allowance with a corresponding impact to the provision for income taxes in the period in which the determination is made.

Historically, we have generated most of our current taxable income outside of the United States due to net operating loss carryforwards and stock option deductions available for utilization in the United States. However, in 2014 we expect to utilize most of our available U.S. net operating loss carryforward. In 2014, we expect to pay corporate income taxes associated with our operations in Brazil, Colombia, France, Germany, the Netherlands, New Zealand, Spain, Switzerland and the United Kingdom, as well as certain states within the United States. We will continue to expand our business outside of the United States, in which case, we will become subject to further taxation based on foreign statutory tax rates in those jurisdictions where we operate, and our effective tax rate may fluctuate as a result.

In prior periods, we have benefited from the tax credit incentives under the U.S. research and experimentation tax credit extended to taxpayers engaged in qualified research and experimental activities. The tax credit expired on December 31, 2013, and as such, no benefit is reflected in our income tax expense in the six months ended June 30, 2014. If this credit is renewed under similar terms as in prior years, the result could benefit our effective tax rate.

Critical Accounting Policies and Estimates

Our consolidated financial statements include the accounts of our U.S.-based operations and our Australia, Brazil, Colombia, France, Germany, Italy, Netherlands, New Zealand, Singapore, Spain, Switzerland, Thailand and United Kingdom-based subsidiaries. Our consolidated results are prepared in accordance with U.S. GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses, and related disclosures. On an ongoing basis, we evaluate our estimates and assumptions. To the extent there are material differences between these estimates and our actual results, our consolidated financial statements will be affected.

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Our significant accounting policies are described in Note 2 to the accompanying condensed consolidated financial statements included, and, of those policies, we believe that the accounting policies listed below involve the greatest degree of complexity and exercise of judgment by our management. The methods, estimates and judgments that we use in applying our accounting policies have a significant impact on our results of operations particularly in the areas of business combination and taxes. Accordingly, we believe the policies listed below are the most critical for understanding and evaluating our financial condition and results of operations. These critical accounting policies are:

Revenue recognition;

Business combinations;

Stock-based compensation; and

Income taxes.

A description of our critical accounting policies that involve significant management judgments appears in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 26, 2014 under Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates.

Results of Operations

The following table presents our operating results and our operating results as a percentage of revenue for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
	(in thousands, except per share data)			
Consolidated Statements of Operations Data:				
Revenue:				
Listing	$ 94,526	$ 73,432	$ 181,858	$ 140,377
Other	19,730	13,176	38,080	25,695
Total revenue	114,256	86,608	219,938	166,072
Costs and expenses:				
Cost of revenue (exclusive of amortization shown separately below)	17,428	13,845	33,365	27,126
Product development	18,427	14,441	36,740	26,840
Sales and marketing	39,400	28,867	75,017	55,234
General and administrative	22,846	18,069	46,472	34,118
Amortization expense	3,492	2,995	6,766	6,175

Total costs and expenses	101,593	78,217	198,360	149,493
Operating income	12,663	8,391	21,578	16,579
Other income (expense):				
Interest expense	(4,469)		(4,469)	
Interest income	401	299	565	542
Other income (expense)	(2,483)	66	(5,018)	(1,525)
Total other income (expense)	(6,551)	365	(8,922)	(983)
Income before income taxes	6,112	8,756	12,656	15,596
Income tax expense	(2,676)	(3,286)	(5,064)	(4,831)
Net income	3,436	5,470	7,592	10,765
Less: Net loss attributable to noncontrolling interests	(431)		(718)	
Net income attributable to HomeAway, Inc.	$ 3,867	$ 5,470	$ 8,310	$ 10,765
Net income per share attributable to HomeAway, Inc.:				
Basic	$ 0.04	$ 0.06	$ 0.09	$ 0.13
Diluted	$ 0.04	$ 0.06	$ 0.09	$ 0.12
Weighted average number of shares outstanding				
Basic	93,671	84,920	93,188	84,482
Diluted	96,011	87,647	96,202	87,183

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands, except per share data)			
Consolidated Statements of Operations as a Percentage of Revenue:				
Revenue:				
Listing	82.7%	84.8%	82.7%	84.5%
Other	17.3	15.2	17.3	15.5
Total revenue	100.0	100.0	100.0	100.0
Costs and expenses:				
Cost of revenue (exclusive of amortization shown separately below)	15.3	16.0	15.2	16.3
Product development	16.1	16.7	16.7	16.2
Sales and marketing	34.5	33.3	34.1	33.3
General and administrative	20.0	20.9	21.1	20.5
Amortization expense	3.1	3.5	3.1	3.7
Total costs and expenses	88.9	90.3	90.2	90.0
Operating income	11.1	9.7	9.8	10.0
Other income (expense):				
Interest expense	(3.9)		(2.0)	
Interest income	0.4	0.3	0.3	0.3
Other income (expense)	(2.2)	0.1	(2.3)	(0.9)
Total other income (expense)	(5.7)	0.4	(4.1)	(0.6)
Income before income taxes	5.3	10.1	5.8	9.4
Income tax expense	(2.3)	(3.8)	(2.3)	(2.9)
Net income	3.0	6.3	3.5	6.5
Less: Net loss attributable to noncontrolling interests	(0.4)		(0.3)	
Net income attributable to HomeAway, Inc.	3.4%	6.3%	3.8%	6.5%

Comparison of the Three and Six Months Ended June 30, 2014 and 2013

Revenue

	Three Months Ended June 30,					
	2014		2013		Change	
Revenue	**Amount**	**Percentage of Revenue**	**Amount**	**Percentage of Revenue**	**Amount**	**Percent**

	(dollars in thousands)					
Listing	$ 94,526	82.7%	$ 73,432	84.8%	$ 21,094	28.7%
Other	19,730	17.3	13,176	15.2	6,554	49.7
Total	$ 114,256	100.0%	$ 86,608	100.0%	$ 27,648	31.9%

	Three Months Ended June 30,					
	2014		2013		Change	
Revenue	**Amount**	**Percentage of Revenue**	**Amount**	**Percentage of Revenue**	**Amount**	**Percent**
	(dollars in thousands)					
United States	$ 65,435	57.3%	$ 52,619	60.8%	$ 12,816	24.4%
International	48,821	42.7	33,989	39.2	14,832	43.6
Total	$ 114,256	100.0%	$ 86,608	100.0%	$ 27,648	31.9%

	Six Months Ended June 30,					
	2014		2013		Change	
Revenue	**Amount**	**Percentage of Revenue**	**Amount**	**Percentage of Revenue**	**Amount**	**Percent**
	(dollars in thousands)					
Listing	$ 181,858	82.7%	$ 140,377	84.5%	$ 41,481	29.5%
Other	38,080	17.3	25,695	15.5	12,385	48.2
Total	$ 219,938	100.0%	$ 166,072	100.0%	$ 53,866	32.4%

	Six Months Ended June 30,					
	2014		2013		Change	
Revenue	**Amount**	**Percentage of Revenue**	**Amount**	**Percentage of Revenue**	**Amount**	**Percent**
	(dollars in thousands)					
United States	$ 126,222	57.4%	$ 102,183	61.5%	$ 24,039	23.5%
International	93,716	42.6	63,889	38.5	29,827	46.7
Total	$ 219,938	100.0%	$ 166,072	100.0%	$ 53,866	32.4%

For the Three Months Ended June 30, 2014

Revenue was $114.3 million in the three months ended June 30, 2014, compared to $86.6 million in the three months ended June 30, 2013, an increase of $27.6 million, or 31.9%. Our U.S. revenue was $65.4 million, or 57.3% of our total revenue, in the three months ended June 30, 2014, compared to $52.6 million, or 60.8% of our total revenue, in the three months ended June 30, 2013.

While our overall revenue growth rate for the three months ended June 30, 2014 was 31.9%, our organic revenue growth rate was 23.8%, excluding revenue from the travelmob, Bookabach, Stayz and Glad To Have You businesses we acquired over the past 12 months, which was not included in our organic revenue growth rate. We consider growth to be organic if generated from businesses that we have owned for at least 12 months.

Listing Revenue

Our core listing business revenue increased by $21.1 million, or 28.7%, in the three months ended June 30, 2014 as compared to the three months ended June 30, 2013, due to an increased number of new listings and an increase in average revenue per subscription listing. Paid listings increased from 775,232 at June 30, 2013 to 1,040,547 at June 30, 2014, an increase of 34.2%. The growth in paid listings is due to marketing and selling new and additional listings to property owners and managers, the introduction of pay-per-booking listings, listings acquired in acquisitions and organic growth from property owners and managers who become aware of our websites and choose to market their properties. We added approximately 73,000 listings in the Asia Pacific region as part of our acquisitions of travelmob, Bookabach and Stayz. Our average revenue per subscription listing was $473 in the three months ended June 30, 2014 compared to $416 in the three months ended June 30, 2013, an increase of $57, or 13.7%. We continued to improve monetization of our paid subscription listing base from pricing and product changes through continued adoption of our tiered pricing structure and from an increase in purchases by property owners and managers of bundled listings products.

Other Revenue

Other revenue increased by $6.6 million, or 49.7%, in the three months ended June 30, 2014 compared to the three months ended June 30, 2013. Revenue from products focused on travelers and owners, such as property damage protection, trip insurance, Carefree Rental Guarantee and software products, including related maintenance and training, increased by $4.4 million in the three months ended June 30, 2014 compared to the three months ended June 30, 2013. Revenue from internet display advertising and merchant bank credit card royalties increased by $2.1 million in the three months ended June 30, 2014 compared to the three months ended June 30, 2013.

Revenue Growth in Constant Currency

We invoice and collect payments in the Euro, the British Pound, the Brazilian Reis, the Australian Dollar and the Singapore Dollar, as well as other currencies in their respective regions. As a result, our total revenue is affected by changes in the value of the

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U.S. dollar relative to these other currencies. In order to provide a comparable framework for assessing how our business performed excluding the effect of foreign currency fluctuations, we analyze year-over-year revenue growth on a constant currency basis. Since we operate with the U.S. dollar as our functional currency, we calculate constant currency on revenue booked in currencies other than the U.S. dollar by comparing the exchange rates used to recognize revenue in the current period against the rates used in the comparable prior period.

In the three months ended June 30, 2014, the year-over-year growth in listing revenue measured on a constant currency basis was 26.5%, compared with 28.7% as reported. The year-over-year growth in total revenue in the three months ended June 30, 2014 measured on a constant currency basis was 29.9%, compared with 31.9% as reported.

For the Six Months Ended June 30, 2014

Revenue was $219.9 million in the six months ended June 30, 2014, compared to $166.1 million in the six months ended June 30, 2013, an increase of $53.9 million, or 32.4%. Our U.S. revenue was $126.2 million, or 57.4% of our total revenue, in the six months ended June 30, 2014, compared to $102.2 million, or 61.5% of our total revenue, in the comparable period during 2013.

While our overall revenue growth rate for the six months ended June 30, 2014 was 32.4%, our organic revenue growth rate was 23.4%, excluding revenue from the travelmob, Bookabach, Stayz and Glad To Have You businesses we acquired over the past 12 months, which was not included in our organic revenue growth rate. We consider growth to be organic if generated from businesses that we have owned for at least 12 months.

Listing Revenue

Our core listing business revenue increased by $41.5 million, or 29.5%, in the six months ended June 30, 2014 as compared to the six months ended June 30, 2013, due to an increased number of new listings and an increase in average revenue per subscription listing. Paid listings increased from 775,232 at June 30, 2013 to 1,040,547 at June 30, 2014, an increase of 34.2%. Our average revenue per subscription listing was $459 in the six months ended June 30, 2014 compared to $407 in the six months ended June 30, 2013, an increase of $52, or 12.8%.

Other Revenue

Other revenue increased by $12.4 million, or 48.2%, in the six months ended June 30, 2014 compared to the six months ended June 30, 2013. Revenue from products focused on travelers and owners, such as property damage protection, trip insurance, Carefree Rental Guarantee and software products, including related maintenance and training, increased by $8.2 million in the six months ended June 30, 2014 compared to the six months ended June 30, 2013. Revenue from internet display advertising and merchant bank credit card royalties increased by $4.1 million in the six months ended June 30, 2014 compared to the six months ended June 30, 2013.

Revenue Growth in Constant Currency

In the six months ended June 30, 2014, the year-over-year growth in listing revenue measured on a constant currency basis was 27.7%, compared with 29.5% as reported. The year-over-year growth in total revenue in the six months ended June 30, 2014 measured on a constant currency basis was 30.8%, compared with 32.4% as reported.

