

HOMEAWAY INC
Form S-1/A
June 16, 2011
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As filed with the Securities and Exchange Commission on June 16, 2011

Registration No. 333-172783

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 5

to

FORM S-1

REGISTRATION STATEMENT

Under

The Securities Act of 1933

HomeAway, Inc.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

7389
(Primary Standard Industrial
Classification Code Number)
1011 W. Fifth Street, Suite 300

20-0970381
(I.R.S. Employer
Identification Number)

Austin, Texas 78703

(512) 684-1100

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

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Brian H. Sharples

President and Chief Executive Officer

HomeAway, Inc.

1011 W. Fifth Street, Suite 300

Austin, Texas 78703

(512) 684-1100

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box: "

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

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. (Check one):

Large accelerated filer "

Accelerated filer "

Non-accelerated filer (do not check if a smaller reporting company)

Smaller reporting company "

CALCULATION OF REGISTRATION FEE

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Title of Each Class of	Amount to be Registered ⁽¹⁾	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price ⁽²⁾	Amount of Registration Fee ⁽³⁾
Securities to be Registered Common Stock, par value \$0.0001 per share	9,200,000	\$27.00	\$248,400,000	\$28,839.24

(1) Estimated pursuant to Rule 457(a) under the Securities Act of 1933, as amended. Includes offering price of shares that the underwriters have the option to purchase to cover over-allotments, if any.

(2) Estimated solely for the purpose of calculating the registration fee.

(3) The Registrant previously paid \$26,703.00 in connection with the original filing of this Registration Statement on March 11, 2011.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We and the selling stockholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and we and the selling stockholders are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS (Subject to Completion)

Dated June 16, 2011

8,000,000 Shares

COMMON STOCK

HomeAway, Inc. is offering 5,931,335 shares of its common stock and the selling stockholders are offering 2,068,665 shares of common stock. We will not receive any proceeds from the sale of shares by the selling stockholders. This is our initial public offering and no public market currently exists for our shares. We anticipate that the initial public offering price of our common stock will be between \$24.00 and \$27.00 per share.

After this offering, our executive officers, directors, beneficial owners of 5.0% or more of our outstanding shares of common stock and affiliated entities will own approximately 73.4% of our common stock. In addition, in connection with this offering, our executive officers, directors, beneficial owners of 5.0% or more of our outstanding shares of common stock and affiliated entities will receive approximately \$6.3 million of the proceeds from the sale of shares in this offering assuming an initial public offering price of \$25.50, which is the midpoint of the price range set forth above, approximately \$53.7 million as a result of the redemption of outstanding shares of our Series A and Series B redeemable preferred stock held by them and approximately \$20.7 million in payment of accumulated but unpaid dividends upon conversion of outstanding shares of our Series C convertible preferred stock held by them.

*We have applied to list our common stock on the NASDAQ Global Select Market under the symbol **AWAY**.*

Investing in the common stock involves risks. See Risk Factors beginning on page 13.

PRICE \$ A SHARE

	<i>Price to Public</i>	<i>Underwriting Discounts and Commissions</i>	<i>Proceeds to Company</i>	<i>Proceeds to Selling Stockholders</i>
<i>Per Share</i>	\$	\$	\$	\$
<i>Total</i>	\$	\$	\$	\$

The selling stockholders have granted the underwriters the right to purchase up to an additional 1,200,000 shares of common stock to cover over-allotments.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock to purchasers on _____, 2011.

MORGAN STANLEY

DEUTSCHE BANK SECURITIES

GOLDMAN, SACHS & CO.

J.P. MORGAN

STIFEL NICOLAUS WEISEL

PACIFIC CREST SECURITIES

, 2011

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You should rely only on the information contained in this prospectus or in any free-writing prospectus we may authorize to be delivered or made available to you. We have not, the selling stockholders have not and the underwriters have not authorized anyone to provide you with additional or different information. We and the selling stockholders are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The information in this prospectus or any free-writing prospectus is accurate only as of its date, regardless of its time of delivery or of any sale of shares of our common stock. Our business, financial condition, results of operations and prospects may have changed since that date.

Until , 2011 (25 days after the commencement of this offering), all dealers that buy, sell or trade shares of our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This delivery requirement is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

For investors outside the United States: We have not, the selling stockholders have not and the underwriters have not done anything that would permit this offering, or possession or distribution of this prospectus, in any jurisdiction where action for that purpose is required, other than in the United States. Persons outside the United States who come into possession of this prospectus must inform themselves about, and observe any restrictions relating to, the offering of the shares of common stock and the distribution of this prospectus outside of the United States.

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PROSPECTUS SUMMARY

*This summary highlights information contained elsewhere in this prospectus and is a brief overview of key aspects of the offering. Before investing in our common stock, you should carefully read this entire prospectus, including our consolidated financial statements and the related notes and the information set forth in the sections of this prospectus titled *Risk Factors* and *Management's Discussion and Analysis of Financial Condition and Results of Operations*. Some of the statements in this prospectus constitute forward-looking statements. See the section of this prospectus titled *Special Note Regarding Forward-Looking Statements* for more information.*

HomeAway, Inc.

Overview

We operate the world's largest online marketplace for the vacation rental industry. Vacation rentals are fully furnished, privately owned residential properties, including homes, condominiums, villas and cabins, that can be rented on a nightly, weekly or monthly basis. Our marketplace brings together millions of travelers seeking vacation rentals online with hundreds of thousands of owners and managers of vacation rental properties located in over 145 countries around the world. According to comScore's March 2011 Media Metrix Media Trend Report, in 2010, our websites attracted over 220 million website visits and averaged over 9.5 million unique monthly visitors. As of March 31, 2011, our global marketplace included more than 560,000 paid listings of vacation rentals.

Our ambition is to make every vacation rental in the world available to every traveler in the world through our online marketplace. Travelers visit our marketplace at no charge and are able to search and compare our large and detailed inventory of paid listings to find vacation rentals meeting their requirements. Our investments in our customer service, brand, and trust and security measures, as well as our direct relationships with property owners and managers, give travelers increased confidence in their inquiries, bookings and chosen properties. Property owners and managers pay annual listing fees to provide detailed listings of their properties on our marketplace and reach a large audience of travelers seeking vacation rentals. We also provide property owners and managers with a range of paid and free software tools designed to help make the management of their vacation rental listings easier and more efficient.

We benefit from significant network effects as the market leader in the highly fragmented online vacation rental industry. As we have grown, a broader selection of vacation rentals has attracted more travelers, and a broader audience of travelers has attracted more vacation rental listings from property owners and managers. There is a significant opportunity for us to build on our current market leadership by connecting the millions of travelers around the world with the millions of vacation rentals available. To capture this opportunity, we aspire to make vacation rentals as well-known, reliable and easy to use as hotels and to be an indispensable partner to property owners and managers around the world. We also intend to bring our experience in operating the leading online vacation rental marketplace to other areas of the global lodging industry that are highly fragmented, as we have done with our 2010 entry into the bed and breakfast market.

We have achieved significant growth since our commercial launch in 2005, both organically and through acquisitions. In 2010 and in the three months ended March 31, 2011, we generated revenue of \$167.9 million and \$52.0 million, respectively, representing year-over-year growth of 39.6% and 43.9%, respectively. We view our market opportunity as global, and, in 2010, 37.9% of our revenue came from outside the United States, including 36.6% from Europe and 1.3% from Latin America. We have historically generated strong cash flows and have had a predictable financial model because of our advance payment, subscription-based model, and our high annual listing renewal rates. In 2010 and in the three months ended March 31, 2011, listings contributed 91.1% and 86.9% of our revenue, respectively. In the same periods, we generated Adjusted EBITDA of \$43.2 million

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and \$10.2 million, respectively, representing year-over-year increases of 41.4% and 76.7%, respectively, and we generated net income of \$16.9 million and \$1.5 million, respectively, representing year-over-year increases of 120.9% and 290.9%, respectively. In 2010 and in the three months ended March 31, 2011, we generated free cash flow of \$51.5 million and \$17.8 million, respectively, representing year-over-year increases of 59.1% and 9.0%, respectively, and we generated cash provided by operating activities of \$61.9 million and \$21.0 million, respectively, representing year-over-year increases of 37.6% and 18.2%, respectively.

For further discussion regarding Adjusted EBITDA and free cash flow and reconciliations of net income (loss) to Adjusted EBITDA and cash flows from operating activities to free cash flow, see Discussion Regarding Adjusted EBITDA and Free Cash Flow and Reconciliation to GAAP on page 10.

The Vacation Rental Industry

Vacation rentals provide many unique benefits to travelers and are becoming an increasingly popular alternative to hotels and other traditional lodging options. According to a November 2010 survey we commissioned from Radius Global Market Research titled Market Sizing Study, the vacation rental industry is large generating more than \$85 billion in 2010 in the United States and Europe but fragmented and inefficient. Travelers have historically lacked an efficient means to locate, compare and select suitable and trustworthy vacation rentals on a global scale, while property owners and managers have found it difficult to reach a global audience and manage their vacation rentals efficiently. We believe there is a significant opportunity for a branded online marketplace to make finding and booking vacation rentals as easy and efficient as finding and booking hotels.

The HomeAway Solution

We operate the world's largest online marketplace for the vacation rental industry. As of March 31, 2011, we operated our online marketplace through 31 websites in 11 languages and provided listings for vacation rentals located in over 145 countries. According to comScore's March 2011 Media Metrix Media Trend Report, in 2010, our websites attracted over 220 million website visits and averaged over 9.5 million unique monthly visitors. As of March 31, 2011, our global marketplace included more than 560,000 paid listings of vacation rentals.

Our online marketplace allows travelers to conveniently locate, compare and select from a large range of vacation rentals globally. We offer travelers a reliable and consistent experience and a trusted brand that supports the direct relationships we have with property owners and managers. In addition, we offer easy-to-use search tools and filters that enable comparisons across properties and across regions, rich content including detailed property descriptions, numerous photographs, maps, detailed traveler reviews and up-to-date availability calendars.

Our global marketplace provides property owners and managers access to millions of our website visitors seeking information about vacation rentals. Our online marketplace allows property owners and managers to efficiently create and manage their property listings, access our dedicated customer support organization, participate in our online community of property owners and managers, and use our workflow tools and software solutions to more efficiently manage their properties.

HomeAway's Competitive Strengths

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Market Leadership with Strong Network Effects. We operate the world's largest online marketplace for the vacation rental industry. As of March 31, 2011, our global marketplace included more than 560,000 paid listings of vacation rentals. Our leadership position has allowed our marketplace to benefit from significant network effects, as a broader selection of vacation rentals has attracted more travelers, and a broader audience of travelers has attracted more vacation rental listings from property owners and managers.

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Global Marketplace. We were founded with the vision that the vacation rental industry is a global opportunity, and as of March 31, 2011, we have built a global marketplace consisting of a portfolio of leading websites dedicated to many of the largest vacation rental markets around the world, including the United States, the United Kingdom, France, Germany and Brazil. Our global reach enables us to connect more travelers to property owners and managers and to offer a more comprehensive selection to travelers relative to our competitors. This foundation supports our ability to enter new geographies with existing relevant property listings.

Trusted Leader in the Vacation Rental Industry. We are committed to providing the most trusted online marketplace in the vacation rental industry. To provide a reliable and consistent experience on our marketplace, we have built a trained customer service organization of 260 people as of March 31, 2011, dedicated to achieving property owner, manager, and traveler satisfaction. Through a combination of proprietary technology and established procedures, we aim to minimize the chance that a fraudulent listing will appear on any of our websites. Our extensive review platform and Carefree Rental Guarantee and Basic Rental Guarantee allow us to further promote traveler confidence.

Deep Experience in Vacation Rentals. We have developed a deep understanding of the vacation rental industry's participants and dynamics through hundreds of thousands of direct relationships with property owners and managers and our experience with the millions of visitors to our websites. We believe that the industry expertise and scale we have developed over time and our intense focus on this industry's unique challenges have allowed us to design technology-based, user-friendly and global solutions that are highly differentiated from our competitors.

Innovative Solutions and Scalable Technology Platform. Through our technology investments and proprietary innovations, we offer a broad range of features, tools and software to travelers, property owners and managers. We believe that these features, tools and software, along with our investments in trust and security measures, strengthen our market-leading value proposition. Our websites are supported by our highly robust and scalable technology infrastructure, which allows us to quickly launch new vacation rental websites when entering new markets.

Highly Predictable and Profitable Subscription-Based Business Model. Our financial model benefits from our predictable, subscription-based revenue model. As of December 31, 2008, 2009 and 2010, and as of March 31, 2011, our listing renewal rates were 74.4%, 72.8%, 75.9% and 76.1%, respectively, which has provided a stable revenue base and has historically enhanced financial predictability. The leverage and scale of our financial model has provided us with the ability to further invest in growing our business. In 2010, we generated \$51.5 million in free cash flow. See Discussion Regarding Adjusted EBITDA and Free Cash Flow and Reconciliation to GAAP on page 10 for a definition of free cash flow and reconciliation to cash flows from operating activities.

HomeAway's Growth Strategies

Our ambition is to extend our leadership position as the world's largest and most complete vacation rental marketplace by making every vacation rental in the world available to every traveler in the world through our online marketplace. Our strategies to achieve this goal include:

Increase the Size of our Marketplace by Providing the Best Online Experience. We intend to build on our market-leading scale by providing the best online experience for travelers, property owners and managers. For travelers, we will leverage the scale and scope of the current listings on our marketplace, the latest web technologies and our own innovations in user interface, visual design, features and functionality. For owners and property managers, we will add workflow tools and software solutions to help them efficiently market and manage their listings, payments, and online bookings.

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Bring More Choice and Value to Property Owners, Managers and Travelers. Our strategy is to better enable our property owners and managers to optimize the value of their listings by extending tiered, pay-for-performance pricing across our entire marketplace. In addition, we plan to offer streamlined bundled pricing to enable property owners and managers to tailor their purchases of expanded listings across our websites to achieve their unique marketing objectives. For travelers, our innovations in payment solutions will reduce friction in the booking process and allow us to improve and expand our offering of value-added services.

Increase Category and Brand Awareness. We believe many adults in the United States lack familiarity with the vacation rental industry due to the fragmentation of the market. We intend to increase our investment in marketing, which we believe will enhance our category and brand awareness.

Expand Geographically. We expect to build on our global reach by adding new listings and new traffic via organic growth and selected acquisitions in new geographies, including Europe, Latin America and Asia Pacific. We have a successful history of acquiring and integrating fast-growing businesses into our marketplace while maintaining our growth. We have also successfully leveraged our existing listing inventory and established technology platform to rapidly launch our own new websites in new geographies.

Pursue Adjacent Opportunities. Our established business model for organizing and developing an online marketplace is also well suited to other highly fragmented global lodging marketplaces where there are no global brands. For example, our acquisition of BedandBreakfast.com has enabled us to bring our strengths in the vacation rental industry to the bed and breakfast market. The bed and breakfast industry is characterized by numerous independently operating property owners and innkeepers with limited marketing budgets and with potential customers located around the world.

Risks Associated with Our Business

Our business is subject to a number of risks of which you should be aware before making an investment decision. These risks are discussed more fully in the section of this prospectus titled "Risk Factors," and include but are not limited to the following:

we are an early-stage company with a limited operating history in the United States, Europe and Latin America, which makes it difficult to evaluate our current business and future prospects and may increase the risk of your investment;

if we are unable to attract and maintain a critical mass of property 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;

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

we may be unable to effectively manage our growth;

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our quarterly financial results are subject to fluctuations, and, as a result, we could fail to meet or exceed expectations of analysts or investors, which could cause our stock price to decline; and

if we are not able to effectively integrate acquired businesses, our operating results and prospects could be harmed.

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Company Information

Our principal executive offices are located at 1011 W. Fifth Street, Suite 300, Austin, Texas 78703, and our telephone number is (512) 684-1100. Our corporate website address is www.HomeAway.com. We do not incorporate the information contained on, or accessible through, our corporate website into this prospectus, and you should not consider it part of this prospectus. We originally incorporated in the State of Delaware as CEH Holdings Inc. in April 2004 and changed our name to HomeAway, Inc. in May 2006.

In this prospectus, we, us, our, Company and HomeAway refer to HomeAway, Inc. and its subsidiaries.

HomeAway, VRBO, VacationRentals.com, FeWo-Direkt, Holiday-Rentals, Homelidays, Abritel.fr, Aluguetemporada, BedandBreakfast.com, Clearstay, CyberRentals.com, Entech, Escapia, First Resorts, InstantSoftware, OwnersDirect, PropertyPlus, Rezovation, V12, Villanao.fr and Webervations are trademarks or logos appearing in this prospectus owned by HomeAway, Inc. or one of our subsidiaries. All other trademarks, service marks and trade names appearing in this prospectus are the property of their respective owners.

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THE OFFERING

Common stock offered by HomeAway	5,931,335 shares
Common stock offered by the selling stockholders	2,068,665 shares
Total common stock offered	8,000,000 shares
Total common stock to be outstanding after this offering	79,829,804 shares

Use of proceeds

We intend to use the net proceeds from this offering as follows:

to redeem our outstanding shares of Series A and Series B redeemable preferred stock, including accumulated and unpaid dividends on our outstanding shares of Series A and Series B redeemable preferred stock that have accrued at a rate of 8% per annum of the original issue price of each such share of preferred stock, of which the aggregate redemption amount payable as of March 31, 2011 was \$64.2 million;

to pay accumulated and unpaid dividends on our outstanding shares of Series C convertible preferred stock that have accrued at a rate of 8% per annum of the original issue price of each such share of preferred stock, of which the amount payable as of March 31, 2011 was \$30.9 million; and

the remainder for working capital and other general corporate purposes, which may include the acquisition or license of, or investment in, products, services, technologies or other businesses. We will not receive any proceeds from the sale of shares by the selling stockholders. See Use of Proceeds.

Risk factors

See Risk Factors for a discussion of factors that you should consider carefully before deciding whether to purchase shares of our common stock.

Proposed NASDAQ Global Select Market symbol

AWAY

The number of shares of common stock to be outstanding after this offering is based on 73,898,469 shares outstanding as of March 31, 2011, and excludes:

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148,215 shares of common stock issuable upon exercise of warrants outstanding as of March 31, 2011, at a weighted average exercise price of \$1.08 per share;

11,467,052 shares of common stock issuable upon exercise of options outstanding as of March 31, 2011, at a weighted average exercise price of \$12.70 per share; and

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1,056,239 shares of common stock reserved, as of March 31, 2011, for future issuance under our 2004 Stock Plan, which shares will be added to the shares reserved under our 2011 Equity Incentive Plan adopted in May 2011 upon its effectiveness, as more fully described in the section of this prospectus titled Executive Compensation Employee Benefit Plans.

Unless otherwise noted, the information in this prospectus assumes:

the underwriters will not exercise their option to purchase 1,200,000 additional shares;

the redemption of all of our outstanding shares of Series A and Series B redeemable preferred stock effective prior to or upon the closing of this offering;

the conversion of all of our outstanding shares of Series C and Series D convertible preferred stock into 34,445,850 shares of common stock prior to or upon the closing of this offering; and

the filing of our amended and restated certificate of incorporation and the effectiveness of our amended and restated bylaws, which will occur immediately prior to the closing of this offering.

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The following tables summarize the consolidated financial and operating data for the periods indicated. The summary consolidated statement of operations data for the years ended December 31, 2008, 2009 and 2010 and the summary consolidated balance sheet data as of December 31, 2009 and 2010 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. We have derived the summary consolidated statements of operations data for the three months ended March 31, 2010 and 2011, and the summary consolidated balance sheet data as of March 31, 2011, from our consolidated financial statements included elsewhere in this prospectus. Our historical results are not necessarily indicative of the results that may be expected in the future. You should read the summary financial data presented below in conjunction with our consolidated financial statements and related notes and the sections of this prospectus titled "Selected Consolidated Financial and Other Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Year Ended December 31,			Three Months Ended March 31,	
	2008	2009	2010	2010	2011
Consolidated Statements of Operations Data:					
(in thousands except per share data)					
Revenue:					
Listing	\$ 80,012	\$ 115,881	\$ 152,890	\$ 33,818	\$ 45,171
Other	2,314	4,349	14,994	2,292	6,796
Total revenue	82,326	120,230	167,884	36,110	51,967
Costs and expenses:					
Cost of revenue (exclusive of amortization shown separately below)	11,065	17,800	25,647	5,793	8,458
Product development	12,535	13,180	18,703	3,844	7,011
Sales and marketing	22,434	39,483	58,376	16,030	22,662
General and administrative	17,937	29,331	41,445	8,814	10,274
Amortization expense	9,026	9,516	9,953	2,169	2,863
Total costs and expenses	72,997	109,310	154,124	36,650	51,268
Operating income	9,329	10,920	13,760	(540)	699
Other income (expense):					
Interest expense	(9,734)	(3)	(22)	(1)	(10)
Interest income	258	261	208	58	57
Other income (expense)	34	1,481	(3,326)	(1,148)	(67)
Total other income (expense)	(9,442)	1,739	(3,140)	(1,091)	(20)
Income (loss) before income taxes	(113)	12,659	10,620	(1,631)	679
Income tax (expense) benefit	(5,552)	(4,992)	6,314	828	854
Net income (loss)	(5,665)	7,667	16,934	(803)	1,533
Cumulative preferred stock dividends and discount accretion	(19,446)	(33,511)	(35,224)	(8,657)	(9,065)
Net loss attributable to common stockholders	\$ (25,111)	\$ (25,844)	\$ (18,290)	\$ (9,460)	\$ (7,532)
Net loss per share attributable to common stockholders:					
Basic and diluted	\$ (0.64)	\$ (0.70)	\$ (0.48)	\$ (0.25)	\$ (0.19)
Weighted average number of shares outstanding	39,081	37,172	38,143	37,404	38,904
Pro forma net income per share (unaudited) ⁽¹⁾ :					
Basic			\$ 0.22		\$ 0.02
Diluted			\$ 0.21		\$ 0.02

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Weighted average number of shares used in computing pro forma net income per share
(unaudited)⁽²⁾:

Basic	75,946	77,589
Diluted	79,270	80,734

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	2008	Year Ended December 31,		Three Months Ended March 31,	
		2009	2010	2010	2011
(in thousands except per share amounts)					
Pro forma as adjusted net income per share (unaudited)⁽³⁾:					
Basic			\$ 0.22		\$ 0.02
Diluted			\$ 0.21		\$ 0.02
Weighted average number of shares used in computing pro forma as adjusted net income per share (unaudited)⁽⁴⁾:					
Basic			78,696		79,574
Diluted			82,020		82,719
As of December 31, 2009 2010 As of March 31, 2011					
Consolidated Balance Sheet Data:					
(in thousands)					
Cash and cash equivalents			\$ 92,425	\$ 65,697	\$ 88,872
Working capital (deficit)			32,804	(20,484)	(15,061)
Total assets			427,095	489,742	518,035
Total liabilities			97,420	127,851	144,764
Total redeemable and convertible preferred stock			451,749	478,965	488,030
Total stockholders' deficit			(122,074)	(117,074)	(114,759)
(in thousands)					
	2008	Year Ended December 31,		Three Months Ended March 31,	
		2009	2010	2010	2011
(in thousands)					
Other Financial Data:					
Adjusted EBITDA ⁽⁵⁾	\$ 24,751	\$ 30,568	\$ 43,220	\$ 5,789	\$ 10,231
Free cash flow ⁽⁶⁾	33,896	32,345	51,461	16,348	17,823
Capital expenditures	4,485	12,617	10,396	1,392	3,151
(in thousands)					
	2008	Year Ended December 31,		Three Months Ended March 31,	
		2009	2010	2010	2011
Selected Operating Data:					
Paid listings, end of period	338,396	433,295	527,535	498,895	575,166
Average revenue per listing	\$266	\$300	\$318	\$290	\$328
Renewal rate, end of period	74.4%	72.8%	75.9%	74.9%	76.1%
Visits to websites (in millions) ⁽⁷⁾	134	181	221	62	60

- (1) Pro forma net income per share represents net income divided by the pro forma weighted average shares outstanding, as though the conversion of our convertible preferred stock into common stock occurred on the first day of the relevant period.
- (2) Pro forma weighted average number of shares outstanding reflects the conversion of our convertible preferred stock (using the if-converted method) into common stock as though the conversion had occurred on the first day of the relevant period and the impact of the redemption of Series A and Series B redeemable preferred stock and the payment of dividends on Series C convertible preferred stock based on the number of shares whose proceeds would be necessary to pay the redemption amount or dividends assuming an initial public offering price of \$25.50, which is the midpoint of the price range set forth on the cover of this prospectus.
- (3) Pro forma as adjusted net income per share represents net income divided by the pro forma weighted average shares outstanding reflecting the conversion of our convertible preferred stock

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- (using the if-converted method) into common stock as though the conversion had occurred on the first day of the relevant period and our sale of 5,931,335 shares of common stock in this offering assuming an initial public offering price of \$25.50, which is the midpoint of the price range set forth on the cover of this prospectus.
- (4) Pro forma as adjusted weighted average number of shares outstanding reflects the redemption of our redeemable preferred stock and the conversion of our convertible preferred stock (using the if-converted method) into common stock as though the conversion had occurred on the first day of the relevant period and our sale of 5,931,335 shares of common stock in this offering assuming an initial public offering price of \$25.50, which is the midpoint of the price range set forth on the cover of this prospectus.
- (5) See Discussion Regarding Adjusted EBITDA and Free Cash Flow and Reconciliation to GAAP below for a definition of Adjusted EBITDA and reconciliation to net income.
- (6) See Discussion Regarding Adjusted EBITDA and Free Cash Flow and Reconciliation to GAAP below for a definition of free cash flow and reconciliation to cash flows from operating activities.
- (7) This figure represents the total visits received across the selected group of our websites, and is based on the comScore Media Metrix Media Trend report for the time periods shown. Total visits is defined as the total number of times during a report period that a unique person accessed content within a website with at least a 30 minute break in between times of access. The websites included were: homeaway.com, vrbo.com, homelidays.com, abritel.fr, alugetemporada.com.br, vacationrentals.com, fewo-direkt.de, holiday-rentals.co.uk, ownersdirect.co.uk, bedandbreakfast.com, homeawayconnect.com, homeaway.es, villanao.com, homeaway.it, homelidays.es, cyberrentals.com, greatrentals.com, homeaway.nl, homelidays.co.uk, homeaway.pt, homelidays.de, homeaway.fr, alvacations.com and homeawayrealestate.com. comScore's report did not include data for our remaining websites.

Discussion Regarding Adjusted EBITDA and Free Cash Flow and Reconciliation to GAAP

We define Adjusted EBITDA as net income (loss) plus depreciation, amortization of intangible assets; interest expense, net; income tax expense (benefit); stock-based compensation expense, and net of any foreign exchange income or expense.

The following table presents a reconciliation of net income (loss) to Adjusted EBITDA:

	2006	Year Ended December 31,				Three Months Ended	
		2007	2008	2009	2010	2010	2011
	(in thousands)						
Net income (loss)	\$ (7,516)	\$ (5,985)	\$ (5,665)	\$ 7,667	\$ 16,934	\$ (803)	\$ 1,533
Depreciation and amortization	2,730	10,124	12,122	13,612	15,841	3,547	4,797
Stock-based compensation	246	459	3,295	5,978	13,512	2,769	4,697
Interest expense	2,344	9,667	9,734	3	22	1	10
Interest income	(203)	(253)	(258)	(261)	(208)	(58)	(57)
Foreign exchange expense (income)			(29)	(1,423)	3,433	1,161	105
Income tax expense (benefit)	648	3,278	5,552	4,992	(6,314)	(828)	(854)
Adjusted EBITDA	\$ (1,751)	\$ 17,290	\$ 24,751	\$ 30,568	\$ 43,220	\$ 5,789	\$ 10,231

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The following tables present stock-based compensation and depreciation included in the above line items:

	2006	Year Ended December 31,				Three Months Ended	
		2007	2008	2009	2010	2010	2011
	(in thousands)						
<i>Stock-based compensation:</i>							
Cost of revenue	\$ 12	\$ 22	\$ 462	\$ 396	\$ 861	\$ 148	\$ 386
Product and development	34	94	424	906	2,424	522	1,003
Sales and marketing	60	148	459	857	1,730	400	1,366
General and administrative	140	195	1,950	3,819	8,497	1,699	1,942
Total	\$ 246	\$ 459	\$ 3,295	\$ 5,978	\$ 13,512	\$ 2,769	\$ 4,697
<i>Depreciation:</i>							
Cost of revenue	\$ 74	\$ 240	\$ 1,071	\$ 1,505	\$ 2,079	\$ 503	\$ 650
Product and technology	504	811	765	817	1,211	262	419
Marketing and sales	115	268	780	1,110	1,605	378	636
General and administrative	275	454	480	664	993	235	229
Total	\$ 968	\$ 1,773	\$ 3,096	\$ 4,096	\$ 5,888	\$ 1,378	\$ 1,934

We define free cash flow as our cash provided by operating activities, adjusted for cash interest expense and income, and subtracting capital expenditures. For the purpose of calculating free cash flow, we consider purchases of property, equipment, tenant 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:

	2006	Year Ended December 31,				Three Months Ended	
		2007	2008	2009	2010	2010	2011
	(in thousands)						
Cash (used in) provided by operating activities	\$ (641)	\$ 19,159	\$ 31,746	\$ 44,962	\$ 61,857	\$ 17,740	\$ 20,974
Cash used in investing activities	(111,377)	(74,763)	(8,819)	(70,962)	(81,031)	(36,917)	(558)
Cash provided by (used in) financing activities	117,831	58,564	101,513	(17,949)	(5,952)	51	1,293
Cash (used in) provided by operating activities	\$ (641)	\$ 19,159	\$ 31,746	\$ 44,962	\$ 61,857	\$ 17,740	\$ 20,974
Cash paid for interest	1,763	8,199	6,635				
Capital expenditures	(2,561)	(3,219)	(4,485)	(12,617)	(10,396)	(1,392)	(3,151)
Free cash flow	\$ (1,439)	\$ 24,139	\$ 33,896	\$ 32,345	\$ 51,461	\$ 16,348	\$ 17,823

Adjusted EBITDA and free cash flow 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 and free cash flow are useful to investors in evaluating our operating performance for the following reasons:

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our management uses Adjusted EBITDA and free cash flow 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;

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Adjusted EBITDA and free cash flow 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 and free cash flow as supplemental measures to evaluate the overall operating performance of companies, and we anticipate that after consummating this offering our investor and analyst presentations will include Adjusted EBITDA and free cash flow; and

Adjusted EBITDA excludes 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 and free cash flow 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 or free cash flow 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 and free cash flow have limitations as analytical tools. As an example, although depreciation and amortization are non-cash charges, the assets being depreciated or amortized will often need to be replaced in the future, and Adjusted EBITDA and free cash flow do not reflect any cash requirements for these replacements. In addition, neither 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.

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RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below and all of the other information contained in this prospectus before deciding whether to purchase our stock. Our business, prospects, financial condition or operating results could be materially adversely affected by any of these risks, as well as other risks not currently known to us or that we currently consider immaterial. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. In assessing the risks described below, you should also refer to the other information contained in the prospectus, including our consolidated financial statements and the related notes included elsewhere in this prospectus, before deciding to purchase any shares of our common stock.

Risks Related to Our Business

We are an early-stage company with a limited operating history, which makes it difficult to evaluate our current business and future prospects and may increase the risk of your investment.

We began our operations in February 2005. Our limited operating history 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. You should consider our business and prospects in light of the risks and difficulties we may encounter as an early-stage company.

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.

Currently, substantially all of our revenue is generated when owners or managers of vacation rentals pay us listing fees to list and market vacation rentals to travelers who visit the websites comprising our marketplace. We anticipate generating additional revenue in the future by introducing new services and products on our websites targeted at property owners, managers and travelers. Our success depends on our ability to attract owners, managers, travelers and advertisers to our marketplace. If owners and managers choose not to market their vacation rentals through our websites, or elect to list them with a competitor, 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 listings. Because we recognize listing revenue over the term of the applicable agreement, the lack of listing renewals may not immediately be reflected in our operating results.