Cost of Revenue

	Three Months Ended June 30,					
	2014		2013		Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percent
	(dollars in thousands)					
Cost of revenue	$ 17,428	15.3%	$ 13,845	16.0%	$ 3,583	25.9%

	Six Months Ended June 30,					
	2014		2013		Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percent
	(dollars in thousands)					
Cost of revenue	$ 33,365	15.2%	$ 27,126	16.3%	$ 6,239	23.0%

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For the Three Months Ended June 30, 2014

Cost of revenue was $17.4 million in the three months ended June 30, 2014, compared to $13.8 million in the three months ended June 30, 2013, an increase of $3.6 million, or 25.9%. A large part of the increase was due to a $967,000 increase in salaries, benefits, bonuses and related expenses, including non-cash stock-based compensation, for our customer service and web-hosting personnel. At June 30, 2014, we had 496 customer support and web-hosting operations personnel, or an increase of 10.2% from June 30, 2013. With increased customer service employees as well as increased investment in hosting equipment, we incurred a higher expense for facilities and depreciation of computer equipment, furniture and facility leasehold improvements, which increased by $279,000, or 13.5%, for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. Other increases included $887,000 in increases in equipment expenses, web hosting fees and merchant fees, $756,000 in increases in professional fees and $409,000 in increases in software licenses and maintenance for our corporate systems.

For the Six Months Ended June 30, 2014

Cost of revenue was $33.4 million in the six months ended June 30, 2014, compared to $27.1 million in the six months ended June 30, 2013, an increase of $6.2 million, or 23.0%. A large part of the increase was due to a $1.7 million increase in salaries, benefits, bonuses and related expenses, including non-cash stock-based compensation, for our customer service and web-hosting personnel. With increased customer service employees as well as increased investment in hosting equipment, we incurred a higher expense for facilities and depreciation of computer equipment, furniture and facility leasehold improvements, which increased by $543,000, or 13.6%, for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. Other increases included $1.4 million in increases in equipment expenses, web hosting fees and merchant fees, $1.3 million in increases in professional fees and $739,000 in increases in software licenses and maintenance for our corporate systems.

Product Development

	Three Months Ended June 30,					
	2014		2013		Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percent
	(dollars in thousands)					
Product development	$ 18,427	16.1%	$ 14,441	16.7%	$ 3,986	27.6%
Capitalized software development costs	2,468	2.2	2,235	2.6	233	10.4
Total product and technology costs expensed and capitalized	$ 20,895	18.3%	$ 16,676	19.3%	$ 4,219	25.3%

	Six Months Ended June 30,					
	2014		2013		Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percent
	(dollars in thousands)					
Product development	$ 36,740	16.7%	$ 26,840	16.2%	$ 9,900	36.9%
Capitalized software development costs	4,472	2.0	4,259	2.6	213	5.0

Total product and technology costs expensed and capitalized	$ 41,212	18.7%	$ 31,099	18.7%	$ 10,113	32.5%

For the Three Months Ended June 30, 2014

Product development expense was $18.4 million in the three months ended June 30, 2014, compared to $14.4 million in the three months ended June 30, 2013, an increase of $4.0 million, or 27.6%. A large part of the increase was due to a $3.4 million increase in salaries, benefits, bonuses and related expenses, including non-cash stock-based compensation. At June 30, 2014, we had 414 employees in product development, or an increase of 22.8% from June 30, 2013. Overall increases in headcount also drove higher facilities and depreciation expense of $501,000 in the three months ended June 30, 2014.

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For the Six Months Ended June 30, 2014

Product development expense was $36.7 million in the six months ended June 30, 2014, compared to $26.8 million in the six months ended June 30, 2013, an increase of $9.9 million, or 36.9%. A large part of the increase was due to a $8.4 million increase in salaries, benefits, bonuses and related expenses, including non-cash stock-based compensation. Overall increases in headcount also drove higher facilities and depreciation expense of $1.0 million in the six months ended June 30, 2014.

Sales and Marketing

	Three Months Ended June 30,					
	2014		2013		Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percent
	(dollars in thousands)					
Sales and marketing	$ 39,400	34.5%	$ 28,867	33.3%	$ 10,533	36.5%

	Six Months Ended June 30,					
	2014		2013		Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percent
	(dollars in thousands)					
Sales and marketing	$ 75,017	34.1%	$ 55,234	33.3%	$ 19,783	35.8%

For the Three Months Ended June 30, 2014

Sales and marketing expense was $39.4 million in the three months ended June 30, 2014, compared to $28.9 million in the three months ended June 30, 2013, an increase of $10.5 million, or 36.5%. Salaries, benefits, bonuses and related expenses, including non-cash stock-based compensation, increased $4.7 million due to an increase in the number of our employees. At June 30, 2014, we had 559 employees in sales and marketing, or an increase of 28.8% from June 30, 2013. Overall increases in headcount also drove higher facilities and depreciation expense of $711,000. Direct marketing expenses increased by $4.6 million primarily due to increased spending on pay-per-click and display advertising as well as affiliate marketing. Other increases included $462,000 from travel expenses and professional fees.

For the Six Months Ended June 30, 2014

Sales and marketing expense was $75.0 million in the three months ended June 30, 2014, compared to $55.2 million in the six months ended June 30, 2013, an increase of $19.8 million, or 35.8%. Salaries, benefits, bonuses and related expenses, including non-cash stock-based compensation, increased $8.7 million due to an increase in the number of our employees. Overall increases in headcount also drove higher facilities and depreciation expense of $1.4 million. Direct marketing expenses increased by $8.5 million primarily due to increased spending on pay-per-click and display advertising as well as affiliate marketing. Other increases included $837,000 from travel expenses and professional fees.

General and Administrative

	Three Months Ended June 30,					
	2014		2013		Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percent
	(dollars in thousands)					
General and administrative	$ 22,846	20.0%	$ 18,069	20.9%	$ 4,777	26.4%

	Six Months Ended June 30,					
	2014		2013		Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percent
	(dollars in thousands)					
General and administrative	$ 46,472	21.1%	$ 34,118	20.5%	$ 12,354	36.2%

For the Three Months Ended June 30, 2014

General and administrative expense was $22.8 million in the three months ended June 30, 2014, compared to $18.1 million in the three months ended June 30, 2013, an increase of $4.8 million, or 26.4%. A large part of the increase was due to a $2.8 million increase in salaries, benefits, bonuses and related expenses, including non-cash stock-based compensation. At June 30, 2014, we had 236 employees and executives in operations, finance, human resources, legal and various information technology areas, or an increase of 26.2% from June 30, 2013. Overall increases in headcount also drove higher facilities and depreciation expense of $323,000. Other increases included $243,000 of expense related to estimated claims under the Basic Rental Guarantee offered to travelers and $638,000 in travel expenses and professional fees.

For the Six Months Ended June 30, 2014

General and administrative expense was $46.5 million in the six months ended June 30, 2014, compared to $34.1 million in the six months ended June 30, 2013, an increase of $12.4 million, or 36.2%. A large part of the increase was due to a $6.4 million increase in salaries, benefits, bonuses and related expenses, including non-cash stock-based compensation. Overall increases in headcount also drove higher facilities and depreciation expense of $616,000. Other increases included $2.2 million in certain foreign operating taxes, $656,000 of expense related to estimated claims under the Basic Rental Guarantee offered to travelers and $1.0 million in travel expenses and professional fees.

Amortization

	Three Months Ended June 30,					
	2014		2013		Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percent
	(dollars in thousands)					
Amortization expense	$ 3,492	3.1%	$ 2,995	3.5%	$ 497	16.6%

	Six Months Ended June 30,					
	2014		2013		Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percent
	(dollars in thousands)					
Amortization expense	$ 6,766	3.1%	$ 6,175	3.7%	$ 591	9.6%

For the Three Months Ended June 30, 2014

Amortization expense was $3.5 million in the three months ended June 30, 2014, compared to $3.0 million in the three months ended June 30, 2013, an increase of $497,000, or 16.6%. The increase in amortization expense in the three months ended June 30, 2014 compared to the three months ended June 30, 2013 included $1.4 million from the addition of identifiable intangible assets from our acquisitions in 2013 and 2014. This increase was offset by a decrease of $1.0 million from certain intangible assets from prior acquisitions becoming fully amortized.

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For the Six Months Ended June 30, 2014

Amortization expense was $6.8 million in the six months ended June 30, 2014, compared to $6.2 million in the six months ended June 30, 2013, an increase of $591,000, or 9.6%. The increase in amortization expense in the six months ended June 30, 2014 compared to the six months ended June 30, 2013 included $2.5 million from the addition of identifiable intangible assets from our acquisitions in 2013 and 2014. This increase was offset by a decrease of $2.0 million from certain intangible assets from prior acquisitions becoming fully amortized.

Other Income (Expense)

	Three Months Ended June 30,					
	2014		2013		Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percent
	(dollars in thousands)					
Other income (expense)	$ (6,551)	(5.7)%	$ 365	0.4%	$ (6,916)	(1,894.8)%

	Six Months Ended June 30,					
	2014		2013		Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percent
	(dollars in thousands)					
Other income (expense)	$ (8,922)	(4.1)%	$ (983)	(0.6)%	$ (7,939)	807.6%

For the Three Months Ended June 30, 2014

Other income (expense) includes interest expense of $4.5 million, partially offset by interest income of $401,000, compared to $299,000 of interest income in the three months ended June 30, 2013. The increase in interest expense is due to interest related to the Notes issued in March 2014. In addition, other income (expense) in the three months ended June 30, 2014 also includes approximately $2.5 million in losses from foreign currency related transactions in the three months ended June 30, 2014, compared to gains of $66,000 in the three months ended June 30, 2013. These losses and gains consist primarily of the re-measurement of intercompany loans and other assets and liabilities denominated in foreign currencies, including gains/losses recognized on forward contracts.

For the Six Months Ended June 30, 2014

Other income (expense) includes interest expense of $4.5 million, partially offset by interest income of $565,000, compared to $542,000 of interest income in the six months ended June 30, 2013. The increase in interest expense is due to interest related to the Notes issued in March 2014. In addition, other income (expense) in the six months ended June 30, 2014 also includes approximately $5.0 million in losses from foreign currency related transactions in the six months ended June 30, 2014, compared to losses of $1.5 million in the six months ended June 30, 2013. These losses consist primarily of the re-measurement of intercompany loans and other assets and liabilities denominated in foreign currencies, including gains/losses recognized on forward contracts.

Income Taxes

	Three Months Ended June 30,					
	2014		2013		Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percent
			(dollars in thousands)			
Income tax expense	$ 2,676	2.3%	$ 3,286	3.8%	$ (610)	(18.6)%

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	Six Months Ended June 30,					
	2014		2013		Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percent
	(dollars in thousands)					
Income tax expense	$ 5,064	2.3%	$ 4,831	2.9%	$ 233	4.8%

For the Three Months Ended June 30, 2014

Our income tax expense was $2.7 million for the three months ended June 30, 2014, compared to $3.3 million for the three months ended June 30, 2013. The expense in the three months ended June 30, 2014 is primarily due to tax expense of $4.0 million determined using our estimated annual effective tax rate of 65.4% offset by certain items booked discretely in the three months ended June 30, 2014, including a benefit of $154,000 due to disqualifying dispositions of incentive stock options, a benefit of $1.3 million for adjustments to the recognized value of our federal and Texas research and experimentation tax credit carryforwards, a benefit of $351,000 resulting from the filing of certain 2013 tax returns, offset by $439,000 of expense related to the amortization of tax charges on the intercompany sale of assets that were deferred in prior periods. The estimated annual effective tax rate at June 30, 2014 differed from the statutory rate primarily due to non-deductible stock compensation charges and state taxes, and is partially offset by the benefit of disqualifying dispositions of incentive stock options and the effect of different statutory tax rates in foreign jurisdictions.

The expense in the three months ended June 30, 2013 is primarily due to tax expense of $3.3 million determined using our estimated annual effective tax rate of 39.7% offset by certain items booked discretely in the three months ended June 30, 2013, including a benefit of $268,000 due to disqualifying dispositions of incentive stock options and $427,000 of expense related to the amortization of tax charges on the intercompany sale of assets that were deferred in prior periods. The estimated annual effective tax rate at June 30, 2013 differed from the statutory rate primarily due to non-deductible stock compensation charges, state taxes, and the amortization of tax charges on the intercompany sale of assets that were deferred in prior periods, which is partially offset by the benefit of disqualifying dispositions of incentive stock options, the effect of different statutory tax rates in foreign jurisdictions, and the federal research and experimentation tax credit.

For the Six Months Ended June 30, 2014

Our income tax expense was $5.1 million for the six months ended June 30, 2014, compared to $4.8 million for the six months ended June 30, 2013. The expense in the six months ended June 30, 2014 is primarily due to tax expense of $6.8 million determined using our estimated annual effective tax rate of 53.7% offset by certain items booked discretely in the six months ended June 30, 2014, including a benefit of $1.0 million due to disqualifying dispositions of incentive stock options, a benefit of $402,000 for a state tax apportionment change related to a prior period, a benefit of $1.3 million for adjustments to the recognized value of our federal and Texas research and experimentation tax credit carryforwards, a benefit of $351,000 resulting from the filing of certain 2013 tax returns, offset by $1.0 million of expense related to the amortization of tax charges on the intercompany sale of assets that were deferred in prior periods. The estimated annual effective tax rate at June 30, 2014 differed from the statutory rate primarily due to non-deductible stock compensation charges and state taxes, and is partially offset by the benefit of disqualifying dispositions of incentive stock options and the effect of different statutory tax rates in foreign jurisdictions.