Our business depends substantially on property owners and managers renewing their listings. Any decline in our listing renewals would harm our future operating results. Property owners and managers generally market their vacation rentals on our websites pursuant to annual listings with no obligation to renew them. We may be unable to predict future listing renewal rates accurately, and our renewal rates may decline

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materially or fluctuate as a result of a number of factors, including owners' decisions to sell or cease renting their properties or to utilize the services of our competitors, or dissatisfaction with our pricing, services or websites. For example, our adoption of new features such as property reviews by travelers, which are designed to attract more travelers, have discouraged and may continue to discourage owners and managers from establishing or renewing their listings. Owners and managers may not establish or renew listings if we cannot generate visits from large numbers of travelers seeking and inquiring about vacation rentals. If owners and managers do not renew their listings or we are forced to accept

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renewals on less favorable terms, our revenue may decline and our business will suffer. Moreover, some of our 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 listing revenue ratably over the term of the applicable 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 sales or renewals of listings in a particular quarter may 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 listings must be recognized over the applicable listing term.

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 842 employees at March 31, 2011, of whom 305 were located outside the United States. Our business is becoming increasingly complex, especially in light of the number of acquisitions we have integrated and are in the process of integrating, our limited operating history and our reliance on multiple websites and brands that are currently supported on several different technology platforms. 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 financial reporting requirements as a public company, we will need 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.

Our quarterly financial results are subject to fluctuations. As a result, we could fail to meet or exceed 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 in the future result from, many factors, some of which are outside of our control, 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;

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;

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advertising costs for paid search keywords that we deem relevant to our business and the success and costs of our 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 pricing changes or new services by us or our competitors;

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

declines or disruptions in the travel industry;

changes in the timing of holidays or other vacation events;

litigation and settlement costs, including unforeseen costs;

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 lead analysts to change their long-term models for valuing our common stock, cause us to face short-term liquidity issues, impact our ability to retain or attract key personnel or cause other unanticipated issues, all of which 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 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 17 businesses since our inception. The businesses we have acquired 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. Our mergers and acquisitions involve numerous risks, including the following:

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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;

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;

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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 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 of each of our 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 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.

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 property and manager satisfaction with 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

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our visitor acquisition. Search engine marketing 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.

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.

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, which could adversely impact property owner and manager satisfaction with our websites and, therefore, 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.

The online vacation rental market is relatively new and is rapidly evolving. If we fail to predict the manner in which our market develops, our business and prospects may suffer materially.

The market for online vacation rentals is relatively new and unproven with little to no data or research available regarding the market and industry. It is uncertain whether this market 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 migrate to our websites. Furthermore, some property owners and managers may be reluctant or unwilling to use online listing services because of concerns regarding the security of data 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.

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

We operate in markets throughout the world, each of which has its own regulatory and taxation requirements. 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 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. Many homeowners, condominium and neighborhood associations have adopted regulations that ban or otherwise restrict short-term 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 owners, managers and travelers in multiple states and foreign jurisdictions. Our business efficiencies and economies of scale depend on generally uniform treatment of 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.

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

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 highly competitive and 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 owners and managers by other companies that compete with us. Our current or new competitors may adopt certain aspects of our business model, which could reduce our ability to differentiate our services. Furthermore, listings 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, the rate of our new listing acquisition, or the loss of existing listings or market share.

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There are thousands of vacation rental listing websites in the United States and Europe that compete directly with us, such as FlipKey, Interchalet, InterHome, James Villas, TripAdvisor and Wyndham Worldwide. Many of

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these websites 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.

Moreover, we compete with online travel websites, such as Expedia, Hotels.com, Kayak, Priceline, 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, 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.

Other companies address the fragmented travel lodging market, such as AirBed & Breakfast, Inc. in the United States and 9Flats.com in Europe, which list rooms to rent or allow advertisers who want to rent their homes occasionally instead of for a vacation season or full time. Some vacation rental property owners also list on these websites, and consequently these companies could become our competitors.

In addition, competitors such as Perfect Places, Inc. and Packlate.com, Inc. serve the professional management marketplace for vacation rentals exclusively, 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 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.

Our long-term success depends, in part, on our ability to expand our 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 March 31, 2011, we maintained offices in the United States, France, the United Kingdom, Germany, Brazil and Switzerland. In addition, in April 2011, we launched operations in Australia. We have limited experience in operating in 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 establishment of foreign offices 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 generally do 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 regulatory requirements;

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unexpected and more restrictive laws and regulations, including those laws governing Internet activities, email messaging, collection and use of personal information, ownership of intellectual property and other activities important to our online business practices;

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

legal uncertainty regarding our liability for the 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, which are subject to unexpected changes;

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

difficulties in managing and staffing international operations;

fluctuations in currency exchange rates;

potentially adverse tax consequences, 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;

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

higher telecommunications and Internet service provider costs.

Operating in international markets also requires significant management attention and financial resources. We cannot assure you that our international expansion efforts 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.

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.

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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. Additionally, new products, services or features we develop for individual property owners may be viewed by professional property managers as harmful to their business if, as a result of these new products, services or features, individual property owners would be less likely to use professional property managers to manage their properties. 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, we cannot assure you that any such new or upgraded service or feature will work as intended or provide value to travelers, property owners and managers. In addition, successfully

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launching and selling a new product, service or feature will require the use of our marketing or sales 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. If we are unable to continue to develop new or upgraded products, services or features, property owners and managers may choose not to use our online marketplace to market their vacation rentals.

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.

If we are unable to successfully operate our property management software business, our results of operations may be harmed.

In 2010, we acquired the property management software businesses of Escapia, Inc. and Instant Software, Inc., as well as BedandBreakfast.com, Inc., which included reservation management software for innkeepers. Prior to these acquisitions, we did not have any software product or services offerings. We expect to invest in the further development of the software products and services offerings of these businesses. If we are not able to integrate these businesses, further develop compelling product offerings for property managers and innkeepers and maintain a high level of customer service, we may not be able to keep current software customers or attract new software customers. As a result, our business, financial condition or operating results could be harmed.

In addition, some professional property managers have raised concerns that our entrance into the property management software business could make us more directly competitive with their businesses. If we are not able to demonstrate a commitment to our professional property managers, then some may seek alternative software and listing solutions.

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, in the future, such competition may become intense. 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 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. For example, Brian H. Sharples, our Chief Executive Officer, and Carl G. Shepherd, our Chief Strategy and Development Officer, founded our company and have been instrumental in devising and implementing our strategies for growth as well as identifying and securing acquisition targets. Their in-depth

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knowledge of and deep relationships with the participants in our industry are extremely valuable to us. Our business also requires 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

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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. These measures may not be enough to attract and retain the personnel we require to operate our business effectively. We also have a number of employees who were granted stock options over the past few years that have an exercise price per share that is significantly lower than the current fair market value. If we are successful as a public company, these employees may choose to exercise their options and sell the shares, recognizing a substantial gain. As a result, it may be difficult for us to retain such employees.

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

As part of our registration process, we collect and use personally identifiable information, such as email addresses and phone numbers of property owners, managers and travelers choose to include on our websites. 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 fraudulent identity theft schemes designed to appear as legitimate emails from us. 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. Any actual 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.

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 personal 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 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

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be subject to liability as a result. Further, 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, revenues and operating results.

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

Because owners, managers and travelers can access our websites on a variety of network hardware and software platforms using a standard browser, we will need to continuously modify and enhance our service to keep pace with changes in Internet-related hardware, software, communication, browser and database technologies. We may not be successful in either developing these modifications and enhancements or in timely bringing them to market. 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.

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 owners and managers or secure new owners and managers.

Most of our 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 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.

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.

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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 and real estate 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. 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 property 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 property rentals and our services, reducing our revenues and could increase our need to make significant expenditures to continue to attract property owners, managers and travelers to our websites.

Seasonal fluctuations in listing renewals or new listing acquisitions could adversely affect our cash flows.

Our cash flows from operations could vary from quarter to quarter due to the seasonal nature of our listing renewals and new listing acquisitions resulting from seasonality in the vacation rental industry. To date, this effect may have been masked by our rapid growth and the effect of our acquisitions, which have significantly increased our revenue growth. While, as a result of our subscription model, this seasonality generally does not have an immediate effect on our revenue, our operating cash flows could fluctuate materially from period to period as a result.

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. For example, a significant number of the vacation rentals listed on our websites are located in Florida. Following the oil spill in April 2010 along the Gulf Coast, some of our property owners and managers with vacation rentals in the Gulf Coast area reported to us that their bookings declined. While we are uncertain of the impact of the oil spill on the decisions of our property owners and managers to renew their listings on our websites, the occurrence of this type of event or 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.

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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, 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 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.

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

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. 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 owners, 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.

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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 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 our owners', managers' and travelers' confidence. 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.

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

As a publicly traded company, we will be subject to reporting and other obligations under the Securities Exchange Act of 1934, including the requirements of Section 404 of Sarbanes-Oxley, which will 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, will place significant demands on our management and administrative resources, including accounting and tax resources. Although we have begun to expand 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.

In connection with the preparation of our financial statements for the year ended December 31, 2010, we and our independent auditors identified a significant deficiency relating to our internal control over income taxes. We believe we are remediating this deficiency by hiring additional personnel with tax and accounting expertise in the United States and Europe, and by completing implementation of new software tools to facilitate preparation of our tax accounting. Despite taking these measures, our internal resources and personnel may in the future be insufficient to avoid accounting errors and there can be no assurance that we will not have deficiencies in the future. Any failure to maintain adequate controls or to adequately implement required new or improved controls could harm our operating results or cause us to fail to meet our reporting obligations.

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 various foreign jurisdictions. Our effective tax rate is affected by changes in the mix of earnings and losses in jurisdictions with differing statutory tax rates, certain non-tax deductible expenses including those arising from the requirement to expense stock options and our ability to utilize our net operating losses and other deferred tax assets. In addition, the manner in which we conduct our operations may impact our effective tax rate. For example, we recently incorporated a subsidiary in Geneva, Switzerland as part of our global restructuring plan to streamline our European operations and improve our internal controls in anticipation of becoming a publicly traded company, which we believe may result in a reduced overall effective tax rate. We may not be able to

establish efficient operations, hire personnel,

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obtain office space, complete transfer pricing studies, or otherwise execute our restructuring plan in the timeframe or at the cost currently contemplated by us, which could negatively affect our effective tax rate.

In addition, current applicable U.S. and foreign tax rules, regulations and any changes to those rules and regulations could adversely affect our effective tax rate. Recently enacted and proposed changes in U.S. tax laws and regulations include limitations on the ability to claim and utilize foreign tax credits and deferral of interest expense deductions until non-U.S. earnings are repatriated to the United States. If these and other changes in applicable tax rules and regulations are implemented, or if we cannot effectively execute our restructuring plan, our effective tax rate may be higher than expected, which could harm our operating results.

We are exposed to fluctuations in currency exchange rates.

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, 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 2010 was negatively impacted by foreign currency translation of approximately \$2.5 million and, in the three months ended March 31, 2011, was positively impacted by foreign currency translation of approximately \$0.1 million. 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. We may enter into hedging arrangements in order to manage foreign currency translation but such activity may not completely eliminate fluctuations in our operating results.

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, holiday-rentals.co.uk, abritel.fr, fewo-direkt.de, aluguetemporada.com.br, bedandbreakfast.com, escapia.com, instantsoftware.com 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

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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 March 31, 2011, we had one patent application and no issued patents, and no patents may issue with respect to our current or potential patent applications. 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.

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 located in the United States and the United Kingdom and a third-party co-location hosting center located in the United States 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.

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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 rental businesses. Interruptions in our services would likely reduce our revenue, require us to issue credits to our owners and managers, could cause 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 owners and managers believe our services are unreliable.

We will 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 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 exchange on which we list our common stock. 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 are unable to currently estimate these costs with any degree of certainty. We also expect that, as a public company, it will 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, 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, including shares of common stock sold in this offering. 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.

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Risks Related to this Offering and Ownership of our Common Stock

Our securities have no prior market and our common stock could trade at prices below the initial public offering price.

There has not been a public trading market for shares of our common stock prior to this offering. Although we have applied to have our common stock quoted on the Nasdaq Global Select Market, an active trading market may not develop or be sustained after this offering. The initial public offering price for the shares of common stock sold in this offering will be determined by negotiations between us and representatives of the underwriters. This price may be higher than the trading price of our common stock after this offering. As a result, you could lose all or part of your investment.

Our stock price may be volatile, and you may be unable to sell your shares at or above the offering price.

The market price of our common stock is likely to be highly volatile and could be subject to wide fluctuations in response to, among other things, the risk factors described in this section of this prospectus, and other factors beyond our control. Factors affecting the trading price of our common stock will 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;

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;

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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. These fluctuations may even be more pronounced in the trading market for our stock shortly following this offering. Each of these factors, among others, could harm the value of your investment in 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 do not publish research or publish negative research about our business, our stock price and trading volume could decline.

The trading market for our common stock will depend in part on the research and reports that securities analysts publish about us or our business. We do not currently have and may never obtain research coverage by securities analysts. If no or few securities analysts commence coverage of our company, the trading price for our stock would be negatively impacted. In the event we obtain securities analyst coverage, 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.

The concentration of our capital stock ownership with insiders upon the completion of this offering will likely limit your ability to influence corporate matters.

We anticipate that our executive officers, directors, current five percent or greater stockholders and affiliated entities will together beneficially own approximately 73.4% of our common stock outstanding after this offering. Also, as a result, these stockholders, acting together, may be able to control our management and affairs and matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as mergers, consolidations or the sale of substantially all of our assets. Consequently, this concentration of ownership could limit your ability to influence corporate matters and may have the effect of delaying or preventing a change of control, including a merger, consolidation or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, even if such a change of control would benefit our other stockholders. This significant concentration of share ownership may adversely affect the trading price for our common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders.

Our stock price could decline due to the large number of outstanding shares of our common stock eligible for future sale.

The price of our common stock could decline if there are substantial sales of our common stock in the public stock market after this offering. After this offering, we will have an aggregate of 79,829,804 outstanding shares of common stock. This includes shares being sold in this offering, all of which may be resold in the public market immediately following this offering. The remaining 71,829,804 shares, or approximately 90.0% of our outstanding shares after this offering, are currently restricted as a result of securities laws or lock-up agreements but will be able to be sold in the near future as set forth below:

Number of shares and percentage of total outstanding	Date available for sale into public market
0 shares, or 0.0%	Immediately after this offering.
71,162,069 shares, or 89.2%	Generally, 180 days after the date of this prospectus due to lock-up agreements between certain of the holders of these shares and the underwriters and to contractual arrangements between the other holders of these shares and us, subject to certain exceptions and also to potential extensions under certain circumstances, of which 52,589,441 will be subject to volume and other sale restrictions.
667,735 shares, or 0.8%	12 months after the date of this prospectus due to lock-up agreements between the holder of these shares and the underwriters and to contractual arrangements between the holder of these shares and us, subject to certain exceptions and also to potential extensions under certain circumstances.

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After this offering and the expiration of the lock-up period, the holders of an aggregate of 68,208,033 shares of our outstanding common stock, including 51,201 shares subject to warrants outstanding as of March 31, 2011 not sold in this offering, will have rights, subject to some conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or other stockholders.

We also intend to register the issuance of all shares of common stock that we have issued and may issue under our option plans. Once we register the issuance of these shares, they can be freely sold in the public market upon issuance.

We, the selling stockholders, other securityholders and our directors and executive officers have agreed to lock-up agreements that restrict us, these securityholders and our directors and executive officers, subject to specified exceptions, from selling or otherwise disposing of any shares of our stock for a period of 180 days after the date of this prospectus, and in the case of one stockholder for a period of 12 months after the date of this prospectus, in each case subject to a potential extension under certain circumstances, without the prior consent of the underwriters. The underwriters may, in their sole discretion and without notice, release all or any portion of the shares from the restrictions of any lock-up agreements described above. In addition, these lock-up agreements are subject to the exceptions described in the section of this prospectus titled "Underwriters." Also, in the future, we may issue securities in connection with investments and acquisitions. The amount of our common stock issued in connection with an investment or acquisition could constitute a material portion of our then outstanding stock. Due to these factors, sales of a substantial number of shares of our common stock in the public market could occur at any time. These sales, or the perception in the market that the holders of a large number of shares intend to sell shares, could reduce the market price of our common stock.

Because our initial public offering price is substantially higher than the pro forma net tangible book value per share of our outstanding common stock, new investors will incur immediate and substantial dilution.

The initial public offering price will be substantially higher than the pro forma net tangible book value per share of common stock based on the total value of our tangible assets less our total liabilities immediately following this offering. Therefore, if you purchase common stock in this offering, you will experience immediate and substantial dilution of approximately \$24.98 per share in pro forma net tangible book value, the difference between the price you pay for our common stock and its pro forma net tangible book value per share after completion of this offering. Furthermore, investors purchasing common stock in this offering will own only approximately 10.0% of our shares outstanding, even though they will have contributed 27.1% of the total consideration received by us in connection with our sales of common stock. As of March 31, 2011, options to purchase 11,467,052 shares of our common stock at a weighted average exercise price of approximately \$12.70 per share were outstanding. In addition, as of March 31, 2011, warrants to purchase 148,215 shares of our common stock at a weighted average exercise price of \$1.08 were outstanding, all of which we expect will remain outstanding after this offering. After this offering, we will have an aggregate of 257,498,690 shares of common stock authorized but unissued and not reserved for issuance under our stock option plans or otherwise. We intend to continue to actively pursue strategic acquisitions. We may pay for such acquisitions, partly or in full, through the issuance of additional equity. Following the completion of this offering, we may issue _____ shares of our common stock without any action or approval by our stockholders. Any issuance of shares in connection with our acquisitions, the exercise of stock options or other events would dilute the percentage ownership held by the investors who purchase our shares in this offering.

Our management has broad discretion in the use of the net proceeds from this offering and may not use the net proceeds effectively.

Our management will have broad discretion in the application of the net proceeds from this offering. We intend to use net proceeds from this offering to redeem our outstanding shares of Series A and Series B redeemable preferred stock at a price for each such share equal to the original issue price of such share of

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preferred stock, plus the accumulated and unpaid dividends on such share that have accrued at a rate of 8% per annum of the original issue price of each such share of preferred stock, of which the amount expected to be paid in cash is \$64.2 million as of March 31, 2011, and to pay accumulated and unpaid dividends on our outstanding shares of Series C convertible preferred stock that have accrued at a rate of 8% per annum of the original issue price of each such share of preferred stock, of which the amount expected to be paid in cash is \$30.9 million as of March 31, 2011. We cannot specify with certainty the uses to which we will apply the net proceeds we will receive from this offering. The failure by our management to apply these funds effectively could adversely affect our ability to continue to maintain and expand our business.

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, you could receive a return on your investment in our common stock only if the market price of our common stock has increased when you sell your 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, to be effective upon the completion of this offering, will 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 to be included in our amended and restated certificate of incorporation and our amended and restated bylaws, to be effective upon the completion of this offering, 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. See the sections of this prospectus titled **Description of Capital Stock Preferred Stock** and **Description of Capital Stock Anti-Takeover Effects of Delaware Law and Our Certificate of Incorporation and Bylaws**.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA

This prospectus, including the sections of this prospectus titled Prospectus Summary, Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations and Business, contains forward-looking statements. We may, in some cases, use words such as believe, anticipate, plan, expect, estimate, intend, should, would, could, potentially, will or may, or other words that convey uncertainty about future events or outcomes to identify these forward-looking statements. Forward-looking statements in this prospectus include, but are not limited to, statements about:

our expectations regarding our revenue, expenses, sales and operations;

anticipated trends and challenges in our business and the markets in which we operate;

our ability to compete in our industry and innovation by our competitors;

our ability to attract and retain property owners, managers and travelers;

our ability to anticipate market needs or develop new or enhanced services to meet those needs;

our ability to manage growth and to expand our infrastructure;

our ability to establish and maintain intellectual property rights;

our ability to manage expansion into international markets and new industries;

our ability to hire and retain key personnel;

our expectations regarding the use of proceeds from this offering;

our ability to successfully identify, manage and integrate any existing and potential acquisitions; and

our anticipated cash needs and our estimates regarding our capital requirements and our need for additional financing.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. A number of important factors could cause actual results to differ materially from the results anticipated by these forward-looking statements, which statements apply only as of the date of this prospectus. These important factors include those that we discuss in the section of this prospectus titled Risk Factors and elsewhere. You should read these factors and the other cautionary statements made in this prospectus as being applicable to all related forward-looking statements wherever they appear in this prospectus. If one or more of these factors materialize, or if any underlying assumptions prove incorrect, our actual results, level of activity, performance or achievements

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may vary materially from any future results, performance or achievements expressed or implied by these forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

This prospectus also contains estimates and other information concerning our industry, including market size and growth rates, which are based on industry publications, surveys and forecasts, including those generated by comScore, Inc. and those commissioned by us and generated by Ipsos Reid Public Affairs, Inc. and Radius Global Market Research, as well as internal research. The unique monthly visitors figure in comScore's Media Metrix Media Trend Report in 2010 represents an average monthly estimate of unique visitors across the selected group of HomeAway websites, and is based on such report for the time period shown. The selected websites included in such report were: homeaway.com, vrbo.com, homelidays.com, abritel.fr, alugetemporada.com.br, vacationrentals.com, fewo-direkt.de, holiday-rentals.co.uk, ownersdirect.co.uk, bedandbreakfast.com, homeawayconnect.com, homeaway.es, villanao.com, homeaway.it, homelidays.es, cyberrentals.com, greatrentals.com, homeaway.nl, homelidays.co.uk, homeaway.pt, homelidays.de, homeaway.fr, alvacations.com and homeawayrealestate.com. comScore's report did not include data for our remaining websites.

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This information involves a number of assumptions and limitations, and you are cautioned not to give undue weight to these estimates. The industry in which we operate is subject to a high degree of uncertainty and risk due to variety of factors, including those described in the section of this prospectus titled Risk Factors. These and other factors could cause results to differ materially from those expressed in these publications, surveys and forecasts.

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USE OF PROCEEDS

We estimate that the net proceeds from our sale of 5,931,335 shares of common stock in this offering assuming an initial public offering price of \$25.50 per share, the midpoint of the price range set forth on the front cover of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses, will be approximately \$137.2 million. A \$1.00 increase (decrease) in the assumed initial public offering price would increase (decrease) the net proceeds to us from this offering by \$5.5 million, assuming the number of shares offered by us, as set forth on the front cover of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions. We will not receive any proceeds from the sale of shares of our common stock by the selling stockholders.

The principal purposes of this offering are to create a public market for our common stock, obtain additional capital, facilitate our future access to the public equity markets, increase awareness of our company among potential customers and improve our competitive position. We also intend to use approximately \$65.1 million of the net proceeds of this offering to redeem our outstanding shares of Series A and B redeemable preferred stock, including accumulated and unpaid dividends on our outstanding shares of Series A and B redeemable preferred stock that have accrued at a rate of 8% per annum of the original issue price of each such share of preferred stock, of which the amount payable in cash as of March 31, 2011, is \$64.2 million. As a result of the anticipated redemption of our outstanding shares of Series A and B redeemable preferred stock, certain of our executive officers, directors, beneficial owners of 5.0% or more of our outstanding shares of common stock and affiliated entities who are holders of our Series A and B redeemable preferred stock will receive approximately \$53.7 million of the net proceeds from this offering.

We intend to use approximately \$32.9 million of the net proceeds from this offering to pay accumulated and unpaid dividends on our outstanding shares of Series C convertible preferred stock that have accrued at a rate of 8% per annum of the original issue price of each share of preferred stock, of which the amount payable in cash as of March 31, 2011, is \$30.9 million. As a result of the anticipated payment of accumulated and unpaid dividends on our outstanding shares of Series C convertible preferred stock, certain of our executive officers, directors, beneficial owners of 5.0% or more of our outstanding shares of common stock and affiliated entities who are holders of our Series C convertible preferred stock will receive approximately \$20.7 million of the net proceeds from this offering.

Other than as described above, we do not have current specific plans for the use of a significant portion of the net proceeds from this offering. However, we generally intend to use the balance of the net proceeds from this offering for working capital and other general corporate purposes. We also may use a portion of the net proceeds to acquire or license, or invest in, products, services, technologies or other businesses. The amount and timing of these expenditures will vary depending on a number of factors, including competitive and technological developments and the rate of growth, if any, of our business.

Pending their use, we plan to invest our net proceeds from this offering in short-term, interest-bearing obligations, investment-grade instruments, certificates of deposit or direct or guaranteed obligations of the U.S. government. Our management will have broad discretion in the application of the net proceeds from this offering to us, and investors will be relying on the judgment of our management regarding the application of the proceeds.

DIVIDEND POLICY

We do not expect to pay dividends on our common stock for the foreseeable future. Instead, we anticipate that all of our earnings will be used for the operation and growth of our business. Any future determination to declare cash dividends would be subject to the discretion of our board of directors and would depend upon various factors, including our results of operations, financial condition and liquidity requirements,

restrictions that may be imposed by applicable law and our contracts and other factors deemed relevant by our board of directors.

Table of Contents**CAPITALIZATION**

The following table sets forth our capitalization as of March 31, 2011, on:

an actual basis;

a pro forma basis, assuming the redemption of all outstanding shares of our Series A and Series B redeemable preferred stock and the conversion of each outstanding share of Series C and Series D convertible preferred stock into 34,445,850 shares of common stock and the payment of all accrued but unpaid dividends on the shares of Series C convertible preferred stock totaling \$30.9 million upon the closing of this offering; and

a pro forma as-adjusted basis, (i) assuming the redemption of all outstanding shares of our Series A and Series B redeemable preferred stock and the conversion of each outstanding share of Series C and Series D convertible preferred stock into 34,445,850 shares of common stock and the payment of all accrued but unpaid dividends on the shares of Series C convertible preferred stock totaling \$30.9 million and (ii) reflecting our receipt of the net proceeds from our sale of 5,931,335 shares of common stock by us in this offering assuming an initial public offering price of \$25.50 per share, the midpoint of the range set forth on the cover page of this prospectus, and after deducting the estimated underwriting discounts and estimated offering expenses payable by us.

You should read this table together with the sections of this prospectus titled "Selected Consolidated Financial and Other Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and with our consolidated financial statements and related notes included elsewhere in this prospectus.

	As of March 31, 2011		
	Actual	Pro Forma	Pro Forma As Adjusted ⁽¹⁾
	(in thousands, except share data)		
Term loans payable	\$	\$	\$
Redeemable preferred stock, \$0.0001 par value; 32,330,925 shares authorized, 29,642,409 shares issued and outstanding, actual; no shares authorized, issued and outstanding, pro forma and pro forma as adjusted	58,107		
Stockholders' equity (deficit):			
Undesignated preferred stock, \$0.0001 par value; no shares authorized, issued and outstanding, actual; 10,000,000 shares authorized, no shares issued and outstanding, pro forma and pro forma as adjusted			
Convertible redeemable preferred stock, \$0.0001 par value; 36,505,217 shares authorized, 34,445,850 shares issued and outstanding, actual; no shares authorized, issued and outstanding, pro forma and pro forma as adjusted	429,923		
Common stock, \$0.0001 par value; 89,163,858 shares authorized, 39,452,619 shares issued and outstanding, actual; 350,000,000 shares authorized, pro forma and pro forma as adjusted; 73,898,469 shares issued and outstanding, pro forma; 79,829,804 shares issued and outstanding, pro forma as adjusted	4	7	8
Additional paid-in capital		392,914	530,075
Accumulated other comprehensive loss	125	125	125
Accumulated deficit	(114,888)	(114,888)	(114,888)
Total stockholders' (deficit) equity	(114,759)	278,158	415,320

Total capitalization	\$ 373,271	\$ 278,158	\$ 415,320
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- (1) Each \$1.00 increase or decrease in the assumed initial public offering price of \$25.50 per share would increase or decrease, as applicable, the amount of additional paid-in capital, total stockholders' equity and total capitalization by approximately \$5.5 million, assuming the number of shares offered by us, as set forth on the cover of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions payable by us.

If the underwriters' option to purchase additional shares were exercised in full, pro forma as adjusted common stock; additional paid-in-capital; stockholders' equity (deficit); total capitalization and shares of common stock issued and outstanding as of March 31, 2011, would be \$0.0 million; \$530.1 million; \$415.3 million; \$415.3 million and 79,829,804, respectively.

The number of shares of common stock outstanding set forth in the table is based on 73,898,469 shares of our common stock outstanding as of March 31, 2011, and excludes:

148,215 shares of common stock issuable upon exercise of warrants outstanding as of March 31, 2011, at a weighted average exercise price of \$1.08 per share;

11,467,052 shares of common stock issuable upon exercise of options outstanding as of March 31, 2011, at a weighted average exercise price of \$12.70 per share; and

1,056,239 shares of common stock reserved, as of March 31, 2011, for future issuance under our 2004 Stock Plan, which shares will be added to the shares reserved under our 2011 Equity Incentive Plan adopted in May 2011 upon its effectiveness, as more fully described in the section of this prospectus titled "Executive Compensation - Employee Benefit Plans."

Table of Contents**DILUTION**

Our net tangible book value, which we have defined as total assets, minus goodwill and intangible assets, less total liabilities, as of March 31, 2011, was \$(0.4) million, or \$(0.01) per share of common stock. Our pro forma net tangible book value includes liabilities associated with the redemption of our outstanding shares of Series A and Series B redeemable preferred stock, including accumulated and unpaid dividends on such shares, and the payment of accumulated and unpaid dividends on our outstanding shares of Series C convertible preferred stock, which payments will occur in connection with the closing of this offering. These liabilities totaled \$95.1 million as of March 31, 2011, resulting in pro forma net tangible book value of \$(95.5) million. Pro forma net tangible book value per share represents the amount of our total tangible assets reduced by the amount of our total liabilities and divided by the total number of shares of common stock outstanding, including shares of common stock issued upon the conversion of all outstanding shares of our Series C and Series D convertible preferred stock upon the completion of this offering. Dilution in pro forma net tangible book value per share to new investors in this offering represents the difference between the amount per share paid by purchasers of shares of common stock in this offering and the pro forma as adjusted net tangible book value per share of common stock immediately after the completion of this offering. After giving effect to the sale of the 5,931,335 shares of common stock offered by us in this offering assuming an initial public offering price of \$25.50 per share, the midpoint of the range set forth on the cover page of this prospectus, and after deducting the estimated underwriting discounts and estimated offering expenses payable by us, our pro forma as adjusted net tangible book value as of March 31, 2011, would have been \$41.6 million, or \$0.52 per share of common stock. This represents an immediate increase in pro forma net tangible book value of \$1.81 per share to existing stockholders and an immediate dilution of \$24.98 per share to new investors in our common stock. The following table illustrates this dilution on a per share basis:

Assumed initial public offering price per share	\$ 25.50
Pro forma net tangible book value per share as of March 31, 2011, before giving effect to this offering	\$ (1.29)
Increase in pro forma net tangible book value per share attributable to new investors	1.81
Pro forma as adjusted net tangible book value per share after giving effect to this offering	0.52
Dilution per share to new investors in this offering	\$ 24.98

A \$1.00 increase or decrease in the assumed initial public offering price of \$25.50 would increase or decrease our pro forma as adjusted net tangible book value per share after this offering by \$0.07 per share and the dilution in pro forma as adjusted net tangible book value to new investors by \$0.07 per share, assuming the number of shares offered by us, as set forth on the cover of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

If the underwriters exercise their option to purchase additional shares of our common stock in full in this offering, the pro forma as adjusted net tangible book value per share after giving effect to this offering would be \$0.52 per share, and the dilution in pro forma net tangible book value per share to investors in this offering would be \$24.98 per share.

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The following table summarizes, on a pro forma as adjusted basis as of March 31, 2011, and after giving effect to the offering, based on an assumed initial public offering price of \$25.50 per share, the differences between existing stockholders and new investors with respect to the number of shares of common stock purchased from us, the total consideration paid to us and the average price per share paid before deducting estimated underwriting discounts and commissions.