The expense in the six months ended June 30, 2013 is primarily due to tax expense of $6.2 million determined using our estimated annual effective tax rate of 39.7% offset by certain items booked discretely in the six months ended June 30, 2013, including a benefit of $1.6 million due to disqualifying dispositions of incentive stock options, a benefit of $614,000 related to the retroactive extension of the federal research and experimentation tax credit through December 31, 2013 and $879,000 of expense related to a prior period that was deferred and recognized in the current period. The estimated annual effective tax rate at June 30, 2013 differed from the statutory rate primarily due to non-deductible stock compensation charges, state taxes, and the amortization of tax charges on the intercompany sale of assets that were deferred in prior periods, which is partially offset by the benefit of disqualifying dispositions of incentive stock options, the effect of different statutory tax rates in foreign jurisdictions, and the federal research and experimentation tax credit.

Seasonality and Quarterly Results

Our operating results may fluctuate for a variety of reasons, including seasonal factors and economic cycles that influence the vacation travel market. Property owners and managers tend to buy subscription listings at times when travelers are most likely to make vacation plans. The timing primarily depends on whether travelers are taking a winter or summer vacation and tends to vary by country. Historically, we have experienced the highest level of new and renewed subscription listings in the first quarter of the year, which is typically when travelers are making plans for summer vacations in the United States and Europe. The lowest level of new subscription listings and renewals has occurred in the third quarter. By the fourth quarter, we typically see property owners and managers of winter vacation destinations list and renew subscriptions in time to meet the needs of travelers planning those trips. Other vacation areas outside of the United States and Europe, such as Australia and Brazil, also have seasonality, but the seasonality may not be reflected in the same quarters. This seasonality may not be seen as prominently in our revenue due to the ratable recognition of subscription listing revenue. However, the seasonality results in higher cash flows during the first quarter as most listings are annual and fully paid subscription listings at the time the listing is purchased.

As we introduce new products for property owners, managers and travelers, including our recently introduced pay-per-booking product, the seasonality of those transactions may vary from the seasonality of our subscription listing sales. We also experience seasonality in the number of visitors to our websites, with the first quarter having the highest number of visitors. This is reflected in our quarterly financial results when we add customer service staff and hosting capabilities to support the increase.

Our operating results may fluctuate due to a variety of factors, many of which are outside of our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful and historical results may not be indicative of future performance.

Discussion of Non-GAAP Financial Measures

This Form 10-Q contains non-GAAP financial measures: Adjusted EBITDA, free cash flow and non-GAAP net income, as described below, as well as revenue adjusted for foreign currency, which we refer to as constant currency revenue. Revenue adjusted for foreign currency assumes foreign currency exchange rates used for translation based on the rates in effect for the comparable prior-year period. In order to compute our constant currency revenue, we divide our monthly U.S. dollar results by the applicable current year monthly average foreign exchange rates and then multiply those amounts by the applicable prior year monthly average foreign exchange rates. Adjusted EBITDA, free cash flow, non-GAAP net income and constant currency revenue are financial measures that are not calculated in accordance with accounting principles generally accepted in the United States, or GAAP. However, we believe that the use of Adjusted EBITDA, free cash flow, non-GAAP net income and constant currency revenue are useful to investors in evaluating our operating performance for the following reasons:

- our management uses adjusted EBITDA, free cash flow, non-GAAP net income and constant currency revenue in conjunction with GAAP financial measures as part of our assessment of our business and in communications with our board of directors concerning our financial performance;

- Adjusted EBITDA, free cash flow, non-GAAP net income and constant currency revenue provide consistency and comparability with our past financial performance, facilitate period-to-period comparisons of operations, and also facilitate comparisons with other peer companies, many of which use similar non-GAAP financial measures to supplement their GAAP results;

- securities analysts use Adjusted EBITDA, free cash flow, non-GAAP net income and constant currency revenue as supplemental measures to evaluate the overall operating performance of companies; and

- Adjusted EBITDA and non-GAAP net income exclude non-cash charges, such as depreciation, amortization and stock-based compensation, because such non-cash expenses in any specific period may not directly correlate to the underlying performance of our business operations and can vary significantly between periods.

Adjusted EBITDA, free cash flow, non-GAAP net income and constant currency revenue should not be reviewed in isolation. You should consider them in addition to, and not as substitutes for, measures of our financial performance reported in accordance with GAAP. Our Adjusted EBITDA, free cash flow, non-GAAP net income or constant currency revenue may not be comparable to similarly titled measures of other companies and because other companies may not calculate such measures in the same manner as we do. Adjusted EBITDA, free cash flow, non-GAAP net income and constant currency revenue have limitations as analytical tools. In addition, none of these measures reflect future requirements for contractual obligations.

Further limitations of Adjusted EBITDA include:

- this measure does not reflect changes in working capital;
- this measure does not reflect interest income or interest expense; and
- this measure does not reflect cash requirements for income taxes.

We define Adjusted EBITDA as net income (loss) attributable to HomeAway, Inc. plus depreciation, amortization of intangible assets; interest expense, net; income tax expense (benefit); stock-based compensation expense; net income (loss) attributable to noncontrolling interests, all net of any foreign exchange income or expense.

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The following table presents a reconciliation of net income attributable to HomeAway, Inc. to Adjusted EBITDA (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income attributable to HomeAway, Inc.	$ 3,867	$ 5,470	$ 8,310	$ 10,765
Depreciation and amortization	7,622	6,308	14,659	12,532
Stock-based compensation	12,690	10,136	22,911	17,592
Interest expense	4,469		4,469	
Interest income	(401)	(299)	(565)	(542)
Foreign exchange (income) expense	2,469	(67)	4,990	1,468
Income tax expense	2,676	3,286	5,064	4,831
Net loss attributable to noncontrolling interests	(431)		(718)	
Adjusted EBITDA	$ 32,961	$ 24,834	$ 59,120	$ 46,646

We define free cash flow as our cash provided by operating activities, adjusted for cash interest expense and excess tax benefit (expense) from stock-based compensation, and subtracting capital expenditures. For the purpose of calculating free cash flow, we consider purchases of property, equipment, leasehold improvements for our offices, and software licenses, including costs associated with internally developed software, as capital expenditures.

The following table presents a summary of cash flows and a reconciliation of cash flows from operating activities to free cash flows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Cash provided by operating activities	$ 45,919	$ 21,811	$ 85,888	$ 59,292
Excess tax (expense) benefit from stock-based compensation	(2,358)	2,887	1,221	4,245
Capital expenditures	(8,531)	(5,501)	(13,349)	(11,006)
Free cash flow	$ 35,030	$ 19,197	$ 73,760	$ 52,531

We define non-GAAP net income as our net income (loss) attributable to HomeAway, Inc. plus the after-tax effect of stock-based compensation expense, amortization of intangible assets and the impact on noncontrolling interests of these items, utilizing a tax rate of 35%. The income tax effect of adjustments to non-GAAP net income assists investors in understanding the tax provision related to those adjustments and a tax rate of 35% related to ongoing operations.

The following table presents a reconciliation of net income attributable to HomeAway, Inc. to non-GAAP net income (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income attributable to HomeAway, Inc.	$ 3,867	$ 5,470	$ 8,310	$ 10,765
Add:				
Stock-based compensation	12,690	10,136	22,911	17,592
Amortization expense	3,492	2,995	6,766	6,175
Related tax effect	(5,664)	(4,595)	(10,387)	(8,318)
Impact on noncontrolling interests of non-GAAP adjustments	(75)		(140)	
Non-GAAP net income	$ 14,310	$ 14,006	$ 27,460	$ 26,214

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Supplemental Financial Information

The following tables present stock-based compensation and depreciation included in the respective line items in our Condensed Consolidated Statements of Operations (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Stock-based compensation:				
Cost of revenue	$ 867	$ 827	$ 1,568	$ 1,672
Product development	3,390	2,501	6,104	4,228
Sales and marketing	2,933	2,278	5,105	3,886
General and administrative	5,500	4,530	10,134	7,806
Total	$ 12,690	$ 10,136	$ 22,911	$ 17,592
Depreciation:				
Cost of revenue	$ 1,194	$ 1,088	$ 2,294	$ 2,111
Product development	990	759	1,900	1,443
Sales and marketing	1,362	1,033	2,597	1,977
General and administrative	584	433	1,102	826
Total	$ 4,130	$ 3,313	$ 7,893	$ 6,357

Liquidity and Capital Resources

From our incorporation in 2004 until June 30, 2014, we financed our operations and acquisitions primarily through private placements of our capital stock and bank borrowings as well as from cash flow generated by the business. In March 2014 we issued at par value $402.5 million in 0.125% convertible senior notes due April 2019 for net proceeds of $391.6 million after deducting underwriting discounts and other expenses incurred for the issuance of the Notes. Concurrent with the issuance of the Notes, we sold warrants to purchase shares of our common stock for cash consideration of $38.3 million, which was offset by the purchase of a convertible note hedge of $85.9 million. The net cash increase in March 2014 from these transactions was cash generated of $344.0 million.

As of June 30, 2014, our cash, cash equivalents and short-term investments totaled $792.5 million, compared to $391.4 million at December 31, 2013. At June 30, 2014, this amount included assets held in certain of our foreign operations totaling approximately $108.1 million. If these assets were distributed to the U.S., we may be subject to additional U.S. taxes in certain circumstances (subject to an adjustment for foreign tax credits) and foreign withholding taxes. We have not provided for these taxes because we consider these assets to be permanently reinvested in our foreign operations. We have no plans or intentions to repatriate cumulative earnings of our foreign subsidiaries through June 30, 2014. We actively monitor the third-party institutions and money market funds that hold these assets, primarily focusing on the safety of principal and secondarily maximizing yield on these assets. We diversify our cash and cash equivalents and investments among various financial institutions and money market funds in order to reduce our exposure should any one of these financial institutions or money market funds fail or encounter difficulties. To date, we have not experienced any material loss or lack of access to our invested cash, cash equivalents or short-term investments; however, we can provide no assurances that access to our invested cash, cash equivalents or short-term investments will not be impacted by adverse conditions in the financial markets. We have funds in our operating accounts that are deposited with third party financial institutions. These balances in the U.S. may exceed the Federal Deposit Insurance Corporation insurance limits. While we monitor the cash balances in our operating accounts, these cash balances could be adversely impacted if the underlying financial institutions fail and could be subject to other adverse conditions in the financial markets.

The following table summarizes our cash flows for the periods indicated:

	Six Months Ended June 30,	
	2014	2013
	(in thousands)	
Consolidated Statements of Cash Flow Data:		
Net cash provided by operating activities	$ 85,888	$ 59,292
Net cash used in investing activities	(282,661)	(92,965)
Net cash provided by financing activities	363,451	28,205
Effect of exchange rate changes on cash	1,667	(2,131)
Net increase (decrease) in cash and cash equivalents	168,345	(7,599)
Cash and cash equivalents at beginning of period	324,608	189,478
Cash and cash equivalents at end of period	$ 492,953	$ 181,879

Net Cash Provided by Operating Activities

Net cash provided by operating activities was $85.9 million in the six months ended June 30, 2014 compared to $59.3 million in the comparable prior year period, representing an increase of $26.6 million, or 44.9%.

A key driver of our cash from operations is the upfront collection of fees for new and renewed subscriptions. In the six months ended June 30, 2014, cash was generated primarily through an increase in new and renewed subscription listings, resulting in higher upfront collection of listing fees and increased deferred revenue of $35.4 million. During the six months ended June 30, 2014, we generated net income of $7.6 million. Included in our net income was depreciation expense of $7.9 million, amortization expense of $6.8 million, amortization of debt discount and transaction costs of $4.3 million and non-cash stock-based compensation of $22.9 million. Net income, excluding these non-cash reductions, contributed $49.5 million to cash provided by operating activities.

In the six months ended June 30, 2013, cash was generated primarily through an increase in new and renewed listing subscriptions, resulting in higher upfront collection of listing fees and increased deferred revenue of $29.4 million. During the six months ended June 30, 2013, we generated net income of $10.8 million. Included in our net income was depreciation expense of $6.4 million, amortization expense of $6.2 million, non-cash stock-based compensation of $17.6 million and a decrease in non-cash deferred income taxes of $1.7 million. Net income, excluding these non-cash reductions, contributed $39.3 million to cash provided by operating activities.

The growth in our number of paid listings, the impact of other revenue and expenses, the timing and amount of future working capital changes and tax payments will affect the future amount of cash used in or provided by operating activities.

Net Cash Used in Investing Activities

Net cash used in investing activities was $282.7 million in the six months ended June 30, 2014 compared to $93.0 million in the comparable period in the prior year, representing an increase of $189.7 million. Our investing activities reflect acquisitions we have made as well as capital expenditures and changes in our short-term investments.

During the six months ended June 30, 2014, we invested $16.8 million, net of cash acquired, in the acquisition of Glad to Have You, Inc. Capital expenditures were $13.3 million and included $4.5 million in capitalized software development costs. Purchases of short-term investments, net of proceeds received from the sale and maturities of short-term investments, were $234.5 million and cash outflows related to the net settlement of foreign currency forwards were $7.9 million. We also increased our minority stake in a privately held company in China for $9.4 million.

During the six months ended June 30, 2013, capital expenditures were $11.0 million and included $4.3 million in capitalized software development costs. Purchases of short-term investments, net of proceeds received from the sale and maturities of short-term investments, were $76.6 million and cash outflows related to the net settlement of foreign currency forwards were $765,000. We also increased our minority stake in a privately held company in China for $3.7 million.