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing stockholders	73,898,469	92.6%	\$ 406,003,000	72.9%	\$ 5.49
New investors	5,931,335	7.4	151,249,043	27.1	25.50
Total	79,829,804	100.0%	\$ 557,252,043	100.0%	\$ 6.98

A \$1.00 increase or decrease in the assumed initial public offering price of \$25.50 per share would increase or decrease, respectively, total consideration paid by new investors and total consideration paid by all stockholders by approximately \$5.9 million before deducting estimated underwriting discounts and commissions, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same.

If the underwriters exercise their option to purchase additional shares of our common stock in full, our existing stockholders would own 88.6% and our new investors would own 11.4% of the total number of shares of our common stock outstanding after this offering.

The number of shares of common stock to be outstanding after this offering is based on 73,898,469 shares outstanding as of March 31, 2011, and excludes:

148,215 shares of common stock issuable upon exercise of warrants outstanding as of March 31, 2011, at a weighted average exercise price of \$1.08 per share;

11,467,052 shares of common stock issuable upon exercise of options outstanding as of March 31, 2011, at a weighted average exercise price of \$12.70 per share; and

1,056,239 shares of common stock reserved, as of March 31, 2011, for future issuance under our 2004 Stock Plan, which shares will be added to the shares reserved under our 2011 Equity incentive Plan adopted in May 2011 upon its effectiveness, as more fully described in the section of this prospectus titled "Executive Compensation Employee Benefit Plans."

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We have derived the consolidated statements of operations data for the years ended December 31, 2008, 2009 and 2010 and the consolidated balance sheet data as of December 31, 2009 and 2010 from our audited consolidated financial statements included elsewhere in this prospectus. We have derived the consolidated statements of operations data for the years ended December 31, 2006 and 2007 and the consolidated balance sheet data as of December 31, 2006, 2007 and 2008 from our audited consolidated financial statements not included in this prospectus. We have derived the consolidated statements of operations data for the three months ended March 31, 2010 and 2011, and the consolidated balance sheet data as of March 31, 2011, from our consolidated financial statements included elsewhere in this prospectus. To obtain further information about our historical results, including our historical acquisitions, for which results of operations are included in our consolidated financial statements beginning on the dates of acquisition, you should read the following selected consolidated financial data in conjunction with our consolidated financial statements and related notes, the information in the section of this prospectus titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the other financial information included elsewhere in this prospectus. Our historical results are not necessarily indicative of our future results.

	Year Ended December 31,					Three Months Ended March 31,	
	2006	2007	2008	2009	2010	2010	2011
Consolidated Statements of Operations Data:							
(in thousands except per share data)							
Revenue:							
Listing	\$ 17,486	\$ 52,947	\$ 80,012	\$ 115,881	\$ 152,890	\$ 33,818	\$ 45,171
Other	294	1,013	2,314	4,349	14,994	2,292	6,796
Total revenue	17,780	53,960	82,326	120,230	167,884	36,110	51,967
Costs and expenses:							
Cost of revenue (exclusive of amortization shown separately below)	2,673	6,529	11,065	17,800	25,647	5,793	8,458
Product development	4,283	8,653	12,535	13,180	18,703	3,844	7,011
Sales and marketing	6,578	11,968	22,434	39,483	58,376	16,030	22,662
General and administrative	7,114	11,752	17,937	29,331	41,445	8,814	10,274
Amortization expense	1,762	8,351	9,026	9,516	9,953	2,169	2,863
Total costs and expenses	22,410	47,253	72,997	109,310	154,124	36,650	51,268
Operating income (loss)	(4,630)	6,707	9,329	10,920	13,760	(540)	699
Other income (expense):							
Interest expense	(2,344)	(9,667)	(9,734)	(3)	(22)	(1)	(10)
Interest income	203	253	258	261	208	58	57
Other income (expense)			34	1,481	(3,326)	(1,148)	(67)
Total other income (expense)	(2,141)	(9,414)	(9,442)	1,739	(3,140)	(1,091)	(20)
Income (loss) before income taxes	(6,771)	(2,707)	(113)	12,659	10,620	(1,631)	679
Income tax (expense) benefit	(648)	(3,278)	(5,552)	(4,992)	6,314	828	854
Loss in equity investee	(97)						
Net income (loss)	(7,516)	(5,985)	(5,665)	7,667	16,934	(803)	1,533
Cumulative preferred stock dividends and discount accretion	(7,252)	(14,282)	(19,446)	(33,511)	(35,224)	(8,657)	(9,065)
Net loss attributable to common stockholders	\$ (14,768)	\$ (20,267)	\$ (25,111)	\$ (25,844)	\$ (18,290)	\$ (9,460)	\$ (7,532)

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Net loss per share attributable to common
stockholders:

Basic and diluted	\$ (0.41)	\$ (0.53)	\$ (0.64)	\$ (0.70)	\$ (0.48)	\$ (0.25)	\$ (0.19)
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Weighted average number of shares outstanding:

Basic and diluted	36,198	38,574	39,081	37,172	38,143	37,404	38,904
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	Year Ended December 31,					Three Months Ended March 31,	
	2006	2007	2008	2009	2010	2010	2011
Pro forma net income per share (unaudited)⁽¹⁾:							
Basic					\$ 0.22	\$	0.02
Diluted					\$ 0.21	\$	0.02
Weighted average number of shares used in computing pro forma net income per share (unaudited)⁽²⁾:							
Basic					75,946		77,589
Diluted					79,270		80,734
Pro forma as adjusted net income per share (unaudited)⁽³⁾:							
Basic					\$ 0.22	\$	0.02
Diluted					\$ 0.21	\$	0.02
Weighted average number of shares used in computing pro forma as adjusted net income per share (unaudited)⁽⁴⁾:							
Basic					78,696		79,574
Diluted					82,020		82,719

	2006	2007	December 31, 2008	2009	2010	March 31, 2011
	(in thousands)					
Consolidated Balance Sheet Data:						
Cash and cash equivalents	\$ 10,631	\$ 13,061	\$ 136,085	\$ 92,425	\$ 65,697	\$ 88,872
Working capital (deficit)	(10,501)	(32,600)	88,680	32,804	(20,484)	(15,061)
Total assets	203,798	289,768	395,645	427,095	489,742	518,035
Total liabilities	83,088	150,653	66,319	97,420	127,851	144,764
Total redeemable and convertible preferred stock	125,191	162,426	422,350	451,749	478,965	488,030
Total stockholders' deficit	(4,481)	(23,311)	(93,024)	(122,074)	(117,074)	(114,759)

	2006	2007	December 31, 2008	2009	2010	Three Months Ended March 31, 2010	2011
	(in thousands)						
Other Financial Data:							
Adjusted EBITDA ⁽⁵⁾	\$ (1,751)	\$ 17,290	\$ 24,751	\$ 30,568	\$ 43,220	\$ 5,789	\$ 10,231
Free cash flow ⁽⁶⁾	(1,439)	24,139	33,896	32,345	51,461	16,348	17,823
Capital expenditures	2,561	3,219	4,485	12,617	10,396	1,392	3,151

	Year Ended December 31,			Three Months Ended March 31,	
	2008	2009	2010	2010	2011
Selected Operating Data:					
Paid listings, end of period	338,396	433,295	527,535	498,895	575,166
Average revenue per listing	\$266	\$300	\$318	\$290	\$328
Renewal rate, end of period	74.4%	72.8%	75.9%	74.9%	76.1%
Visits to websites (in millions) ⁽⁷⁾	134	181	221	62	60

- (1) Pro forma net income per share represents net income divided by the pro forma weighted average shares outstanding, as though the conversion of our convertible preferred stock into common stock occurred on the first day of the relevant period.
- (2) Pro forma weighted average number of shares outstanding reflects the conversion of our convertible preferred stock (using the if-converted method) into common stock as though the conversion had occurred on the first day of the relevant period and the impact of the redemption of

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- Series A and Series B redeemable preferred stock and the payment of dividends on Series C convertible preferred stock based on the number of shares whose proceeds would be necessary to pay the redemption amount or dividends assuming an initial public offering price of \$25.50, which is the midpoint of the price range set forth on the cover of this prospectus.
- (3) Pro forma as adjusted net income per share represents net income divided by the pro forma weighted average shares outstanding reflecting the conversion of our convertible preferred stock (using the if-converted method) into common stock as though the conversion had occurred on the first day of the relevant period and our sale of 5,931,335 shares of common stock in this offering assuming an initial public offering price of \$25.50, which is the midpoint of the price range set forth on the cover of this prospectus.
- (4) Pro forma as adjusted weighted average number of shares outstanding reflects the redemption of our redeemable preferred stock and the conversion of our convertible preferred stock (using the if-converted method) into common stock as though the conversion had occurred on the first day of the relevant period and our sale of 5,931,335 shares of common stock in this offering assuming an initial public offering price of \$25.50, which is the midpoint of the price range set forth on the cover of this prospectus.
- (5) We define Adjusted EBITDA as net income (loss) plus depreciation, amortization of intangible assets; interest expense, net; income tax expense (benefit); stock-based compensation expense, and net of any foreign exchange income or expense.

The following table presents a reconciliation of net income (loss) to Adjusted EBITDA:

	Year Ended December 31,					Three Months Ended	
	2006	2007	2008	2009	2010	2010	2011
	(in thousands)						
Net income (loss)	\$ (7,516)	\$ (5,985)	\$ (5,665)	\$ 7,667	\$ 16,934	\$ (803)	\$ 1,533
Depreciation and amortization	2,730	10,124	12,122	13,612	15,841	3,547	4,797
Stock-based compensation	246	459	3,295	5,978	13,512	2,769	4,697
Interest expense	2,344	9,667	9,734	3	22	1	10
Interest income	(203)	(253)	(258)	(261)	(208)	(58)	(57)
Foreign exchange expense (income)			(29)	(1,423)	3,433	1,161	105
Income tax expense (benefit)	648	3,278	5,552	4,992	(6,314)	(828)	(854)
Adjusted EBITDA	\$ (1,751)	\$ 17,290	\$ 24,751	\$ 30,568	\$ 43,220	\$ 5,789	\$ 10,231

The following tables present stock-based compensation and depreciation included in the above line items:

	Year Ended December 31,					Three Months Ended	
	2006	2007	2008	2009	2010	2010	2011
	(in thousands)						
<i>Stock-based compensation:</i>							
Cost of revenue	\$ 12	\$ 22	\$ 462	\$ 396	\$ 861	\$ 148	\$ 386
Product and development	34	94	424	906	2,424	522	1,003
Sales and marketing	60	148	459	857	1,730	400	1,366
General and administrative	140	195	1,950	3,819	8,497	1,699	1,942
Total	\$ 246	\$ 459	\$ 3,295	\$ 5,978	\$ 13,512	\$ 2,769	\$ 4,697

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	Year Ended December 31,					Three Months Ended	
	2006	2007	2008	2009	2010	2010	2011
	(in thousands)						
<i>Depreciation:</i>							
Cost of revenue	\$ 74	\$ 240	\$ 1,071	\$ 1,505	\$ 2,079	\$ 503	\$ 650
Product and technology	504	811	765	817	1,211	262	419
Marketing and sales	115	268	780	1,110	1,605	378	636
General and administrative	275	454	480	664	993	235	229
Total	\$ 968	\$ 1,773	\$ 3,096	\$ 4,096	\$ 5,888	\$ 1,378	\$ 1,934

- (6) We define free cash flow as our cash provided by operating activities, adjusted for cash interest expense and income, and subtracting capital expenditures. For the purpose of calculating free cash flow, we consider purchases of property, equipment, tenant 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:

	Year Ended December 31,					Three Months Ended	
	2006	2007	2008	2009	2010	2010	2011
	(in thousands)						
Cash (used in) provided by operating activities	\$ (641)	\$ 19,159	\$ 31,746	\$ 44,962	\$ 61,857	\$ 17,740	\$ 20,974
Cash used in investing activities	(111,377)	(74,763)	(8,819)	(70,962)	(81,031)	(36,917)	(558)
Cash provided by (used in) financing activities	117,831	58,564	101,513	(17,949)	(5,952)	51	1,293
Cash (used in) provided by operating activities	\$ (641)	\$ 19,159	\$ 31,746	\$ 44,962	\$ 61,857	\$ 17,740	\$ 20,974
Cash paid for interest	1,763	8,199	6,635				
Capital expenditures	(2,561)	(3,219)	(4,485)	(12,617)	(10,396)	(1,392)	(3,151)
Free cash flow	\$ (1,439)	\$ 24,139	\$ 33,896	\$ 32,345	\$ 51,461	\$ 16,348	\$ 17,823

- (7) This figure represents the total visits received across the selected group of our websites, and is based on the comScore Media Metrix Media Trend report for the time periods shown. Total visits is defined as the total number of times during a report period that a unique person accessed content within a website with at least a 30 minute break in between times of access. The websites included were: homeaway.com, vrbo.com, homelidays.com, abritel.fr, alugetemporada.com.br, vacationrentals.com, fewo-direkt.de, holiday-rentals.co.uk, ownersdirect.co.uk, bedandbreakfast.com, homeawayconnect.com, homeaway.es, villanao.com, homeaway.it, homelidays.es, cyberrentals.com, greatrentals.com, homeaway.nl, homelidays.co.uk, homeaway.pt, homelidays.de, homeaway.fr, alvacations.com and homeawayrealestate.com. comScore's report did not include data for our

remaining websites.

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Discussion of Adjusted EBITDA and Free Cash Flow

Adjusted EBITDA and free cash flow 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 and free cash flow are useful to investors in evaluating our operating performance for the following reasons:

our management uses Adjusted EBITDA and free cash flow 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 and free cash flow 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 and free cash flow as supplemental measures to evaluate the overall operating performance of companies, and we anticipate that after consummating this offering our investor and analyst presentations will include Adjusted EBITDA and free cash flow; and

Adjusted EBITDA excludes 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 and free cash flow 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 or free cash flow 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 and free cash flow have limitations as analytical tools. As an example, although depreciation and amortization are non-cash charges, the assets being depreciated or amortized will often need to be replaced in the future, and Adjusted EBITDA and free cash flow do not reflect any cash requirements for these replacements. In addition, neither 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.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis of the financial condition and results of our operations should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" included elsewhere in this prospectus.

Overview

We operate the world's largest online marketplace for the vacation rental industry. Vacation rentals are fully furnished, privately owned residential properties, including homes, condominiums, villas and cabins, that can be rented on a nightly, weekly or monthly basis. Our marketplace brings together millions of travelers seeking vacation rentals online with hundreds of thousands of owners and managers of vacation rental properties located in over 145 countries around the world. According to comScore's March 2011 Media Metrix Media Trend Report, in 2010, our websites attracted over 220 million website visits and averaged over 9.5 million unique monthly visitors. As of March 31, 2011, our global marketplace included more than 560,000 paid listings of vacation rentals.

We have achieved significant growth since our commercial launch in 2005. In 2010 and in the three months ended March 31, 2011, we generated \$167.9 million and \$52.0 million of revenue, respectively, representing year-over-year growth of 39.6% and 43.9%, respectively. We view our market opportunity as global, and, in 2010, 37.9% of our revenue came from outside the United States, including 36.6% from Europe and 1.3% from Latin America. We have historically generated strong cash flows and have had predictable financial results because of our advance payment, subscription-based model and our high annual listing renewal rates. In 2010 and in the three months ended March 31, 2011, listings contributed 91.1% and 86.9% of our revenue, respectively. In the same periods, we generated Adjusted EBITDA of \$43.2 million and \$10.2 million, respectively, representing year-over-year increases of 41.4% and 76.7%, respectively, and we generated net income of \$16.9 million and \$1.5 million, respectively, representing year-over-year increases of 120.9% and 290.9%, respectively. In 2010 and in the three months ended March 31, 2011, we generated free cash flow of \$51.5 million and \$17.8 million, respectively, representing year-over-year increases of 59.1% and 9.0%, respectively, and we generated cash provided by operating activities of \$61.9 million and \$21.0 million, respectively, representing year-over-year increases of 37.6% and 18.2%, respectively.

For further discussion regarding Adjusted EBITDA and free cash flow, see footnote (5) on page 43 and footnote (6) on page 44 to the table in the section of this prospectus titled "Selected Consolidated Financial Statements and Other Data."