As our business expands, we expect to continue to invest in new computers and software for employees, for product development and to support the hosting of our websites. As we expand our facilities, we intend to purchase furniture and fixtures and invest in leasehold improvements. Our planned capital expenditures are not expected to exceed $38.0 million in 2014.

Net Cash Provided by Financing Activities

Net cash provided by financing activities was $363.5 million in the six months ended June 30, 2014 compared to $28.2 million in the comparable prior year period, representing an increase of $335.2 million.

Cash provided by financing activities during the six months ended June 30, 2014 was primarily comprised of $391.6 million in net proceeds from the issuance of the Notes. Additionally, we received proceeds of $38.3 million from the sale of warrants to acquire shares of our common stock and paid $85.9 million for a convertible note hedge transaction. Proceeds from the exercise of stock options to purchase common stock were $19.2 million in the six-month period ended June 30, 2014. Additionally, in the six-month period ended June 30, 2014, $1.2 million of cash provided was related to excess tax benefits from stock-based compensation.

Cash provided by financing activities during the six months ended June 30, 2013 was comprised of $24.0 million in proceeds from the exercise of stock options to purchase common stock and $4.2 million from excess tax benefits from stock-based compensation.

Capital Resources

Based on past performance and current expectations, we believe that our existing cash, cash equivalents, short-term investments and cash generated from operations, both globally and in the U.S., will be sufficient to satisfy our currently anticipated cash requirements through at least the next 12 months.

Our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our marketing and sales activities, the timing and extent of spending to support product development efforts, the timing of introductions of new products and services and enhancements to existing products and services, potential acquisitions and the continuing market acceptance of our products and services. We may need to raise additional capital through future debt or equity financing to the extent necessary to fund such activities. Additional financing may not be available at all or on terms favorable to us. We may enter into arrangements in the future with respect to investments in, or acquisitions of, complementary businesses, products, services or technologies, which could also require us to seek additional equity or debt financing.

Contractual Obligations and Commitments

The majority of our property owners and managers pay for their listings by credit card because it simplifies and expedites the payment process and is a relatively secure form of payment. We have multiple agreements with credit card companies to support these activities. Most of our property owners and managers purchase an annual listing, for which payment is made at the beginning of the listing. There is a risk that we may fail to fully perform our obligations under the listing, which could result in an obligation of the credit card companies to reimburse their customers for a portion or all of the listing fee. We would be obligated to reimburse the credit card companies for all such amounts they pay pursuant to our agreements with them, under which we have obtained our credit card acceptance privileges.

As of June 30, 2014, we have amounts held in restricted cash to fund payments received on behalf of property owners, to protect banks from default on credit cards and direct debits used in our operations and to support bank guarantees related to our office leases. As bookings continue to increase, as we make changes to our credit card merchants and acquiring banks and as we enter into new leases, we may have increases to restricted cash and deposits.

As of June 30, 2014, we have reserved $7.8 million for uncertain tax positions, including interest and penalties. We are unable to make a reasonably reliable estimate as to when or if cash settlement with taxing authorities will occur. For additional information regarding uncertain tax positions, see Note 12 of the Notes to Consolidated Financial Statements included in Part II, Item 8 of our Annual Report on Form 10-K.

For a discussion of the Notes due April 1, 2019, please see Note 6 in the Notes to Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Off-Balance Sheet Arrangements

During the six month period ended June 30, 2014, we did not, and we do not currently, have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes that have, or are reasonably likely to have, a current or future material effect on our consolidated financial condition, results of operations, liquidity, capital expenditures or capital resources.

Recent Accounting Pronouncements

See Note 2 in the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, for a full description of recent accounting pronouncements which is incorporated herein by reference.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk for the effect of interest rate changes, foreign currency fluctuations, and changes in the market values of our investments and the Notes. Information relating to quantitative and qualitative disclosures about market risk is set forth below and in Item 2 of Part I, Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

Foreign currency exchange risk. We have subsidiaries in Australia, Brazil, Colombia, France, Germany, Italy, The Netherlands, New Zealand, Singapore, Spain, Switzerland, Thailand and the United Kingdom. Our subsidiaries generally use the local currency as their functional currency, which we translate into U.S. dollars for consolidation.

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates involving the Argentine Peso, the Australian dollar, the Brazilian Reais, the British pound, the Colombian Peso, the Euro, the New Zealand dollar, the Singapore dollar, the Swiss Franc and the Thai Bhat. We currently enter into forward contracts to hedge fluctuations in the value of certain intercompany debt denominated in foreign currencies but do not enter into any other derivative financial instruments for trading or speculative purposes. Since our acquisition of Stayz.com.au, our intercompany debt denominated in foreign currencies had increased significantly. Fluctuations in currency exchange rates could result in translation gains and losses when we consolidate our results and harm our business in the future. Because we conduct a significant and growing portion of our business outside the United States but report our results in U.S. dollars, we face exposure to adverse movements in currency exchange rates, which may cause our revenue and operating results to differ materially from expectations. In addition, the results of operations of many of our internationally focused websites are exposed to foreign exchange rate fluctuations as the financial results of the applicable subsidiaries are translated from the local currency into U.S. dollars upon consolidation. A decline in the U.S. dollar relative to foreign currencies would increase our non-U.S. revenue and improve our operating results. Conversely, if the U.S. dollar strengthens relative to foreign currencies, our revenue and operating results would be adversely affected. The effect of an immediate 10% adverse change in exchange rates on foreign denominated cash and receivables as of June 30, 2014, would result in a loss of approximately $1.8 million and a reduction in value on the balance sheet of approximately $11.9 million.

Convertible senior notes and interest rate risk. In March 2014, we issued $402.5 million of 0.125% convertible senior notes due April 1, 2019. We carry this instrument at face value less unamortized discount on our balance sheet. Since this instrument bears interest at fixed rates, we have no financial statement risk associated with changes in interest rates. However, the fair value of these instruments fluctuates when interest rates change, and in the case of convertible notes, when the market price of our stock fluctuates.

Investments and interest rate sensitivity. The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective and minimize our exposure to an adverse shift in interest rates, we invest in short-term, high-quality, interest-bearing securities.

We have a non-controlling equity investment in a privately-held company in China. Since our ownership interest is less than 20 percent and we do not have the ability to exert significant influence, we account for this non-marketable equity investment using the cost method of accounting. As of June 30, 2014, the carrying value of this investment was $19.5 million.

Item 4: Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2014. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms.

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of June 30, 2014, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2014, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may become involved in litigation related to claims arising from the ordinary course of our business. We believe that there are no claims or actions pending or threatened against us, the ultimate disposition of which would have a material adverse effect on us.

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Item 1A. Risk Factors.

Risks Related to Our Business

If we are unable to attract and maintain a critical mass of vacation rental listings and travelers, whether due to competition or other factors, our marketplace will become less valuable to property owners and managers and to travelers, and our revenue and net income could decrease materially.

Most of our revenue is generated when owners or managers of vacation rentals pay us listing fees, by subscription or a booking commission, to list and market vacation rentals to travelers who visit the websites comprising our marketplace. While we generate revenue from other products and services on our websites targeted at property owners, managers and travelers, our success primarily depends on our ability to attract owners, managers, travelers and advertisers who want to reach them to our marketplace. If property owners and managers choose not to market their vacation rentals through our websites, or elect to list them with a competitor instead of listing with us, we may be unable to offer a sufficient supply and variety of vacation properties to attract travelers to our websites. If we are unable to attract travelers to our websites, advertisers may not purchase display advertising on our websites. Similarly, our volume of new listings and listing renewals may suffer if we are unable to attract travelers to our websites. The perceived usefulness of our online marketplace is likely to decline, and our revenue and net income could decrease materially as a result of any of these events.

Our business depends substantially on property owners and managers renewing their subscription listings. Because we recognize revenue over the term of the applicable agreement, the lack of subscription-based listing renewals may not immediately be reflected in our operating results.

Our business depends substantially on property owners and managers renewing their subscription listings. Any decline in our subscription listing renewals would harm our future operating results. Property owners and managers generally market their vacation rentals on our websites pursuant to annual listings paid in advance with no obligation to renew them. We may be unable to predict future listing renewal rates accurately, and our renewal rates may decline materially or fluctuate as a result of a number of factors, including property owners decisions to sell or cease renting their properties or to utilize the services of our competitors, or dissatisfaction with our pricing, products, services or websites. Property owners and managers may not establish or renew listings if we cannot generate visits from large numbers of travelers seeking, inquiring about or booking vacation rentals.

In addition, from time to time we make changes that impact our customers, including changes to the features of listings available for purchase, the operation of website tools used by property owners and managers in the operation of their rental property and the pricing for the listings and features of our listings. While such changes may be intended to result in customer satisfaction, there can be no guarantee that the changes will perform as expected or that property owners and managers will react positively to the changes and they may choose not to renew their listings. For example, we offer different subscription levels on many of our websites and property owners and managers may not be satisfied with the subscription level they purchase. In 2013, we also introduced the ability for property owners and managers to list on a commission basis without paying a subscription fee. Subscription-based customers may choose not to renew their subscriptions and list on a commission basis, which could result in decreased revenue. If property owners and managers do not renew their subscription listings at all or at the same level or if we are forced to accept renewals on less favorable terms, our revenue may decline and our business will suffer. Moreover, some of our property owners and managers may live in states or countries that give subscribers the right to cancel their subscription agreements prior to the expiration of the terms of their agreements and receive refunds for the unused portions of their subscriptions, which can adversely affect our cash flows.

We recognize subscription listing revenue ratably over the term of the applicable listing agreement, and the majority of our quarterly revenue represents revenue attributable to listings entered into during previous quarters. As a result, the effect of significant downturns in new listings or renewals of listings in a particular quarter will not be fully reflected in our results of operations until future periods. Our business model also makes it difficult for any rapid increase in new or renewed listings to increase our revenue in any one period because revenue from new and renewed subscription listings must be recognized over the applicable listing term.

Our quarterly financial results are subject to fluctuations. As a result, we could fail to meet or exceed our projections or the expectations of analysts or investors, which could cause our stock price to decline.

Our revenue, expenses, operating results and cash flows have fluctuated from quarter to quarter in the past and are likely to continue to do so in the future. These fluctuations are due to, or may result from, many factors, some of which are outside of our control and many of which are difficult to predict, including:

- the quantity of vacation rental listings on our websites;
- changes in cash flow due to the seasonal nature of our listing renewals and new listing acquisition or changes in the mix of subscription and performance-based listings;

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changes in cash flow due to customers purchasing commission-based listings, which generate a commission due to us from bookings, the timing and quantity of which are difficult to predict;

changes by major online search engine companies in their search algorithms, our ability to adapt to these changes and the increased costs of adapting to these changes, which could cause us to spend more on marketing or cause our websites to cease appearing in natural search results completely;

advertising costs for paid search keywords that we deem relevant to our business and the success and costs of our broad reach and online advertising and marketing initiatives;

costs related to acquisitions or licensing of, or investments in, products, services, technologies or other businesses and our ability to successfully integrate and manage these acquisitions;

the amount and timing of operating expenses and capital expenditures related to the expansion of our operations and infrastructure;

the timing of revenue and expenses related to the development or acquisition and integration of technologies, products or businesses;

the timing and success of changes in our pricing or services;

the introduction and performance of new products or services;

the introduction of new products or services by our competitors;

our ability to keep our websites operating without technical difficulties or service interruptions;

development of or increases in fraud impacting our property owners and managers and travelers attempting to rent from them, including theft of our property owners or managers online identities through phishing or other security breaches of the email or other systems of ours or our customers;

declines or disruptions in the travel industry, particularly in regions where we generate substantial revenue;

economic instability abroad and fluctuations in exchange rates;

- changes in the timing of holidays or other vacation events;
- litigation and settlement costs, including unforeseen attorneys fees and costs;
- costs relating to potential strategic transactions, which may or may not actually close;
- new accounting pronouncements and changes in accounting standards or practices, particularly any affecting the recognition of listing revenue or accounting for mergers and acquisitions; and
- new laws or regulations, or interpretations of existing laws or regulations, that harm our business models or restrict the Internet, e-commerce, online payments, or online communications.

Fluctuations in our quarterly operating results may, particularly if unforeseen, cause us to miss any projections we may have provided or may lead analysts or investors to change their long-term models for valuing our common stock. In addition, such fluctuations may cause us to face short-term liquidity issues, impact our ability to retain or attract key personnel or cause other unanticipated issues. Any of these effects could cause our stock price to decline. As a result of the potential variations in our quarterly revenue and operating results, we believe that quarter-to-quarter comparisons of our revenue and operating results may not be meaningful and the results of any one quarter should not be relied upon as an indication of future performance.

If the businesses we have acquired or invested in do not perform as expected or we are unable to effectively integrate acquired businesses, our operating results and prospects could be harmed.

We have acquired 22 businesses and made an equity investment in one company since our inception. The businesses we have acquired or invested in may not perform as well as we expect. Failure to manage and successfully integrate recently acquired businesses and technologies could harm our operating results and our prospects. If the company we invested in does not perform well, our investment could become impaired and our financial results could be negatively impacted.

Our mergers and acquisitions involve numerous risks, including the following:

- difficulties in integrating and managing the combined operations, technologies, technology platforms and products of the acquired companies and realizing the anticipated economic, operational and other benefits in a timely manner, which could result in substantial costs and delays or other operational, technical or financial problems;

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legal or regulatory challenges or litigation post-acquisition, which could result in significant costs or require changes to the businesses or unwinding of the transaction;

failure of the acquired company to achieve anticipated revenue, earnings or cash flow;

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

our inability to maintain the key customers and business relationships and the reputations of acquired businesses;

uncertainty of entry into markets in which we have limited or no prior experience or in which competitors have stronger market positions;

our dependence on unfamiliar affiliates and partners of acquired businesses;

unanticipated costs associated with pursuing acquisitions;

responsibility for the liabilities of acquired businesses, including those that were not disclosed to us or exceed our estimates, as well as, without limitation, liabilities arising out of their failure to maintain effective data protection and privacy controls and comply with applicable regulations;

difficulties in assigning or transferring intellectual property licensed by acquired companies from third parties to us or our subsidiaries;

inability to maintain our internal standards, controls, procedures and policies;

potential loss of key employees of the acquired companies;

difficulties in complying with antitrust and other government regulations;

challenges in integrating and auditing the financial statements of acquired companies that have not historically prepared financial statements in accordance with U.S. generally accepted accounting principles;

difficulties in integrating acquired companies systems controls, policies and procedures to comply with the internal control over financial reporting requirements of the Sarbanes-Oxley Act of 2002; and potential accounting charges to the extent intangibles recorded in connection with an acquisition, such as goodwill, trademarks, customer relationships or intellectual property, are later determined to be impaired and written down in value.

Moreover, we rely heavily on the representations and warranties provided to us by the sellers of acquired companies, including as they relate to creation, ownership and rights in intellectual property, existence of open source and compliance with laws and contractual requirements. If any of these representations and warranties are inaccurate or breached, such inaccuracy or breach could result in costly litigation and assessment of liability for which there may not be adequate recourse against such sellers, in part due to contractual time limitations and limitations of liability.

If we are unable to continue to drive visitors to our websites from search engines, then traffic to our websites could decrease, which could negatively impact transactions on our websites and therefore cause our revenue to decrease.

Many visitors find our websites by searching for vacation rental information through Internet search engines. A critical factor in attracting visitors to our websites is how prominently we are displayed in response to search queries. Accordingly, we utilize search engine marketing as a means to provide a significant portion of our visitor acquisition. Search engine marketing, or SEM, includes both paid visitor acquisition on a cost-per-click basis and visitor acquisition on an unpaid basis, often referred to as organic search.

One method we employ to acquire visitors via organic search is commonly known as search engine optimization, or SEO. SEO involves developing our websites in a way that enables the websites to rank highly for search queries for which our websites content may be relevant. In addition to SEM and SEO, we may utilize other forms of marketing, such as display advertising and email marketing, to drive visitors to our websites.

The various search engine providers, such as Google and Bing, employ proprietary algorithms and other methods for determining which websites are displayed for a given search query and how highly websites rank. Search engine providers may also launch new features to enhance search results, which may negatively affect the number of visitors to our websites. Search engine algorithms and other methods that determine the display and ranking of results may change from time to time, generally without public announcement or detailed explanation. Therefore, the success of our SEO strategy depends, in part, on our ability to anticipate and respond to such changes in a timely and effective manner through website and content development.

In addition, websites must comply with search engine guidelines and policies. These guidelines and policies are complex and may change at any time. If we fail to follow such guidelines and policies properly, the search engine may cause our content to rank low in search results or could remove the content altogether from its index. If we fail to understand and comply with these guidelines and policies and ensure our websites compliance, our SEO strategy may not be successful.

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If we are listed less prominently or fail to appear in search result listings for any reason, including as a result of our failure to successfully execute our SEO strategy, it is likely that we will acquire fewer visitors to our websites. Fewer visitors to our websites could lead to property owners and managers becoming dissatisfied with our websites, as well as fewer travelers inquiring and booking through our websites, either or both of which would adversely impact our revenue. We may not be able to replace this traffic with the same volume of visitors or in the same cost-effective manner from other channels, such as cost-per-click search engine marketing or display or other advertising, or at all. An attempt to replace this traffic through other channels may require us to increase our sales and marketing expenditures, which may not be offset by additional revenue, adversely affecting our operating results.

Our long-term success depends, in part, on our ability to expand our property owner, manager and traveler bases outside of the United States and, as a result, our business is susceptible to risks associated with international operations.

As our operations have expanded, we have acquired businesses or established offices around the world. As of June 30, 2014, we maintain offices in Australia, Brazil, Colombia, France, Germany, Italy, New Zealand, Singapore, Spain, Switzerland, Thailand, the United Kingdom and the United States and operate websites in several additional countries. We have limited operating and e-commerce experience in many foreign jurisdictions and are making significant investments to build our international operations. We plan to continue our efforts to expand globally, including the acquisition of international businesses and conducting of business in jurisdictions where we do not currently operate. Managing a global organization is difficult, time consuming and expensive and any international expansion efforts that we may undertake may not be successful. In addition, conducting international operations subjects us to risks that we may not face in the United States. These risks include:

- the cost and resources required to localize our services, which requires the translation of our websites into foreign languages and adaptation for local practices and legal and regulatory requirements;

- being subject to laws and regulations, including those laws governing Internet activities, email messaging, collection and use of personal information, ownership of intellectual property, taxation and other activities important to our online business practices, which are less developed and less predictable and which may restrict our business or ability to generate profits;

- competition with companies that understand the local market better than we do or who have pre-existing relationships with potential property owners, managers and travelers in those markets;

- legal uncertainty regarding our liability for the transactions and content on our websites, including online bookings, property listings and other content provided by property owners and managers, including uncertainty resulting from unique local laws or a lack of clear precedent of applicable law;

- lack of familiarity with and the burden of complying with a wide variety of other foreign laws, legal standards and foreign regulatory requirements, including invoicing, data collection and storage, financial reporting and tax compliance requirements, which are subject to unexpected changes;

laws and business practices that favor local competitors or prohibit or limit foreign ownership of certain businesses;

challenges associated with joint venture relationships and minority investments, including dependence on our joint venture partners;

adapting to variations in payment forms from property owners, managers and travelers;

difficulties in managing and staffing international operations and establishing or maintaining operational efficiencies; difficulties in establishing and maintaining internal controls and adequate security over our data and systems;

fluctuations in currency exchange rates;

potentially adverse tax consequences, which may be difficult to predict, including the complexities of foreign value added tax systems and restrictions on the repatriation of earnings;

increased financial accounting and reporting burdens and complexities and difficulties in implementing and maintaining adequate internal controls;

political, social and economic instability abroad, terrorist attacks and security concerns in general;

the potential failure of financial institutions internationally;

reduced or varied protection for intellectual property rights in some countries; and

higher telecommunications and Internet service provider costs.

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Operating in international markets also requires significant management attention and financial resources. We cannot assure you that our international expansion efforts in any or multiple territories will be successful, and the investment and additional resources required to establish operations and manage growth in other countries may not produce desired levels of revenue or profitability and could instead result in increased costs.

The market in which we participate is highly competitive, and we may be unable to compete successfully with our current or future competitors.

The market to provide listing, search and marketing services for the vacation rental industry is very competitive and highly fragmented. All of the services that we provide to property owners, managers and travelers, including listing and search, are provided separately or in combination to our current or potential customers by other companies that compete with us. Our current or new competitors may adopt aspects of our business model, which could reduce our ability to differentiate our services. Additionally, current or new competitors may introduce new business models or services that we may need to adopt or otherwise adapt to in order to compete, which could reduce our ability to differentiate our business or services from those of our competitors. Furthermore, properties in the vacation rental industry are not typically marketed exclusively through any single channel, and our listing agreements are not typically exclusive. Accordingly, our competitors could aggregate a set of listings similar to ours. Increased competition could result in a reduction in our revenue or the rate of our new listing acquisition, or the loss of existing listings or market share.

There are thousands of vacation rental listing websites in the United States and Europe that compete directly with us for listings, travelers, or both, such as HouseTrips.com, Booking.com, Airbnb, @Leisure, InterHome, James Villas, TripAdvisor and Wyndham Worldwide. Many of these competitors offer free or heavily discounted listings or focus on a particular geographic location or a specific type of rental property. Some of them also aggregate property listings obtained through various sources, including the websites of property managers some of whom also market their properties on our websites.

Some websites operated by competitors address the wider fragmented travel lodging market, such as Airbnb (worldwide) and Wimdu (worldwide), by listing both rooms or the owner s primary home for short term rental. The properties offered by these individuals increase both the number of rental opportunities available to travelers and the competition for the attention of the traveler, which could affect the number of people who use our websites. Some vacation rental property owners also list on these websites, and consequently these companies compete with us to some extent today and could become more significant competitors in the future.

We also compete with online travel websites, such as Expedia, Hotels.com, Kayak, Priceline, Booking.com, Orbitz and Travelocity, which have traditionally provided comprehensive travel services and some of whom are now expanding into the vacation rental category. We also compete with large Internet companies, such as craigslist, eBay, Google, MSN.com and Yahoo!, which provide listing or advertising services in addition to a wide variety of other products or services.

Some of our current or potential competitors are larger and have more resources than we do. Many of our current and potential competitors enjoy substantial competitive advantages, such as greater name recognition in their markets, longer operating histories and larger marketing budgets, as well as substantially greater financial, technical and other resources. In addition, our current or potential competitors may have access to larger property owner, manager or traveler bases. As a result, our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or owner, manager or traveler requirements. Furthermore, because of these advantages, existing and potential owners, managers and travelers might accept our competitors offerings, even if they may be inferior to ours. For all of these reasons, we may not be able to compete successfully against our current and future competitors.

In addition, competitors in the United States such as Perfect Places, Inc. and VacationRoost, Inc. and in Europe such as Atraveo and eDomizil predominately serve the professional management marketplace for vacation rentals, and therefore have the capability of creating more targeted products and features for property manager constituents.

We believe we compete primarily on the basis of the quantity and quality of our listings, the quality of the direct relationships we have with property owners and managers, the volume of travelers who visit our websites, the number of inquiries provided to our property owners and managers, the global diversity of the vacation rentals available on our websites, the quality of our websites, customer service, brand identity, the success of our marketing programs, and price. If current or potential property owners, managers or travelers choose to use any of these competitive offerings in lieu of ours, our revenue could decrease and we could be required to make additional expenditures to compete more effectively. Any of these events or results would harm our business, operating results and financial condition.

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Unfavorable changes in, or interpretations of, government regulations or taxation of the evolving vacation rental, Internet and e-commerce industries could harm our operating results.

We operate in markets throughout the world, in jurisdictions which have various regulatory and taxation requirements that can affect our operations or regulate the rental activity of property owners and managers. Since we began our operations in 2005, there have been, and continue to be, regulatory developments that affect the vacation rental industry and the ability of companies like us to list those vacation rentals online. For example, some municipalities have adopted ordinances that limit the ability of property owners to rent certain properties for fewer than 30 consecutive days and other cities have introduced or may introduce similar regulations. Some cities also have fair housing or other laws governing the way properties may be rented, which they assert apply to vacation rentals. Many homeowners, condominium and neighborhood associations have adopted rules that prohibit or restrict short-term vacation rentals. These and other similar developments could reduce the number of listings on our websites, which could harm our business and operating results.

From time to time, we may become involved in challenges by or disputes with government agencies regarding these regulations. For example, some government agencies have asked us directly to comply with their regulations and provide owner and manager data to assist them in their enforcement and audit efforts. Also, each region in which we operate has different regulations with respect to licensing and other requirements for the listing of vacation rentals. If a governmental entity sought to apply applicable regulations in a manner that would limit or curtail our ability or willingness to list properties in that particular region, there can be no assurance that we would be successful in defending against the application of these laws and regulations. Further, if we were required to comply with regulations and government requests that negatively impact our relations with property owners, managers and travelers, our business, operations and financial results could be adversely impacted.

Compliance with laws and regulations of different jurisdictions imposing different standards and requirements is very burdensome for businesses like ours. Our online marketplace is accessed by property owners, managers and travelers in multiple states and foreign jurisdictions. Our business efficiencies and economies of scale depend on generally uniform treatment of property owners, managers and travelers across all jurisdictions in which we operate. Compliance requirements that vary significantly from jurisdiction to jurisdiction impose an added cost to our business and increased liability for compliance deficiencies. In addition, laws or regulations that could harm our business could be adopted, or reinterpreted in a manner that affects our activities, by the U.S. government, state governments, and regulatory agencies or by foreign governments or agencies, including but not limited to the regulation of personal and consumer information and real estate licensing requirements. Violations or new interpretations of these laws or regulations may result in penalties, negatively impact our operations and damage our reputation and business.

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Additionally, new, changed, modified or newly interpreted or applied tax laws, statutes, rules, regulations or ordinances could increase compliance, operating and other costs for our property owners and managers and us, which could deter owners from renting their vacation properties, negatively affect our new listings and subscription renewals, and increase our cost of doing business. Any or all of these events could adversely impact our business and financial performance.