To date, we have derived substantially all of our revenue from the sale of paid listings on our websites to property owners and professional property managers. Typically, owners and managers purchase listings and pay for such listings in advance at the beginning of the listing term. We recognize revenue monthly over the term of the listing, which is generally one year. For some professional property managers, we offer pay-for-performance listings whereby the customer pays a fee based on the number of inquiries or bookings received. In 2010, pay-for-performance listings generated 1.1% of our total revenue. Renewals are important for our subscription business. Our renewal rates were 74.4%, 72.8%, 75.9% and 76.1% in 2008, 2009, 2010 and the three months ended March 31, 2011, respectively.

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Our revenue increased from \$8.4 million in 2005 to \$167.9 million in 2010. Our revenue growth over the past six years was attributable to our acquisitions of other online listings businesses, an increase in the number of listings that property owners and managers purchase from us, an increase in the average revenue we receive per listing due to additional features and price increases, as well as the introduction of related products and services.

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While acquisitions have been integral to our revenue growth, we have also increased revenue organically, 42.1%, 32.0%, 28.6% and 30.0% in 2008, 2009, 2010 and the three months ended March 31, 2011, respectively. We consider growth to be organic if generated from businesses that we have owned for at least 12 months.

We were formed in 2004 and began operations in February 2005 with the acquisition of four websites in the United States and Holiday-Rentals.co.uk in the United Kingdom. In December 2005, we expanded our operations into Germany with the acquisition of FeWo-Direkt.de. In November 2006, we acquired the business of VRBO.com in the United States. As a result, our revenue for 2006 includes revenue associated with VRBO.com only for two months in 2006, while our revenue for 2007 includes revenue associated with VRBO.com for the entire year. To further expand our operations in Europe, we acquired Aritel.fr in France in January 2007 and OwnersDirect.co.uk in the United Kingdom in August 2007. In May 2007, we acquired the business of VacationRentals.com in the United States. These four websites generated \$30.2 million of our total revenue for 2007, which comprised 83.5% of the increase in our total revenue from 2006. We did not complete any acquisitions in 2008, but we generated a full year of revenue from the three websites acquired in 2007, compared to a partial year of revenue for such websites in 2007. In 2008, our revenue increased by \$28.4 million, or 52.6%, while our organic growth rate was 42.1%. In 2008, revenue from the websites we acquired in 2007 was \$9.0 million higher than revenue we recognized from these same websites for the period we owned them in 2007.

In January 2009, we acquired the business of Homelidays.com in France, which contributed to our growth. In 2009, our revenue increased by \$37.9 million, or 46.0%, while our organic growth rate was 32.0%. Revenue related to our acquisition of Homelidays.com and its related businesses contributed \$11.5 million of such \$37.9 million increase in 2009. In March 2010, we acquired the businesses of Aluguetemporada.com.br in Brazil, as well as BedandBreakfast.com in the United States. In October 2010, we acquired the businesses of Escapia and Instant Software, both of which provide software and related services to the vacation property management market. In 2010, our revenue increased by \$47.7 million, or 39.6%, while our organic growth rate was 28.6%. Revenue related to acquisitions we completed in 2010 contributed \$12.6 million of such \$47.7 million increase.

Our acquisitions have presented, and certain of them continue to present, significant integration challenges. These acquisitions 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. These challenges are likely to arise if we acquire businesses in the future.

From 2005 to 2010, we raised \$404.3 million in equity and \$110.5 million in bank debt. During the same period, we paid \$376.9 million for the acquired businesses in a combination of cash and stock. In addition, we used a portion of the funds from the October 2008 fundraising to repay bank debt and repurchase common stock. In 2010, we used cash on hand to fund our acquisitions.

Our ability to continue to grow our revenue will depend largely on increasing the number of paid listings and maintaining and introducing new revenue sources through our marketplace. Our number of paid listings grew from 338,396 as of December 31, 2008 to 527,535 as of December 31, 2010, a compound annual growth rate of 24.9%, and increased to 575,166 as of March 31, 2011. We will continue to offer more value and choice to property owners and managers by giving vacation rental owners and managers the option to pay more for increased distribution and placement in search results. We believe that this strategy will enhance our ability to increase average listing prices in future periods, while keeping base prices as low as possible. Another key driver of our revenue growth is our ability to retain existing and attract new property owners and managers. The fragmented nature of the vacation rental industry makes it challenging for us to acquire vacation rental listings, and we must therefore focus on a combination of direct and indirect marketing to add new listings.

We believe that attracting travelers to our online marketplace is necessary to attract and retain vacation rental owners and managers. In addition to increasing the number of visitors to our websites, it is critical to our future success for us to increase the likelihood that these visitors actually

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choose to book a vacation rental with the property owners and managers advertising through our websites. To meet these challenges, we are focused on

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a combination of marketing tactics, including pay-per-click advertising, search engine optimization, and broad reach marketing, to drive visits as well as increase the exposure of the vacation rental category. We are also investing in product enhancements to increase the number of travelers visiting our websites and encouraging them to make inquiries. We believe this will increase the satisfaction with our services for both travelers and vacation rental owners and managers, and will lead to strong renewal rates consistent with the level in 2010 and new property owners and managers listing properties on our marketplace. We will continue to expand into adjacent markets which are highly fragmented, such as our 2010 entry into the bed and breakfast and property manager software markets. We plan to introduce new products and services for travelers, property owners and managers, which will provide further opportunities to generate revenue through our marketplace.

Our expenses are primarily composed of salaries and related expenses and marketing. We have invested significantly in broad reach marketing over the past few years to increase awareness of vacation rentals and our brands. We will continue to increase expenses across the organization to support our growth but expect our cost of revenue to remain relatively steady as a percentage of revenue. We expect to incur higher expenses for product development as a percent of revenue, while reducing sales and marketing, as well as general and administrative expenses as a percentage of revenue. We plan for our investment in capital expenditures to be consistent with 2010 spending as a percentage of revenue. We are in the early stages of reorganizing our corporate structure, which we believe will lower our tax expense over the longer term.

In 2010, we generated net income of \$16.9 million. After deemed dividends and preferred stock discount accretion of \$35.2 million, we incurred a net loss attributable to common stockholders of \$18.3 million. In the three months ended March 31, 2011, we generated net income of \$1.5 million. After deemed dividends and preferred stock discount accretion of \$9.1 million, we incurred a net loss attributable to common stockholders of \$7.5 million. We intend to pay accumulated and unpaid dividends with proceeds from our offering.

Key Business Metrics

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

	Year Ended December 31,			Three Months Ended March 31,	
	2008	2009	2010	2010	2011
Key Business Metrics:					
Adjusted EBITDA (in thousands) ⁽¹⁾	\$ 24,751	\$ 30,568	\$ 43,220	\$ 5,789	\$ 10,231
Free cash flow (in thousands) ⁽²⁾	\$ 33,896	\$ 32,345	\$ 51,461	\$ 16,348	\$ 17,823
Paid listings, end of period	338,396	433,295	527,535	498,895	575,166
Average revenue per listing	\$266	\$300	\$318	\$290	\$328
Renewal rate, end of period	74.4%	72.8%	75.9%	74.9%	76.1%
Visits to websites (in millions) ⁽³⁾	134	181	221	62	60

- (1) See footnote (5) on page 43 to the table in the section of this prospectus titled "Selected Consolidated Financial and Other Data" for a definition of Adjusted EBITDA and reconciliation to net income.
- (2) See footnote (6) on page 44 to the table in the section of this prospectus titled "Selected Consolidated Financial and Other Data" for a definition of free cash flow and a reconciliation to cash flows from operating activities.
- (3) This figure represents the total visits received across the selected group of our websites, and is based on the comScore Media Metrix Media Trend report for the time periods shown. Total visits is defined as the total number of times during a report period that a unique person accessed content within a website with at least a 30 minute break in between times of access. The websites included were: homeaway.com, vrbo.com, homelidays.com, abritel.fr, alugetemporada.com.br, vacationrentals.com,

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fewo-direkt.de, holiday-rentals.co.uk, ownersdirect.co.uk, bedandbreakfast.com, homeawayconnect.com, homeaway.es, villanao.com, homeaway.it, homelidays.es, cyberrentals.com, greatrentals.com, homeaway.nl, homelidays.co.uk, homeaway.pt, homelidays.de, homeaway.fr, alvacations.com and homeawayrealestate.com. comScore's report did not include data for our remaining websites.

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Paid Listings. In 2010, 91.1% of our revenue was derived from paid listings. We regularly track paid listings as a key revenue growth driver and to identify trends in our business and industry. We believe the number of paid listings is a key indicator of the growth of our marketplace and the vacation rental industry. From 2008 to 2009 and from 2009 to 2010, ending paid listings increased by 28.0% and 21.7%, respectively, contributing to listing revenue growth of 44.8% and 31.9%, respectively. 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. We define a paid listing as a fee to list a property advertisement on one or more websites in our marketplace. A paid listing allows a property owner or manager to include a description of the property, along with location, pricing, availability, a specified number of photos and contact information. Most listings are sold on a subscription basis, and some listing packages may include listings on more than one of our websites. When purchased at the same time in one bundle, we count this as one paid listing. As of March 31, 2011, our global marketplace included more than 560,000 paid listings of vacation rentals. Including paid listings from BedandBreakfast.com, we had a total of 575,166 paid listings as of March 31, 2011. 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. We have used various technologies to estimate the number of unique properties and are implementing systems and processes to identify the number of unique properties that comprise our paid vacation rental listings, which we estimate was 480,000 as of March 31, 2011.

Average Revenue per Listing. We believe that trends in revenue per listing are important to understanding the price sensitivity of our listings, the value we bring to owners and managers, and the overall health of our marketplace. We use trends in revenue per 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 listing may increase our earnings or may be leveraged for future investment. From 2008 to 2009 and from 2009 to 2010, revenue per listing increased by 12.8% and 6.0%, respectively, which contributed to our overall listing revenue growth. Average revenue per listing for the three months ended March 31, 2011 increased 13.1% as compared to the three months ended March 31, 2010. We compute average revenue per listing as annualized listing revenue divided by the average of paid listings at the beginning and end of the period. The price of listings varies by website and can include various additional fees associated with listing enhancements. The average revenue per listing may fluctuate based on the timing and nature of acquisitions, impacting the number of average paid listings for a given period; changes in our base pricing; uptake of listing enhancements; changes in the pricing of enhancements; changes in brand mix; and the impact of foreign exchange rates on our listing revenue outside of the United States. Average revenue per listing for only those brands that we owned throughout 2008, 2009 and 2010 increased 9.0% and 9.7% in 2009 and 2010, respectively. The remaining growth rate increase of 3.8% in 2009 and growth rate decrease of 3.7% in 2010 was a result of brands we acquired during the comparative period, causing fluctuations in our results that may not be indicative of future results. Average revenue per listing for only those brands that we owned for each of the full comparative three month periods ended March 31, 2010 and March 31, 2011, increased by 11.6% during the three months ended March 31, 2011, as compared to the three months ended March 31, 2010. The remaining growth rate increase in March 31, 2011 of 1.5% was the result of brands acquired during the comparative periods. Additionally, and included in the changes in growth rates described above, average annual foreign exchange rates for the Euro and the British pound have declined from 2008 to 2010, negatively impacting our average revenue per listing. Average revenue per listing was impacted by foreign exchange rates by less than 10% in 2009 and 2010, respectively, compared to 2008. Foreign exchange rates did not significantly impact the average revenue per listing growth rate during the three months ended March 31, 2011. The remaining growth rate in average revenue per listing in 2009 and 2010 is the result of a combination of base price increases, uptakes on listing enhancements and changes in brand mix within our brands. We do not view these elements separately when quantifying average revenue per listing changes. The growth rate in annual revenue per listing may decelerate in the future if owners and managers become dissatisfied with increases in our base prices or prices for listing enhancements or with the effectiveness of listing enhancements. The growth rate may also accelerate or decelerate depending on our brand mix of revenue. Additionally, our average annual revenue per listing is impacted by fluctuations in foreign exchange rates. If we are not able to successfully increase our base prices or prices for listing enhancements, increase adoption of listing enhancements, or if foreign exchange rates decline, our average revenue per listing may suffer.

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Renewal Rate. Renewal of paid listings is a key driver of revenue for our business. Also, we track renewal rate in order to understand and improve upon the satisfaction of our owners and managers and to help us more accurately estimate our future revenue and cash flows. Renewal rates vary among our websites and can fluctuate due to a variety of factors, including customer satisfaction, changes in our processes associated with renewal activity, such as the introduction of automatic renewal, and general market conditions. 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 beginning of the period that are still active as of the end of such period. We do not include all brands in our calculation of renewal rate. OwnersDirect and Aritel were included in the calculation starting in 2010. Subscriptions to Homelidays.com, Aluguetemporada.com.br and BedandBreakfast.com 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. Brands included in our calculation of renewal rate for 2008, 2009 and 2010 were: in 2008 and 2009, HomeAway.com, VRBO.com, VacationRentals.com, FeWo-Direkt.de and Holiday-Rentals.co.uk; in 2010, HomeAway.com, VRBO.com, VacationRentals.com, FeWo-Direkt.de, Holiday-Rentals.co.uk, OwnersDirect.co.uk and Aritel.fr. The brands that are included in our calculation contributed aggregated listing revenues of \$65.6 million, \$85.9 million and \$130.2 million in 2008, 2009 and 2010, respectively, representing 82.0%, 74.1% and 85.1% of total listing revenues in 2008, 2009 and 2010, respectively. Customers 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. Our renewal rates for 2010 and the three months ended March 31, 2011, were 75.9% and 76.1%, respectively.

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 from travelers. Growth in visits to websites will be driven by our marketing strategies and has an indirect 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, Google Analytics and eStat. We also use third-party published reports to measure our results against comparable companies. According to comScore's Media Metrix Media Trend reports for the applicable time periods, visits to our websites increased annually by 35.4% and 21.9% in 2009 and 2010, respectively. The increase in 2009 is a result of our overall global brand-building and marketing activities, such as spending on pay-per-click advertising and our ongoing SEO activities, as well as our acquisition of Homelidays.com in France. The increase in 2010 is also attributable to our overall global brand-building and marketing activities, such as spending on pay-per-click advertising, our broad reach marketing campaign and our ongoing SEO activities. For the three months ended March 31, 2011, visits to our websites as reported by comScore decreased by 2.7% compared to the same period in 2010. However, according to our internal measurements, visits to our websites have increased by 27.4% for the three months ended March 31, 2011, compared to the three months ended March 31, 2010. Historically, trends in our visits data reported by comScore have been consistent with trends reflected in our internal data, although the number of visits to our websites reported by comScore has been consistently lower than the number of visits according to our internal measures. We are not aware of other material disparities between statistics measured internally and comparable third-party measurements. The increase reflected in our internal measurements is the result of the same factors causing the increase in 2010, as well as the addition of BedandBreakfast.com and Aluguetemporada.com.br for a full three months in the quarter ended March 31, 2011.

Adjusted EBITDA. We define this metric as net income (loss) plus depreciation, amortization of intangible assets; interest expense, net; income tax (expense) benefit; stock-based compensation expense, and net of any foreign exchange income or expense. We believe that the use of Adjusted EBITDA is useful in evaluating our operating performance because it excludes certain non-cash expenses, including depreciation, amortization and stock-based compensation. See footnote (5) on page 43 to the table in the section of this prospectus titled

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Selected Consolidated Financial and Other Data for a definition of Adjusted EBITDA and reconciliation to net income.

In 2006, we prepared for future growth by increasing headcount and related expenses, resulting in negative Adjusted EBITDA of \$1.8 million for that year. Revenue increased in 2007, primarily as a result of the acquisition of VRBO.com in late 2006 and our acquisitions of Aritel.fr, VacationRentals.com and OwnersDirect.co.uk during 2007. That year we generated Adjusted EBITDA of \$17.3 million, or 32.0% of total revenue. In late 2007 and during 2008, we began to make investments and increase expenses in preparation for becoming publicly traded company, which reduced our margin to 30.1%. In 2009, Adjusted EBITDA of \$30.6 million decreased to 25.4% of revenue. This was due primarily to increased spending in broad reach marketing which began in the fourth quarter of 2009 related to the production of a television advertisement to run in the first quarter of 2010. Our revenue and expenses both increased in 2010, which resulted in an increase of Adjusted EBITDA to \$43.2 million. For the three months ended March 31, 2010, Adjusted EBITDA was \$5.8 million, or 16.0% of revenue. For the three months ended March 31, 2011, Adjusted EBITDA was \$10.2 million, or 19.7% of revenue. Increased media expense associated with our February 2011 television advertisement, as well as increased expenses associated with the growth in headcount, resulted in lower Adjusted EBITDA as a percentage of revenue.

Free Cash Flow. We view free cash flow as an additional measure of our operating performance. We define free cash flow as our cash provided by operating activities, adjusted for cash interest expense and income, and subtracting capital expenditures. Capital expenditures of \$2.6 million combined with cash used in operating activities resulted in negative free cash flow in 2006 of \$1.4 million. Thereafter, as cash provided by operating activities has increased, we have generated positive free cash flow for the years 2007 through 2010. Free cash flow grew in 2007 and 2008 by significant amounts as the company expanded. In 2009, a significant increase in capital expenditures related to our new headquarters facility in Austin, Texas had a negative impact on free cash flow, resulting in free cash flow of \$32.3 million a slight decrease from 2008 free cash flow of \$33.9 million. For the year ended December 31, 2010, our cash provided by operating activities was \$61.9 million and capital expenditures were \$10.4 million, resulting in free cash flow of \$51.5 million. For the three months ended March 31, 2010, our cash provided by operating activities was \$17.7 million and capital expenditures were \$1.4 million, resulting in free cash flow of \$16.3 million. For the three months ended March 31, 2011, our cash provided by operating activities was \$21.0 million and capital expenditures were \$3.2 million, resulting in free cash flow of \$17.8 million. A higher level of listing additions and renewals in the first quarter of the calendar year results in higher cash flows during the same quarter, as most listings are annual and fully paid at the time the listing is purchased or renewed. See footnote (6) on page 44 to the table in the section of this prospectus titled Selected Consolidated Financial and Other Data for a definition of free cash flow and a reconciliation to cash flows from operating activities.

Key Components of Our Results of Operations***Revenue***

We derive most of our revenue from paid listings from our property owners and managers. Our customers generally pay for their 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 professional managers, which represented 1.1% of our revenue in 2010. This offering is generally taken when a property manager has a marketing budget that is allocated over many managed properties. They can elect to list more properties and pay us each month for the number of inquiries that are generated.

To date, our primary source of new property listings has been through the use of search engines such as Google, where property owners and managers search to find vacation rental listings websites. In addition, word-of-mouth referrals, primarily from existing property owners and managers that have been successful in renting their vacation rentals or travelers who have been successful in finding a property to rent using our websites, are another source for new listings. We have an inside sales organization for larger professional managers.

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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, allowing us to keep base prices low while offering expanded distribution and search placement for additional fees.

Deferred revenue consists of payments received from sales of listings in excess of the revenue that we have recognized from the same listings and sales from hosted software solutions for which the estimated period of the hosting relationship is longer than one year. Deferred revenue increases as a result of new listings and decreases as 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 as we grow our core listing business.

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

Costs and Expenses

A large component of our costs and expenses is personnel costs. Personnel costs include salaries, benefits, bonuses and related expenses (including stock-based compensation). We grew from 386 employees at December 31, 2008 to 842 at March 31, 2011. We expect that personnel costs will be higher in absolute dollars in 2011 than in 2010 based on an expected increase in the number of employees in 2011.

Cost of Revenue. Cost of revenue consists of customer service personnel and web-hosting personnel costs, merchant fees charged by credit card processors, and costs associated with the hosting of our websites. Personnel costs include salaries, benefits and related expenses, and stock-based compensation. To the extent that the number of paid listings on our marketplace grows, 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 trust and security. Our merchant fees are based on a contractual rate per transaction and will increase in absolute dollars as sales of listings increase, but we expect them to remain relatively constant and commensurate with 2010 levels, as a percentage of revenue. In general, as we add more features and functionality to our websites and increase the number of travelers accessing the websites, we must increase our spending on hardware and software required for hosting, but we expect such spending to remain at 2010 levels as a percentage of revenue.

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, which was 91.1% and 86.9% of total revenue in 2010 and in the three months ended March 31, 2011, 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 primarily of personnel costs, third-party contracting and consulting fees associated with our research and development of new services, expenses associated with improvements to, and maintenance of, existing services, and depreciation. 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 significantly increase our technology and product resources by hiring additional personnel in future periods as we expand the number of listings and develop new features and products. We expect these additional investments to cause our product development expenses to increase in absolute dollars and as a percentage of revenue in future periods.

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Sales and Marketing. Sales and marketing expenses consist primarily of amounts paid for pay-per-click, or PPC, online advertising, broad reach advertising, personnel costs for our marketing, search engine optimization, or SEO, sales staff, and consulting and other services firms fees, expenses associated with email marketing programs, and public relations expenses and depreciation. We utilize PPC 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 regarding vacation rentals. 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 significantly increase our marketing efforts to support our new products, increase the traffic to our websites and increase overall brand awareness. We expect our marketing and sales expenses to increase in absolute dollars in future periods but to decrease slightly from our historical results as a percentage of revenue.

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, which will result in an increase in other expenses, such as facilities, office and travel. We also expect to incur incremental costs associated with operating as a public company, including increases in our 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 in future periods but to decrease as a percentage of revenue.

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 depreciated over three years and furniture and fixtures over five to ten years. Leasehold improvements are recorded at cost and amortized over the shorter of the term of the related lease or the estimated life of the leasehold improvement. 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 and as a percentage of revenue in the coming year.

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 intangibles with indefinite lives with the assistance of a third-party valuation firm, or whenever events or circumstances indicate that impairment may have occurred. We expect our amortization expenses to increase in absolute dollars in 2011 due to the impact of a full year of amortization related to acquisitions made in 2010, but to decrease as a percentage of revenue. Amortization expense will depend on our future acquisition activity.

Other Income (Expense)

During 2008, we had significant bank borrowings until paid in full in October 2008. Therefore, we incurred significant interest expense during that time. Interest expense is offset by interest earned on our excess cash, which is invested in short term instruments. In 2008 and 2009, we had operations in the United States, the United Kingdom, France and Germany. In 2010, we expanded operations to Brazil and Switzerland. As a result of operating in multiple countries, we incur gains and losses on foreign currency transactions.

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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, tax credits, and changes in our deferred tax asset valuation allowance.

Historically, we have generated most of our current taxable income outside of the United States. In 2010, we paid corporate income taxes associated with our operations in several states within the United States and in France, the United Kingdom, Germany and Brazil. 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 the United States, we have a net operating loss carryforward, or NOL, which increases our cash flows by lowering our current income tax expense. Our NOL was created from operating losses in previous years, as well as tax deductions for the amortization of intangibles resulting from our U.S. asset acquisitions. The intangibles will be amortized over a period of 15 years from the date of the acquisition, serving to lower our current tax expense. We will also incur a deferred tax liability over this same time period related to the intangibles amortization, which will increase our deferred tax expense, such that the net income statement impact of the intangibles amortization will be offset.

During 2010, our effective tax rate was a benefit of 59.5%. Our effective tax rate in recent periods differed from our anticipated long-term effective tax rate, due to changes in our deferred tax asset valuation allowance, including the release of \$13.4 million of the valuation allowance against U.S. federal and state deferred tax assets in 2010, as well as non-deductible charges for stock-based compensation and tax credits. As a result of our historical losses generated in the United States as well as NOLs acquired in the acquisition of Escapia, Inc., we had federal and state NOLs of approximately \$26.8 million as of December 31, 2009 and \$26.9 million as of 2010. Additionally, we had foreign NOLs of \$2.4 million as of December 31, 2010, which have no expiration. Our mix of foreign versus U.S. income, our ability to generate tax credits and our incurrence of any non-deductible expenses will likely cause our effective tax rate to fluctuate in the future.

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The following table presents our historical operating results as a percentage of revenues for the periods indicated.

	Year Ended December 31,			Three Months Ended March 31,	
	2008	2009	2010	2010	2011
	(in thousands, except per share data)				
Consolidated Statements of Operations Data:					
Revenue:					
Listing	\$ 80,012	\$ 115,881	\$ 152,890	\$ 33,818	\$ 45,171
Other	2,314	4,349	14,994	2,292	6,796
Total revenue	82,326	120,230	167,884	36,110	51,967
Costs and expenses:					
Cost of revenue (exclusive of amortization shown separately below)					
Product development	11,065	17,800	25,647	5,793	8,458
Sales and marketing	12,535	13,180	18,703	3,844	7,011
General and administrative	22,434	39,483	58,376	16,030	22,662
Amortization expense	17,937	29,331	41,445	8,814	10,274
	9,026	9,516	9,953	2,169	2,863
Total costs and expenses	72,997	109,310	154,124	36,650	51,268
Operating income	9,329	10,920	13,760	(540)	699
Other income (expense):					
Interest expense	(9,734)	(3)	(22)	(1)	(10)
Interest income	258	261	208	58	57
Other income (expense)	34	1,481	(3,326)	(1,148)	(67)
Total other income (expense)	(9,442)	1,739	(3,140)	(1,091)	(20)
Income (loss) before income taxes	(113)	12,659	10,620	(1,631)	679
Income tax (expense) benefit	(5,552)	(4,992)	6,314	828	854
Net income (loss)	(5,665)	7,667	16,934	(803)	1,533
Cumulative preferred stock dividends and discount accretion	(19,446)	(33,511)	(35,224)	(8,657)	(9,065)
Net loss attributable to common stockholders	\$ (25,111)	\$ (25,844)	\$ (18,290)	\$ (9,460)	\$ (7,532)
Net loss per share attributable to common stockholders:					
Basic and diluted	\$ (0.64)	\$ (0.70)	\$ (0.48)	\$ (0.25)	\$ (0.19)
Weighted average number of shares outstanding	39,081	31,172	38,143	37,404	38,904
Pro forma net income per share:					
Basic (unaudited)			\$ 0.22		\$ 0.02
Diluted (unaudited)			\$ 0.21		\$ 0.02
Weighted average number of shares used in computing pro forma net income per share:					
Basic (unaudited)			75,946		77,589
Diluted (unaudited)			79,270		80,734

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The following table presents a reconciliation of net income (loss) to Adjusted EBITDA:

	Year Ended December 31,			Three Months Ended March 31,	
	2008	2009	2010	2010	2011
	(in thousands)				
Net income (loss)	\$ (5,665)	\$ 7,667	\$ 16,934	\$ (803)	\$ 1,533
Add:					
Depreciation and amortization	12,122	13,612	15,841	3,547	4,797
Stock-based compensation	3,295	5,978	13,512	2,769	4,697
Interest expense	9,734	3	22	1	10
Interest income	(258)	(261)	(208)	(58)	(57)
Foreign exchange expense (income)	(29)	(1,423)	3,433	1,161	105
Income tax expense (benefit)	5,552	4,992	(6,314)	(828)	(854)
Adjusted EBITDA	\$ 24,751	\$ 30,568	\$ 43,220	\$ 5,789	\$ 10,231

	Year Ended December 31,			Three Months Ended March 31,	
	2008	2009	2010	2010	2011
Consolidated Statements of Operations as a Percentage of Revenue:					
Revenue:					
Listing	97%	96%	91%	94%	87%
Other	3	4	9	6	13
Total revenue	100	100	100	100	100
Costs and expenses:					
Cost of revenue (exclusive of amortization shown separately below)	13	15	15	16	16
Product development	15	11	11	11	13
Sales and marketing	27	33	35	44	44
General and administrative	22	24	25	24	20
Amortization expense	11	8	6	6	6
Total costs and expenses	89	91	92	101	99
Operating income	11	9	8	(1)	1
Other income (expense):					
Interest expense	(12)				
Interest income					
Other income (expense)		1	(2)	(3)	
Total other income (expense)	(11)	1	(2)	(3)	
Income (loss) before income taxes	0	11	6	(5)	1
Income tax (expense) benefit	(7)	(4)	4	2	2
Net income (loss)	(7)%	6%	10%	(2)%	3%

Comparison of the Three Months Ended March 31, 2010 and 2011**Revenue**

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Revenue	2010		Three Months Ended March 31, 2011		Change	
	Amount	Percentage of Revenue	Amount (dollars in thousands)	Percentage of Revenue	Amount	Percent
Listings	\$ 33,818	93.7%	\$ 45,171	86.9%	\$ 11,353	33.6%
Other	2,292	6.3	6,796	13.1	4,504	196.5
Total	\$ 36,110	100.0%	\$ 51,967	100.0%	\$ 15,857	43.9%

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Revenue	2010		Three Months Ended March 31, 2011		Change	
	Amount	Percentage of Revenue	Amount (dollars in thousands)	Percentage of Revenue	Amount	Percent
United States	\$ 21,435	59.4%	\$ 32,465	62.5%	\$ 11,030	51.5%
International	14,675	40.6	19,502	37.5	4,827	32.9
Total	\$ 36,110	100.0%	\$ 51,967	100.0%	\$ 15,857	43.9%

Revenue was \$52.0 million in the three months ended March 31, 2011, compared to \$36.1 million in the three months ended March 31, 2010, an increase of \$15.9 million, or 43.9%. Our U.S. revenue was \$32.5 million, or 62.5% of our total revenue during the quarter, compared to \$21.4 million, or 59.4% of our total revenue in the same quarter during 2010.

Our core listing business revenue increased by \$11.4 million in the three months ended March 31, 2011, compared to the three months ended March 31, 2010, primarily due to an increased number of new listings and to a lesser extent, an increase in revenue per listing. Paid listings increased from 498,895 at March 31, 2010, to 575,166 at March 31, 2011, an increase of 15.3%. Our average revenue per listing was \$328 for the three months ended March 31, 2011, compared to \$290 for the three months ended March 31, 2010, an increase of \$38, or 13.1%. In addition, we recognized three months of revenue from BedandBreakfast.com and Aluguetemporada.com.br in the period ended March 31, 2011 compared to one month in the three months ended March 31, 2010, contributing \$1.7 million to the increase in listing revenue.

With respect to other revenue, software licensing and related maintenance revenue increased by \$2.3 million in the three months ended March 31, 2011 compared to the three months ended March 31, 2010, primarily associated with the acquisitions of Instant Software and Escapia, which were completed in the fourth quarter of 2010 and therefore were not part our product offerings in March 2010. Advertising revenue increased by \$750,000 in the three months ended March 31, 2011 compared to the three months ended March 31, 2010, due to improved economic conditions for online advertising in 2011, as well as changes made to our websites to better serve advertisers. Revenue from our owner reservation tool and the related merchant bank credit card royalties increased by \$684,000 in the three months ended March 31, 2011 compared to the three months ended March 31, 2010. We no longer offer a vacation booking service, which was part of a pilot program in 2010, and therefore revenue in this area was lower by \$138,000. The balance of the increased revenue was generated from products focused on travelers, such as trip insurance and the Carefree Rental Guarantee, which generated increased revenues of \$501,000 in the three months ended March 31, 2011, compared to the same period in 2010.

Cost of Revenue

Cost of revenue	2010		Three Months Ended March 31, 2011		Change	
	Amount	Percentage of Revenue	Amount (dollars in thousands)	Percentage of Revenue	Amount	Percent
Cost of revenue	\$ 5,793	16.0%	\$ 8,458	16.3%	\$ 2,665	46.0%

Cost of revenue was \$8.5 million in the three months ended March 31, 2011, compared to \$5.8 million in the three months ended March 31, 2010, an increase of \$2.7 million, or 46.0%. A large part of the increase was due to a \$1.4 million increase in salaries, benefits, bonuses and related expenses (including non-cash stock compensation) for our customer service and web-hosting personnel. At March 31, 2011, we had 51 additional customer support personnel and three additional personnel to support our web-hosting operations compared to the number of our

customer service and web-hosting personnel at March 31, 2010. With increased customer

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service employees, as well as increased investment in hosting equipment, we incurred \$429,000 in additional expense for facilities and depreciation. Merchant fees are generally incurred as a percentage of credit card receipts and increased by \$323,000, in line on a percentage basis with revenue growth. Expenses associated with web hosting increased by \$242,000 as we added more computing capacity for increased growth in visits to our websites. Other significant increases included \$143,000 related to an increased number of software licenses and maintenance for our corporate systems. During the three months ended March 31, 2011, we utilized additional contractors and temporary staff in customer service, which increased costs on a seasonal basis. We expect our cost of revenue to increase on an absolute basis but stay relatively steady as a percentage of total revenue.