If we are unable to introduce new or upgraded services or features that travelers or property owners and managers recognize as valuable, we may fail to drive additional travelers to our websites or retain existing and attract new property owners and managers. Our efforts to develop new and upgraded services and products could require us to incur significant costs.

In order to continue to attract travelers to our online marketplace and retain existing and attract new property owners and managers, we will need to continue to invest in the development of new products, services and features that add value for travelers, property owners and managers, and that differentiate us from our competitors. The success of new products, services and features depends on several factors, including the timely completion, introduction and market acceptance of the product, service or feature. If travelers, property owners or managers do not recognize the value of our new services or features, they may choose not to utilize or list on our online marketplace.

Developing and delivering these new or upgraded products, services or features may increase our expenses, as this process is costly, and we may experience difficulties in developing and delivering these new or upgraded products, services or features. Moreover, new or upgraded products, services or features may not work as intended or provide value to travelers, property owners and managers as anticipated. In addition, some new or upgraded products, services or features may be complex and challenging for us to market to customers and may also involve new pricing. We cannot guarantee that our property owners and managers will respond favorably.

In addition, successfully launching and selling a new product, service or feature will require the use of our marketing, sales or customer service resources. Efforts to enhance and improve the ease of use, responsiveness, functionality and features of our existing websites have inherent risks, and we may not be able to manage these product developments and enhancements successfully. We may choose to license or otherwise integrate applications, content and data from third parties. The introduction of these improvements imposes costs on our business and requires the use of our resources. We may be unable to continue to access these technologies and content on commercially reasonable terms, or at all.

We may be unable to effectively manage our growth.

Since our inception, we have experienced rapid growth. As our operations have expanded, we have grown from 87 employees at December 31, 2005 to 1,705 employees at June 30, 2014, of whom 672 were located outside the United States. This includes employees of entities for which we have a controlling interest. Our business is becoming increasingly complex, especially in light of the continued rapid evolution of our industry and e-commerce, our relatively limited operating history and our reliance on multiple websites throughout the world. This complexity and our rapid growth have demanded, and will continue to demand, substantial resources and attention from our management. We expect to continue to increase headcount and to hire more specialized personnel in the future as we grow our business. We will need to continue to hire, train and manage additional qualified website developers, software engineers, client and account services personnel, and sales and marketing staff and improve and maintain our technology to properly manage our growth. If our new hires perform poorly, if we are unsuccessful in hiring, training, managing and integrating these new employees or if we are not successful in retaining our existing employees, our business may be harmed.

Further, to accommodate our expected growth we must add new hardware and software and improve and maintain our technology, systems and network infrastructure. Failure to effectively upgrade our technology or network infrastructure to support the expected increased listing and traveler traffic volume could result in unanticipated system disruptions, slow response times or poor experiences for owners, managers or travelers. To manage the expected growth of our operations and personnel and to support our public company financial reporting and internal control requirements, we will need to continue to improve our transaction processing and reporting, operational and financial systems, procedures and controls. These improvements will be particularly challenging if we acquire new operations with different systems. Our current and planned personnel, systems, procedures and controls may not be adequate to support our future operations. If we are unable to expand our operations and hire additional qualified personnel in an efficient manner, it could adversely affect owner, manager or traveler satisfaction and cause our expenses to grow disproportionately relative to our revenue.

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We have a relatively limited operating history and we operate in a rapidly evolving industry, which make it difficult to evaluate our current business and future prospects. If we fail to predict the manner in which our business will perform or how the market will develop, our business and prospects may suffer materially.

We began our operations in February 2005. Our relatively limited operating history, together with our rapidly changing industry, may make it difficult to evaluate our current business and our future prospects. We have encountered and will continue to encounter risks and difficulties frequently experienced by growing companies in rapidly changing industries, including challenges in accurate financial planning and forecasting as we develop new products, such as our pay-per-booking listing product, with no historical reference as a basis for such planning and forecasting. You should consider our business and prospects in light of the risks and difficulties we may encounter as a company operating in a highly competitive environment where changes to our business, plans, and products may be required to respond to such changes.

In addition, the market for online vacation rentals is relatively new and, in many geographies, is unproven with little data or research available regarding the market and industry. It is uncertain whether the vacation rental market in many territories where we do business will continue to develop or if our services will achieve and sustain a level of demand and market acceptance sufficient for us to generate revenue, net income and free cash flow growth. Our success will depend to a substantial extent on the willingness of property owners and managers to use commercial online rental property listing services. Some property managers have developed and use their own proprietary online listing services and, therefore, may be reluctant or unwilling to use our websites to market their properties. Furthermore, some travelers and property owners and managers may be reluctant or unwilling to use online listing services because of concerns regarding the security of data, the potential for fraudulent activity, including phishing, or the integrity of the online marketplace. If property owners and managers do not perceive the benefits of marketing their properties online, then our market may not develop as we expect, or it may develop more slowly than we expect, either of which would significantly harm our business and operating results. Moreover, our success will depend on travelers use of our online marketplace to search, locate and rent vacation rentals, which will depend on their willingness to use the Internet and their belief in the integrity of our websites. In addition, since we operate in unproven and unstudied markets, we have limited insight into trends that may develop in those markets and may affect our business. We may make errors in predicting and reacting to other relevant business trends, which could harm our business.

Changes in our effective tax rate could harm our future operating results.

We are subject to federal and state income taxes in the United States and in various foreign jurisdictions. Our provision for income taxes and our effective tax rate are subject to volatility and could be adversely affected by earnings being lower than anticipated in countries that have lower tax rates and higher than anticipated in countries that have higher tax rates; effects of certain non-tax deductible expenses, including those arising from the requirement to expense stock options; changes in the valuation of our deferred tax assets and liabilities; expiration of or lapses in the research and development tax credit laws; transfer pricing adjustments, including the effect of acquisitions on our intercompany research and development cost sharing arrangement and legal structure; adverse outcomes resulting from any tax audit; our ability to utilize our net operating losses and other deferred tax assets; changes in accounting principles or changes in tax laws and regulations, or the application of the tax laws and regulations, including possible U.S. changes to the taxation of earnings of our foreign subsidiaries, the deductibility of expenses attributable to foreign income, or the foreign tax credit rules. Significant judgment is required to determine the recognition and measurement attributes prescribed in the accounting guidance for uncertainty in income taxes. The accounting guidance for uncertainty in income taxes applies to all income tax positions, including the potential recovery of previously paid taxes, which if settled unfavorably could adversely impact our provision for income taxes.

We are exposed to fluctuations in currency exchange rates.

Because we conduct a significant portion of our business outside the United States but report our results in U.S. dollars, we face exposure to adverse movements in currency exchange rates, which may cause our revenue and operating results to differ materially from expectations. In addition, the results of operations of many of our internationally focused websites are exposed to foreign exchange rate fluctuations as the financial results of the applicable subsidiaries are translated from the local currency into U.S. dollars upon consolidation. A decline in the U.S. dollar relative to foreign currencies would increase our non-U.S. revenue, when translated into U.S. dollars. Conversely, if the U.S. dollar strengthens relative to foreign currencies, our revenue would be adversely affected. Our operating results could be negatively impacted depending on the amount of expense denominated in foreign currencies. Revenue in the three months ended June 30, 2014 was positively impacted by foreign currency translation of approximately $1.7 million, while revenue in the six months ended June 30, 2014 was positively impacted by foreign currency translation of approximately $2.7 million. Revenue in the three months ended June 30, 2013 was positively impacted by foreign currency translation of approximately $24,000, while revenue in the six months ended June 30, 2013 was negatively impacted by foreign currency translation of approximately $99,000. As exchange rates vary, revenue, cost of revenue, operating expenses and other operating results, when translated, may differ materially from expectations. In addition, our revenue and operating results are subject to fluctuation if our mix of U.S. and foreign currency denominated transactions and expenses changes in the future. In addition, we maintain intercompany loans and payables which are subject to translation losses due to foreign exchange fluctuation. We may enter into hedging arrangements in order to manage foreign currency exposure but such activity may not completely eliminate fluctuations in our operating results.

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Our business depends on retaining and attracting capable management and operating personnel.

Our success depends in large part on our ability to attract and retain high-quality management and operating personnel, as well as skilled technical and marketing personnel, who are in high demand and are often subject to competing offers. Competition for qualified employees is intense in our industry, and the loss of even a few qualified employees, or an inability to attract, retain and motivate additional highly skilled employees required for the planned expansion of our business could harm our operating results and impair our ability to grow. To attract and retain key personnel, we use various measures, including an equity incentive program and incentive bonuses for key executive officers and other employees. However, some employees have been granted stock options with an exercise price that is or may become more than the market price, which reduces the incentive value of these grants. While we attempt to provide additional or different incentive compensation tools to mitigate this impact, the measures we employ to attract and maintain key personnel may not be effect enough to enable us to attract and retain the personnel we require to operate our business effectively.

If we fail to protect confidential information against security breaches, or if property owners and managers or travelers are reluctant to use our online marketplace because of privacy or security concerns, we might face additional costs, and activity on our websites could decline.

We collect and use personally identifiable information, such as email addresses (but not passwords) and phone numbers of property owners, managers and travelers, in the operation of our business, such as when customers register to list their properties on our websites or to subscribe to our newsletters. Our servers may be vulnerable to computer viruses or physical or electronic break-ins that our security measures may not detect. In addition, third parties may target users of our websites directly with attempts to breach the security of their email accounts or management systems, such as phishing attacks, which are fraudulent identity theft schemes designed to appear as legitimate emails from us or from our property owners and managers. Criminals may also employ new or different schemes aimed at defrauding our property owners, managers or travelers in ways that we may not anticipate or be able to adequately guard against. Although phishing attacks and other fraud schemes are generally not on our systems, victims may nevertheless seek recovery from us of funds they lost. As a result, we may be required to defend ourselves in costly litigation and may suffer harm to our reputation, brand and business.

We also may suffer harm from breaches of our own technology systems. Anyone that is able to circumvent our security measures could misappropriate confidential or proprietary information, cause interruption in our operations, damage our computers or those of our users, or otherwise damage our reputation and business. We may need to expend significant resources to protect against security breaches or to address problems caused by breaches. Security breaches could damage our reputation and expose us to a risk of loss or litigation and possible liability under various laws and regulations. In addition, industry-wide incidents or incidents with respect to our websites, including misappropriation of third-party information or security breaches, could deter people from using the Internet or our online marketplace to conduct transactions. Concern among prospective owners, managers and travelers regarding our use of personal information collected on our websites could keep prospective owners, managers and travelers from using our online marketplace. Concern among property owners and managers who are customers could cause them to cancel or fail to renew their listings.

There are risks of security breaches both on and off our systems as we increase the types of technology we use to operate our marketplace, such as mobile applications. Such technology systems and platforms may be new and evolving and may involve security risks that are difficult to predict and adequately guard against. Our property owners, managers and travelers may be harmed by such breaches and we may in turn be subject to costly litigation, harm to our reputation and brand and property owners, managers and travelers may cease using our marketplace.

The laws of some states and countries require businesses that maintain personal information about their residents in electronic databases to implement reasonable measures to keep that information secure. Our practice is to encrypt all sensitive information, but we do not know whether our current practice will be deemed sufficient under these laws. In addition, under certain of these laws, if there is a breach of our computer systems and we know or suspect that unencrypted personal data has been stolen, we are required to inform any user whose data was stolen, which could harm our reputation and business. Complying with the applicable notice requirements in the event of a security breach could result in significant costs. We may also be subject to claims of breach of contract for such disclosure, investigation and penalties by regulatory authorities, and potential claims by persons whose information was disclosed.

Other states and countries have enacted different and often contradictory requirements for protecting personal information collected and maintained electronically. Compliance with numerous and contradictory requirements of the different states and countries is particularly difficult for an online business such as ours, which collects personal information from users in multiple jurisdictions. While we intend to comply fully with these laws, failure on our part to comply with such laws could result in legal liability, cause us to suffer adverse publicity and lose business, traffic and revenue, which could jeopardize our success. If we were required to pay any significant amount of money in satisfaction of claims under these laws, or any similar laws enacted by another jurisdiction, or if we were forced to cease our business operations for any length of time as a result of our inability to comply fully with any such laws, our business, operating results and financial condition could be adversely affected.

In addition, third parties that process credit card transactions between us and property owners and managers maintain personal information collected from these property owners and managers, including credit card numbers. Such information could be compromised or accessed as a result of misappropriation or security breaches, and we could be subject to liability as a result. Further, property owners and managers may develop a lack of confidence in these third parties or in their ability to securely conduct credit card transactions on our websites or the Internet in general, which would adversely impact our business, revenue and operating results.

If we are unable to adapt to changes in technology, our business could be harmed.

Because property owners, managers and travelers can access our websites on a variety of network hardware and software platforms using a standard browser or a mobile application, we will need to continuously modify and enhance our service to keep pace with changes in Internet and mobile-related hardware, software, communication, browser and database technologies. We may not be successful in developing required modifications and enhancements or in developing ones that work well and that our website users will adopt. Furthermore, uncertainties about the timing and nature of new network platforms or technologies, or modifications to existing platforms or technologies, could increase our research and development expenses more than we have currently planned. Any failure of our online marketplace to operate effectively with future network platforms and technologies could result in dissatisfaction from travelers, property owners, managers and advertisers and harm our business.

We may be subject to liability for the activities of our property owners and managers, which could harm our reputation and increase our operating costs.

We periodically receive complaints related to certain activities on our websites, including disputes over the authenticity of the vacation rental listing, unauthorized use of credit card and bank account information and identity theft, phishing attacks, potential breaches of system security, libel and infringement of third-party copyrights, trademarks or other intellectual property rights. We have also experienced fraud by purported owners or managers listing properties which either do not exist or are significantly not as described in the listing. The methods used by perpetrators of fraud constantly evolve and are complex, and our trust and security measures may not detect all fraudulent activity. Consequently, we expect to continue to receive complaints from travelers and requests for reimbursement of their rental fees, as well as actual or threatened legal action against us if no reimbursement is made.

We may further be subject to claims of liability based on events that occur during travelers stays at the vacation rentals of our property owners and managers, such as for robbery, accidental injury or death or other similar incidents. These risks to us may increase as we provide additional e-commerce tools to allow our property owners and managers and travelers to conduct all or more of the rental transaction online. Although the transaction is between the owner and manager on the one side and the traveler on the other side, as our websites become more integral to the rental transaction, the likelihood that a party to the transaction will seek to include us in any dispute could increase. Such disputes or incidents may subject us to liability, which would increase our operating costs and adversely affect our business and results of operations. Even if these claims do not result in liability to us, we could incur significant costs in investigating and defending against them. Although the terms and conditions of use of our websites, which are available on all of our websites, state that we are not a party to any rental transaction and specifically exempt us from any liability to travelers in the event of a fraudulent listing, a property not being significantly as described or any other claim by travelers relating to their vacation rental, the enforceability of these terms varies from jurisdiction to jurisdiction, and the laws in this area are consistently evolving. If we are subject to liability or claims of liability relating to the acts of our property owners or managers, or due to fraudulent listings, we may be subject to negative publicity, incur additional expenses and be subject to liability, which could harm our business and our operating results.

Loss or material modification of our credit card acceptance privileges would have a material adverse effect on our business and operating results.

A significant percentage of our property owners and managers pay for their listings by credit card because it simplifies and expedites the payment process and is typically a secure form of payment. The loss of our credit card acceptance privileges would significantly limit our ability to renew listings with these property owners and managers or secure new property owners and managers.

Most of our property owners and managers purchase an annual listing, for which payment is made at the beginning of the listing term. In addition, many of our listing renewals are paid by auto-renewal, charging the renewal listing fee to the property owner s or manager s credit card. There is a risk that, if we fail to fully perform our obligations under the listing terms or the property owner or manager objects to the auto-renewal payment made by credit card, the credit card companies could be obligated to reimburse these property owners and managers for all or a portion of the listing fee. We would be obligated to pay all such amounts under our agreements under which we have obtained our credit card acceptance privileges. As a result of this risk, credit card companies may require us to set aside additional cash reserves, may not renew our acceptance privileges or may increase the transaction fees they charge us for these privileges.

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The card networks, such as Visa, MasterCard and American Express, have adopted rules and regulations that apply to all merchants who process and accept credit cards and include the Payment Card Industry Data Security Standards, or the PCI DSS. Under the PCI DSS, we are required to adopt and implement internal controls over the use, storage and security of card data to help prevent credit card fraud. We assess our compliance with the PCI DSS on a periodic basis and make necessary improvements to our internal controls. If we fail to comply with the rules and regulations adopted by the card networks, including the PCI DSS, we would be in breach of our contractual obligations to payment processors and merchant banks. Such failure to comply may subject us to fines, penalties, damages and civil liability and could eventually prevent us from processing or accepting credit cards. Further, there is no guarantee that, even if we comply with the rules and regulations adopted by the card networks, we will be able to maintain our compliance. We also cannot guarantee that such compliance will prevent illegal or improper use of our payments systems or the theft, loss or misuse of the credit card data of customers or participants.

The loss of, or the significant modification of, the terms under which we obtain credit card acceptance privileges would have a material adverse effect on our business, revenue and operating results.

We rely on third-parties for payment and credit card processing and other services used in our online marketplace.

We have agreements with companies that process payment and customer credit card transactions for payments to us for subscriptions. We also have agreements with companies that process traveler payment and credit card transactions for bookings of vacation rental properties and related products and services from our customers. We may be held liable for accepting fraudulent credit cards on our websites or other payment disputes with our customers or with travelers. We also rely on these companies to provide uninterrupted services and to provide their services in accordance with all applicable laws, rules and regulations. We also rely on third-party service providers for the provision of other services to our customers and travelers, such as insurance products and for other services on which we rely, such as some customer service functions.

If these companies experience difficulties and are not able to provide services in a reliable and secure manner, if they do not operate in compliance with applicable laws, rules and regulations and, with respect to payment and card processing companies, if they are unable to effectively combat the use of fraudulent payments and credit cards on our websites, our results of operations and financial positions could be materially adversely affected. In addition, if such third-party service providers were to cease operations, temporarily or permanently, face financial distress or other business disruption, we could suffer increased costs and delays in our ability to provide similar services until an equivalent service provider could be found or we could develop replacement technology or operations, any of which could have an adverse impact on our business and financial performance.

If we are not able to identify and successfully acquire suitable businesses, our operating results and prospects could be harmed.

We have faced limited competition within our industry for acquisitions of businesses, technologies and assets, but, such competition has increased, and in the future, such competition may intensify. As such, even if we are able to identify an acquisition that we would like to consummate, we may not be able to complete the acquisition on commercially reasonable terms because the target is acquired by another company. We may expend significant cash or incur substantial debt to finance such acquisitions, which indebtedness could result in restrictions on our business and significant use of available cash to make payments of interest and principal. In addition, we may finance or otherwise complete acquisitions by issuing equity or convertible debt securities, which could result in further dilution of our existing stockholders. We may enter into negotiations for acquisitions that are not ultimately consummated. Those negotiations could result in diversion of management time and significant out-of-pocket costs. If we fail to evaluate and execute acquisitions successfully, we may not be able to realize the benefits of these acquisitions, and our operating results could be harmed. If we are unable to successfully address any of these risks, our business, financial condition or operating results could be harmed.

Our revenue, expenses and operating results could be affected by changes in travel, real estate and vacation rental markets, as well as general economic conditions.

Our business is particularly sensitive to trends in the travel, real estate and vacation rental markets, which are unpredictable, as well as trends in the general economy. Therefore, our operating results, to the extent they reflect changes in the broader travel, real estate and vacation rental industries, may be subject to significant fluctuations.

For example, changes in the travel industry, such as disruptions caused by war, terrorist attacks or natural disasters, could significantly reduce the willingness of potential travelers to plan vacation and other travel. Such disruptions which harm or destroy vacation homes could cause the property owners and managers of such homes to cancel or fail to renew their listings. Downturns in real estate markets may result in decreased new building rates and increases in foreclosures, which could result in fewer vacation rentals available for listing on our websites. Also, since vacation travel is generally dependent on discretionary spending, negative general economic conditions could significantly reduce the overall amount that travelers spend on, and the frequency of, leisure travel, including vacation rentals. Additionally, property owners may choose or be forced to sell their vacation rentals during periods of economic slowdown or recession. Any or all of these factors could reduce the demand for vacation rentals and our services, reducing our revenue and could increase our need to make significant expenditures to continue to attract property owners, managers and travelers to our websites.

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Vacation rentals are often located in popular vacation destinations around the world and utilized on a seasonal basis. Factors influencing the desirability of vacation rentals in a particular region or season could adversely affect our ability to obtain new listings and retain existing listings.

Vacation rentals are often located in popular vacation destinations and utilized on a seasonal basis. As a result, our listings involve properties that are often concentrated in particular regions, and our revenue is dependent upon our ability or willingness to list properties in those regions. Each region has its own commercial and regulatory requirements related to the listing of vacation rentals. If we became unable or unwilling to list properties in a particular region, our listings in the region could decline or cease to grow, and revenue and results of operations could be adversely impacted.

In addition, factors influencing the desirability of vacation rentals in a particular region or during a specific season could adversely affect our ability to obtain new listings and retain existing listings. The occurrence of a significant natural disaster, political turmoil or other regional disturbance could reduce the number of available vacation rentals in that area, reducing our listing base and our revenue. In addition, if we do not have sufficient property listings in a newly popular vacation destination, we could fail to attract travelers to our websites and property owners and managers may opt to list their properties with a competitor having a greater presence in that area.

We could face liability for transactions and information on or accessible through our online marketplace.

We provide an online marketplace for vacation rentals, which includes the ability for property owners and managers to have their properties booked online. Although we are not a party to the rental transactions that occur on or through our websites, we could nevertheless be exposed to liability for or relating to these transactions. Travelers may seek damages from us relating to any transaction or rental because they booked the rental on one of our websites. Government, regulatory or taxing authorities may also seek to hold us liable for taxes, fees or other requirements due to our provision of the marketplace.

In addition, a significant portion of the information available through our online marketplace, including listing data and photographs, is submitted by property owners and managers and third parties. We also allow third parties to advertise their products and services on our websites and include links to third-party websites. We could be exposed to liability with respect to this information. Property owners and managers could assert that information concerning them on our websites contains errors or omissions and third parties could seek damages from us for losses incurred if they rely upon incorrect information provided by our property owners and managers or advertisers. We could also be subject to claims that the persons posting information on our websites do not have the right to post such information or are infringing the rights of third parties, such as copyrights in photographs and privacy and publicity rights. Among other things, we might be subject to claims that by directly or indirectly providing links to websites operated by third parties, we are liable for wrongful actions by the third parties operating those websites. Even if these claims do not result in liability to us, we could incur significant costs in investigating and defending against these claims.

In addition, our services feature a property review platform, which allows travelers to post property reviews and other information about properties, property owners and managers. Although this feedback is generated by users and not by us, claims of defamation or other injury have been made against other Internet service providers offering similar forums and may be made against us for content posted in this forum. Our potential liability for information on our websites or distributed by us to others and for the activities of our owners, managers or travelers could require us to implement additional measures to reduce our exposure to such liability, which may require us to expend substantial resources and limit the attractiveness of our online marketplace to users. Our general liability insurance may not cover all potential claims to which we are exposed and may not be adequate to indemnify us for all liability that may be imposed.

Property owner, manager or traveler complaints or negative publicity about our company, our services or our business activities could diminish use of our online marketplace.

Property owner, manager or traveler complaints or negative publicity about our company, our services or our business activities could severely diminish consumer confidence in and use of our online marketplace. Measures we sometimes take to combat risks of fraud and breaches of privacy and security, such as removing suspected fraudulent listings or listings repeatedly reported by travelers to be significantly not as described, can damage relations with our property owners and managers. These measures heighten the need for prompt and accurate customer service to resolve irregularities and disputes. Effective customer service requires significant personnel expense, and this expense, if not managed properly, could significantly impact our profitability. Failure to manage or train our customer service representatives properly could compromise our ability to handle owner, manager and traveler complaints effectively. If we do not handle these complaints effectively, our reputation may suffer, and we may lose the confidence of our owners, managers and travelers. We may also be the subject of blog or forum postings that include inaccurate statements and create negative publicity. As a result of these complaints or negative publicity, property owners and managers of vacation rentals may discontinue their listing with us or travelers may discontinue their use of our websites, and our business and results of operations could be adversely impacted.

If we do not adequately protect our intellectual property, our ability to compete could be impaired.

Our intellectual property includes the content of our websites, our registered domain names, our registered and unregistered trademarks and our patents and patent applications. We believe that our intellectual property is an essential asset of our business and that our HomeAway.com, VRBO.com, VacationRentals.com, Homelidays.com, HomeAway.co.uk, Abritel.fr, Fewo-Direkt.de, AlugueTemporada.com.br, Toprural.com, BedandBreakfast.com, Escapia.com, InstantSoftware.com, travelmob.com, Bookabach.co.nz, Stayz.com.au and other domain names and our technology infrastructure currently give us a competitive advantage in the online market for vacation rental listings. If we do not adequately protect our intellectual property, our brand and reputation could be harmed, property owners, managers and travelers could devalue the content of the websites comprising our online marketplace, and our ability to compete effectively would be impaired.

To protect our intellectual property we rely on a combination of copyright, trademark, patent and trade secret laws, contractual provisions and our user policy and restrictions on disclosure. Upon discovery of potential infringement of our intellectual property, we promptly take action we deem appropriate to protect our rights. We regularly deliver cease and desist letters to parties who misappropriate our trademarks or content, such as aggregators of vacation rental listing content who use automated technology to download content from our online marketplace and display it on their websites without our permission. We also enter into confidentiality agreements with our employees and consultants and seek to control access to and distribution of our proprietary information in a commercially prudent manner. The efforts we have taken to protect our intellectual property may not be sufficient or effective, and, despite these precautions, it may be possible for other parties to copy or otherwise obtain and use the content of our websites without authorization. We may be unable to prevent competitors from acquiring domain names or trademarks that are similar to, infringe upon or diminish the value of our domain names, service marks and our other proprietary rights. Even if we do detect violations and decide to enforce our intellectual property rights, litigation may be necessary to enforce our rights, and any enforcement efforts we undertake could be time-consuming and expensive, could divert our management s attention and may result in a court determining that our intellectual property rights are unenforceable. A failure to protect our intellectual property in a cost-effective and meaningful manner could have a material adverse effect on our ability to compete.

As of June 30, 2014, we had seven patent applications and no issued patents. Any future patents issued to us may be challenged, invalidated or circumvented, may not provide sufficiently broad protection or may not prove to be enforceable in actions against alleged infringers. Furthermore, effective patent, trademark, copyright and trade secret protection may not be available in every country in which our products are available over the Internet. In addition, the legal standards relating to the validity, enforceability and scope of protection of intellectual property rights are uncertain and still evolving.

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

Companies in the Internet and technology industries, and other patent and trademark holders seeking to profit from royalties in connection with grants of licenses, own large numbers of patents, copyrights, trademarks and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. We have received in the past and may in the future receive notices that claim we have misappropriated or misused other parties intellectual property rights. There may be intellectual property rights held by others, including issued or pending patents and trademarks, that cover significant aspects of our technologies, content, branding or business methods. Any intellectual property claim against us, regardless of merit, could be time-consuming and expensive to settle or litigate and could divert our management s attention and other resources. These claims also could subject us to significant liability for damages and could result in our having to stop using technology, content, branding or business methods found to be in violation of another party s rights. We might be required or may opt to seek a license for rights to intellectual property held by others, which may not be available on commercially reasonable terms, or at all. Even if a license is available, we could be required to pay significant royalties, which would increase our operating expenses. We may also be required to develop alternative non-infringing technology, content, branding or business methods, which could require significant effort and expense and make us less competitive in the online vacation rental market. If we cannot license or develop technology, content, branding or business methods for any allegedly infringing aspect of our business, we may be unable to compete effectively. Any of these results could harm our operating results.

If we are not able to maintain and enhance our HomeAway brand and the brands associated with each of our websites, our reputation and business may suffer.

Maintaining and enhancing our HomeAway brand identity and the brand identities we maintain through our other websites are critical to our ability to attract new property owners, managers and travelers to our marketplace, generate advertising revenue and successfully introduce new services and products. We may not be able to successfully build our HomeAway brand identity in the

United States and overseas without losing some or all of the value associated with, or decreasing the effectiveness of, our other brand identities. We expect that the promotion of our brands will require us to make substantial investments, and, as our market becomes more competitive, these branding initiatives may become increasingly difficult and expensive. The successful promotion of our brands will depend largely on our marketing and public relations efforts. If we do not successfully maintain and enhance our brands, we could lose traveler traffic, which could, in turn, cause property owners and managers of vacation rentals to terminate or elect not to renew their listings with us. Our brand promotion activities may not be successful or may not yield revenue sufficient to offset their cost, which could adversely affect our reputation and business.

We currently rely on a small number of third-party service providers to host and deliver a significant portion of our services, and any interruptions or delays in services from these third parties could impair the delivery of our services and harm our business.

We use a combination of third-party data centers distributed globally across multiple regions to host our websites and core services. We do not control the operation of any of the third-party data center facilities we use. These facilities, including our co-location hosting center, may be subject to break-ins, computer viruses, denial-of-service attacks, sabotage, acts of vandalism and other misconduct. They are also vulnerable to damage or interruption from power loss, telecommunications failures, fires, floods, earthquakes, hurricanes, tornadoes and similar events. We currently do not have a comprehensive disaster recovery plan in place nor do our systems provide complete redundancy of data storage or processing. As a result, the occurrence of any of these events, a decision by our third-party service providers to close their data center facilities without adequate notice or other unanticipated problems could result in loss of data as well as a significant interruption in our services and harm to our reputation and brand. Additionally, our third-party data center facility agreements are of limited durations, and our third-party data center facilities have no obligation to renew their agreements with us on commercially reasonable terms, or at all. If we are unable to renew our agreements with these facilities on commercially reasonable terms, we may experience delays in the provisioning of our services until an agreement with another data center facility can be arranged. This shift to alternate data centers could take more than 24 hours depending on the nature of the event.

Furthermore, we depend on continuous and uninterrupted access to the Internet through third-party bandwidth providers to operate our business. If we lose the services of one or more of our bandwidth providers for any reason or if their services are disrupted, for example due to viruses or denial-of-service or other attacks on their systems, we could experience disruption in our services or we could be required to retain the services of a replacement bandwidth provider, which could harm our business and reputation.

Our operations are dependent on the availability of electricity, which also comes from third-party providers. If we or the third-party data center facilities that we use to deliver our services were to experience a major power outage, it could result in disruption of our services and harm to our business.

Any errors, defects, disruptions or other performance problems with our services could harm our reputation and may damage our property owners and managers vacation rental businesses. Interruptions in our services would likely reduce our revenue, require us to issue credits to our property owners and managers, could cause property owners and managers to terminate their listings with us and could adversely affect our renewal rates. Our business and results of operations would be harmed if our current and potential property owners and managers believe our services are unreliable.

Our failure to maintain effective internal controls could adversely affect our financial position and lower our stock price.

We are a relatively new publicly traded company. Our initial public offering closed on July 5, 2011. We are subject to reporting and other obligations under the Securities Exchange Act of 1934, including the requirements of Section 404 of Sarbanes-Oxley. These provisions require annual management assessments of the effectiveness of our internal controls over financial reporting and a report by our independent registered public accounting firm addressing our assessments. We also operate in a complex environment and expect that these obligations, together with our rapid growth and expansion through acquisitions, place significant demands on our management and administrative resources, including accounting and tax resources. Although we have expanded the size and depth of the finance and accounting staff in our U.S. and European headquarters, we may need to hire additional personnel. If we are unable to conclude that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to attest that our management s report is fairly stated or they are unable to express an opinion on our management s assessment or on the effectiveness of our internal control over financial reporting, our investors could lose confidence in the accuracy and completeness of our financial reports.

We may incur increased costs and demands upon management as a result of complying with the laws and regulations affecting public companies, which could harm our operating results.

As a public company, we have incurred and will incur significant legal, accounting, investor relations and other expenses that we did not incur as a private company, including costs associated with public company reporting requirements. We also have incurred and will incur costs associated with current corporate governance requirements, including requirements under Section 404 and other provisions of the Sarbanes-Oxley Act, as well as rules implemented by the Securities and Exchange Commission, or SEC, and the NASDAQ. We expect these rules and regulations to substantially increase our legal and financial compliance costs and to make some activities more time-consuming and costly. We expect that, as a public company, it will continue to be more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to incur substantially higher costs to obtain coverage or to accept reduced policy limits and coverage. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as our executive officers.

We might require additional capital to support business growth, and this capital might not be available.

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges, including the need to develop new products or services or enhance our existing products or services, enhance our operating infrastructure and acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing secured by us in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, we may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly limited.

Risks Related to our Notes

The conditional conversion feature of our convertible senior notes, if triggered, may adversely affect our financial condition and operating results.

In the event the conditional conversion feature of our 0.125% convertible senior notes due 2019 is triggered, holders of notes will be entitled to convert the notes at any time during specified periods at their option. If one or more holders elect to convert their notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders of our notes do not elect to convert their notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

The accounting method for convertible debt securities that may be settled in cash, such as our notes, could have a material effect on our reported financial results.

In May 2008, the Financial Accounting Standards Board, which we refer to as FASB, issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement), which has subsequently been codified as Accounting Standards Codification 470-20, Debt with Conversion and Other Options, which we refer to as ASC 470-20. Under ASC 470-20, an entity must separately account for the liability and equity components of the convertible debt instruments (such as the notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer s economic interest cost. The effect of ASC 470-20 on the accounting for the notes is that the equity component is required to be included in the additional paid-in capital section of stockholders equity on our consolidated balance sheet, and the value of the equity component would be treated as debt discount for purposes of accounting for the debt component of the notes. As a result, we will be required to record a greater amount of non-cash interest expense in current periods presented as a result of the amortization of the discounted carrying value of the notes to their face amount over the term of the notes. We will report lower net income in our financial results because ASC 470-20 will require interest to include both the current period s amortization of the debt discount and the instrument s non-convertible interest rate, which could adversely affect our reported or future financial results.

In addition, under certain circumstances, convertible debt instruments (such as the notes) that may be settled entirely or partly in cash are currently accounted for utilizing the treasury stock method, the effect of which is that any shares issuable upon conversion of the notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable to use the treasury stock method in accounting for the shares issuable upon conversion of the notes, then our diluted earnings per share would be adversely affected.

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We may not have the ability to raise the funds necessary to settle conversions of our convertible senior notes in cash or to repurchase our convertible senior notes upon a fundamental change.

Holders of our notes will have the right to require us to repurchase their notes upon the occurrence of a fundamental change (as defined in the indenture governing the notes) at a repurchase price equal to 100% of their principal amount, plus accrued and unpaid interest, if any. In addition, upon conversion of the notes, unless we elect to deliver solely shares of our common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments in respect of the notes being converted. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of notes surrendered therefor or notes being converted.

Risks Related to the Ownership of our Common Stock

Our stock price may be volatile.

The market price of our common stock is likely to be volatile and could be subject to wide fluctuations in response to, among other things, the risk factors described in this section of this Quarterly Report on Form 10-Q, and other factors beyond our control. Factors affecting the trading price of our common stock could include:

- variations in our operating results;
- variations in operating results of similar companies;
- changes in the estimates of our operating results or changes in recommendations by any securities analysts that elect to follow our common stock;
- changes in our outlook for future operating results which are communicated to investors and analysts;
- announcements of technological innovations, new products, services or service enhancements, strategic alliances or agreements by us or by our competitors;
- marketing and advertising initiatives by us or our competitors;
- the gain or loss of listings and advertising;
- threatened or actual litigation;
- major changes in our management;

recruitment or departures of key personnel;

market conditions in our industry, the travel industry and the economy as a whole;

the overall performance of the equity markets;

sales of shares of our common stock by existing stockholders;

the reports of industry research analysts who cover our competitors and us;

stock-based compensation expense under applicable accounting standards; and

adoption or modification of regulations, policies, procedures or programs applicable to our business.

Furthermore, the stock markets have experienced price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations and general economic, political and market conditions, such as recessions, interest rate changes or international currency fluctuations, may negatively affect the market price of our common stock regardless of our actual operating performance. Each of these factors, among others, could harm the value of our common stock.

In the past, many companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us, regardless of the merits or outcome, could result in substantial costs and divert our management s attention from other business concerns, which could materially harm our business.

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If securities analysts and other industry experts do not continue to publish research or publish negative research about our business, our stock price and trading volume could decline.

The trading market for our common stock depends in part on the research, reports and other media that securities analysts and other industry experts publish about us or our business. If one or more of the analysts who covers us downgrades our stock or publishes negative research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of our company or fails to publish reports on us regularly, we could lose visibility in the market for our stock and demand for our stock could decrease, which could cause our stock price or trading volume to decline. If one or more industry analysts publish negative statements about our business, our stock price could decline.

We do not anticipate paying any dividends on our common stock.

We do not anticipate paying any cash dividends on our common stock in the foreseeable future. If we do not pay cash dividends, our stockholders could receive a return on their investment in our common stock only if the market price of our common stock has increased when they sell their shares.

Our charter documents and Delaware law could prevent a takeover that stockholders consider favorable and could also reduce the market price of our stock.

Our amended and restated certificate of incorporation and our amended and restated bylaws contain provisions that could delay or prevent a change in control of our company. These provisions could also make it more difficult for stockholders to elect directors and take other corporate actions. These provisions include:

- creating a classified board of directors whose members serve staggered three-year terms;
- not providing for cumulative voting in the election of directors;
- authorizing our board of directors to issue, without stockholder approval, preferred stock with rights senior to those of our common stock;
- prohibiting stockholder action by written consent; and
- requiring advance notification of stockholder nominations and proposals.

Certain provisions under Delaware law, the provisions listed above, and other provisions included in our amended and restated certificate of incorporation and our amended and restated bylaws could discourage potential takeover attempts, reduce the price that investors might be willing to pay in the future for shares of our common stock and result in the market price of our common stock being lower than it would be without these provisions.

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

None.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

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Item 5. Other Information

Not applicable.

Item 6. Exhibits

See the Exhibit Index immediately following the signature page of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

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HomeAway, Inc.

SIGNATURE

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

	HOMEAWAY, INC.
Dated: July 30, 2014	By: /s/ Lynn Atchison
	Lynn Atchison
	Chief Financial Officer and Secretary

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EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date
3.1	Amended and Restated Certificate of Incorporation, as currently in effect.	S-1	333-172783	3.2	March 11, 2011
3.2	Amended and Restated Bylaws, as currently in effect.	S-1	333-172783	3.4	March 11, 2011
10.1	2014 Executive Officer Performance Bonus Plan.	8-K	001-35215	10.1	May 2, 2014
31.1*	Certifications of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
31.2*	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
32.1**	Certifications of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
32.2**	Certifications of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
101.INS*	XBRL Instance Document				
101.SCH*	XBRL Taxonomy Extension Schema Document				
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document				
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document				

* Filed herewith.
** Furnished herewith.