Product Development

	2010		Three Months Ended March 31, 2011		Change	
	Amount	Percentage of Revenue	Amount (dollars in thousands)	Percentage of Revenue	Amount	Percent
Product development	\$ 3,844	10.6%	\$ 7,011	13.5%	\$ 3,167	82.4%
Capitalized software development costs	705	2.0	1,116	2.1	411	58.3
Total product and technology costs expensed and capitalized	\$ 4,549	12.6%	\$ 8,127	15.6%	\$ 3,578	78.7%

Product development expense was \$7.0 million in the three months ended March 31, 2011, compared to \$3.8 million in the three months ended March 31, 2010, an increase of \$3.2 million, or 82.4%. A large part of the increase was due to a \$2.5 million increase in salaries, benefits, bonuses and related expenses (including non-cash stock compensation), offset by an increase in capitalized software costs of \$411,000. At March 31, 2011, we had 59 additional employees in product development compared to March 31, 2010. Contracting expense increased \$443,000 in the three months ended March 31, 2011, compared to the three months ended March 31, 2010, due to increased use of outsourced technology resources. Overall increases in headcount also drove higher facilities and depreciation expense of \$400,000 in the three months ended March 31, 2011. We expect our product development expenses to increase both on an absolute basis and as a percentage of revenue.

Sales and Marketing

	2010		Three Months Ended March 31, 2011		Change	
	Amount	Percentage of Revenue	Amount (dollars in thousands)	Percentage of Revenue	Amount	Percent
Sales and marketing	\$ 16,030	44.4%	\$ 22,662	43.6%	\$ 6,632	41.4%

Sales and marketing expense was \$22.7 million in the three months ended March 31, 2011, compared to \$16.0 million in the three months ended March 31, 2010, an increase of \$6.6 million, or 41.4%. Salaries, benefits, bonuses and related expenses (including non-cash stock compensation) increased \$4.3 million in the three months ended March 31, 2011, due primarily to an increase in the number of our employees. At March 31, 2011, we had 102 additional employees in sales and marketing compared to March 31, 2010. As part of the increase, beginning in 2011, 27 existing general and administrative employees were redeployed into new roles within our sales and marketing organization to continue our focus on the growth of our business. During the three months ended March 31, 2011, the related compensation costs were captured in sales and marketing, resulting in an increase of \$1.9 million of the \$4.3 million total increase during the period.

In the three months ended March 31, 2011, marketing expenses increased by \$925,000 due to higher expenses associated with pay-per-click advertising and email campaigns to support the growth of the overall business and media and related costs associated with our 2011 broad reach marketing campaign.

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Facilities and depreciation expenses allocated to sales and marketing increased by \$635,000 and contracting and travel expenses increased by \$455,000. On an annual basis, we expect sales and marketing expenses to increase in total but continue to represent the same or a slightly lower percentage of revenue. The expense quarter-to-quarter may fluctuate due to the timing of media campaigns.

General and Administrative

	2010		Three Months Ended March 31, 2011		Change	
	Amount	Percentage of Revenue	Amount (dollars in thousands)	Percentage of Revenue	Amount	Percent
General and administrative	\$ 8,814	24.4%	\$ 10,274	19.8%	\$ 1,460	16.6%

General and administrative expense was \$10.3 million in the three months ended March 31, 2011, compared to \$8.8 million in the three months ended March 31, 2010, an increase of \$1.5 million, or 16.6%.

At March 31, 2011, we had 24 additional employees and executives in operations, finance, human resources, and legal compared to the number of operations, finance, human resources, and legal personnel at March 31, 2010. These increased expenses were offset by a decrease of \$1.9 million in compensation related expenses due to the centralization of administrative functions as part of our integration efforts and the redeployment of employees into the sales and marketing organization, resulting in these expenses being recognized within sales and marketing in the current period. As a result, salaries, benefits and bonuses decreased by \$124,000 in the three months ended March 31, 2011, compared to the three months ended March 31, 2010.

Consulting, professional fees and contracting increased \$967,000 in the three months ended March 31, 2011, due to increased legal, accounting and consulting associated with the integration of our acquisitions in late 2010, preparation of the business for a potential public offering and the investigation of potential new strategic transactions. Other operating tax expenses increased by \$251,000, and we incurred \$175,000 in bad debt expense. The balance of the increase was due to equipment, facilities and other expenses. We expect general and administrative expenses to increase in total but continue to represent the same or a slightly lower percentage of revenue.

Amortization

	2010		Three Months Ended March 31, 2011		Change	
	Amount	Percentage of Revenue	Amount (dollars in thousands)	Percentage of Revenue	Amount	Percent
Amortization expense	\$ 2,169	6.0%	\$ 2,863	5.5%	\$ 694	32.0%

Amortization expense was \$2.9 million in the three months ended March 31, 2011, compared to \$2.2 million in the three months ended March 31, 2010, an increase of \$0.7 million, or 32.0%.

Amortization is recorded for our identifiable intangible assets, largely consisting of intangible assets acquired in our business combinations. Amortization expense increased by \$854,000 in the three months ended March 31, 2011 due to the addition of identifiable intangible assets from our four acquisitions in 2010. This was offset primarily by decreases in our amortization expense resulting from the expiration of identifiable intangible assets from prior acquisitions of \$160,000.

Table of Contents**Other Income**

	2010		Three Months Ended March 31, 2011		Change	
	Amount	Percentage of Revenue	Amount (dollars in thousands)	Percentage of Revenue	Amount	Percent
Other income (expense)	\$ (1,091)	(3.0)%	\$ (20)	(0.0)%	\$ 1,071	(98.2)%

We recorded \$1.1 million in losses from foreign currency denominated transactions for the three months ended March 31, 2010. We have engaged in forward contracts to hedge foreign currency impact on certain of our intercompany loans during the three months ended March 31, 2011, which resulted in no significant gains or losses from foreign currency denominated transactions for the three months ended March 31, 2011. Interest income was \$57,000 for the three months ended March 31, 2011, compared to \$58,000 in the three months ended March 31, 2010.

Income Taxes

	2010		Three Months Ended March 31, 2011		Change	
	Amount	Percentage of Revenue	Amount (dollars in thousands)	Percentage of Revenue	Amount	Percent
Income tax benefit	\$ 828	2.3%	\$ 854	1.6%	\$ 26	3.1%

Our benefit from income taxes was \$854,000 for the three months ended March 31, 2011, compared to a benefit of \$828,000 for the three months ended March 31, 2010. The benefit in the period ended March 31, 2011 is due to the release of reserves for uncertain tax positions for completed audits of two of our foreign subsidiaries of \$1.3 million, offset by tax expense of \$400,000 determined using our estimated annual effective tax rate of 62.7%. The estimated annual effective tax rate at March 31, 2011 differed from the statutory rate primarily due to non-deductible stock-based compensation charges. The composition of the benefit in the three months ended March 31, 2010 was determined using an estimated annual effective tax rate of 50.8%. The estimated annual effective tax rate at March 31, 2010 differed from the statutory rate primarily due to non-deductible stock based-compensation and to changes in the valuation allowance provided against our net deferred tax assets.

Comparison of the Years Ended December 31, 2009 and 2010**Revenue**

	2009		Year Ended December 31, 2010		Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percent
Revenue						

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	(dollars in thousands)					
Listings	\$ 115,881	96.4%	\$ 152,890	91.1%	\$ 37,009	31.9%
Other	4,349	3.6	14,994	8.9	10,645	244.8
Total	\$ 120,230	100.0%	\$ 167,884	100.0%	\$ 47,654	39.6%

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Revenue	2009		Year Ended December 31, 2010		Change	
	Amount	Percentage of Revenue	Amount (dollars in thousands)	Percentage of Revenue	Amount	Percent
United States	\$ 70,042	58.3%	\$ 104,262	62.1%	\$ 34,220	48.9%
International	50,188	41.7	63,622	37.9	13,434	26.8
Total	\$ 120,230	100.0%	\$ 167,884	100.0%	\$ 47,654	39.6%

Revenue was \$167.9 million in 2010, compared to \$120.2 million in 2009, an increase of \$47.7 million, or 39.6%. Our U.S. revenue was \$104.3 million, or 62.1% of our total revenue, in 2010, compared to \$70.0 million, or 58.3% of our total revenue in 2009.

Our core listing business revenue increased \$37.0 million in 2010 as compared to 2009 due to an increased number of new listings, including 24,696 new listings associated with our acquisitions of BedandBreakfast.com and Aluguetemporada.com.br. Paid listings increased from 433,295 at the end of 2009 to 527,535 at the end of 2010. Our average revenue per listing was \$318 in 2010 compared to \$300 in 2009, an increase of \$18, or 6.0%.

With respect to other revenue, advertising revenue increased by 141.8%, or \$3.4 million, due to improved economic conditions for online advertising in 2010, as well as changes made to our websites to better serve advertisers. Our 2010 acquisitions contributed \$3.1 million in revenue from software and \$1.3 million from the sale of gift cards. Also, revenue from products such as the owner reservation tool and related merchant bank credit card royalties increased by \$1.7 million. Making up the majority of the balance was an increase in revenue from the Carefree Rental Guarantee of \$564,000 and an increase in royalties and commissions from bookings of \$463,000.

Of the total revenue increase in 2010, \$12.6 million was related to our acquisitions of BedandBreakfast.com, Aluguetemporada.com.br, Instant Software and Escapia during that year. While our overall revenue growth rate for 2010 was 39.6%, our organic revenue growth rate was 28.6%.

Cost of Revenue

Cost of revenue	2009		Year Ended December 31, 2010		Change	
	Amount	Percentage of Revenue	Amount (dollars in thousands)	Percentage of Revenue	Amount	Percent
Cost of revenue	\$ 17,800	14.8%	\$ 25,647	15.3%	\$ 7,847	44.1%

Cost of revenue was \$25.6 million in 2010, compared to \$17.8 million in 2009, an increase of \$7.8 million, or 44.1%. 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 compensation) for our customer service and web-hosting personnel. During 2010, we added 80 new customer support personnel and three additional personnel to support our website hosting operations. With increased customer service employees as well as increased investment in hosting equipment, we incurred a higher expense for depreciation of computer equipment, furniture and facility leasehold improvements, which increased \$573,000, or 38.1%, during 2010. Merchant fees are generally incurred as a percentage of credit card receipts and increased by \$1.2 million, in line with revenue growth. Expenses associated with web hosting increased by \$724,000 as we added more computing capacity for increased growth in

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visits to our websites. Other increases included \$764,000 in third-party contracting costs, as well as increases in software licenses and maintenance. We expect our cost of revenues to increase on an absolute basis but stay relatively steady as a percentage of revenue.

Table of Contents**Product Development**

	2009		Year Ended December 31, 2010		Change	
	Amount	Percentage of Revenue	Amount (dollars in thousands)	Percentage of Revenue	Amount	Percent
Product development	\$ 13,180	11.0%	\$ 18,703	11.1%	\$ 5,523	41.9%
Capitalized software development costs	2,130	1.8	3,467	2.1	1,337	62.8
Total product and technology costs expensed and capitalized	\$ 15,310	12.7%	\$ 22,170	13.2%	\$ 6,860	44.8%

Product development expense was \$18.7 million for 2010, compared to \$13.2 million for 2009, an increase of \$5.5 million, or 41.9%. A large part of the increase was due to a \$5.3 million increase in salaries, benefits, bonuses and related expenses (including non-cash stock compensation), offset by an increase in capitalized software costs of \$1.3 million. During 2010, we added 58 new employees in product development. Contracting expense increased \$946,000 in 2010 compared to 2009 due to increased use of outsourced technology resources. We expect our product development expenses to increase both on an absolute basis and as a percentage of revenue.

Sales and Marketing

	2009		Year Ended December 31, 2010		Change	
	Amount	Percentage of Revenue	Amount (dollars in thousands)	Percentage of Revenue	Amount	Percent
Sales and marketing	\$ 39,483	32.8%	\$ 58,376	34.8%	\$ 18,893	47.9%

Sales and marketing expense was \$58.4 million for 2010, compared to \$39.5 million for 2009, an increase of \$18.9 million, or 47.9%. Marketing expenses increased by \$12.5 million due to higher expenses associated with pay-per-click advertising and email campaigns to support the growth of the overall business, media and related costs associated with our 2010 broad reach marketing campaign, production costs incurred in relation to our 2011 broad reach marketing campaign and marketing costs associated with our new acquisitions in 2010.

Salaries, benefits, bonuses and related expenses (including non-cash stock compensation) increased \$5.3 million due primarily to an increase in the number of our employees. During 2010, we added 57 new employees in sales and marketing. Depreciation expense allocated to sales and marketing increased by \$495,000. We expect our sales and marketing expenses to increase on an absolute basis in the future but to decrease slightly as a percentage of revenue.

General and Administrative

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	2009		Year Ended December 31, 2010		Change	
	Amount	Percentage of Revenue	Amount (dollars in thousands)	Percentage of Revenue	Amount	Percent
General and administrative	\$ 29,331	24.4%	\$ 41,445	24.7%	\$ 12,114	41.3%

General and administrative expense was \$41.4 million for 2010, compared to \$29.3 million for 2009, an increase of \$12.1 million, or 41.3%. During 2010, the complexity of our organization increased due to the three acquisitions in the United States, one acquisition in Brazil and the overall growth of the businesses, as well as an increase in strategic projects. A large part of the increase was due to a \$7.7 million increase in salaries, benefits,

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bonuses and related expenses (including non-cash stock compensation). During 2010, we added 34 new employees and executives in operations, finance, human resources, and legal. In addition to the normal non-cash charge for stock compensation expense associated with new and current employees, we incurred a one-time charge of \$550,000 associated with the acceleration of option vesting for our former chief operating officer. Consulting and professional fees increased \$1.7 million in 2010 due to increased accounting, tax and legal fees associated with our global tax restructuring, preparation of the business for a potential public offering and support of our acquisition activity. Software license and maintenance expense for our corporate systems increased by \$606,000, facilities expense increased by \$594,000, various non-income based taxes increased by \$540,000, and travel and entertainment increased by \$287,000. Although most general and administrative expenses increased with the growth of the business, we lowered our reserves for our Carefree Rental Guarantee and our Basic Rental Guarantee as a result of lower expected claims obligations and changes in our guarantee programs, which resulted in a \$638,000 lower expense compared to 2009. We expect our general and administrative expenses to increase on an absolute basis in the future but remain slightly lower as a percentage of revenue.

Amortization

	2009		Year Ended December 31, 2010		Change	
	Amount	Percentage of Revenue	Amount (dollars in thousands)	Percentage of Revenue	Amount	Percent
Amortization expense	\$ 9,516	7.9%	\$ 9,953	5.9%	\$ 437	4.6%

Amortization expense was \$10.0 million for 2010, compared to \$9.5 million for 2009, an increase of \$437,000, or 4.6%. Amortization is recorded for our identifiable intangible assets, largely consisting of intangible assets acquired in our business combinations. Decreases in our amortization expense resulted from the expiration of identifiable intangible assets' useful lives. In 2010, the decrease in amortization resulting from reaching the end of specific identifiable assets' useful lives was offset by increased amortization associated with our four acquisitions during the year.

Other Income (Expense)

	2009		Year Ended December 31, 2010		Change	
	Amount	Percentage of Revenue	Amount (dollars in thousands)	Percentage of Revenue	Amount	Percent
Other income (expense)	\$ 1,739	1.4%	\$ (3,140)	(1.9)%	\$ (4,879)	(280.6)%

We recorded \$3.4 million in losses from foreign currency denominated transactions for the year ended December 31, 2010 compared to gains of \$1.4 million the previous year. During 2010, the Euro and GBP lost value against the U.S. dollar, which resulted in the foreign currency losses on certain intercompany loans. We earned interest income of \$208,000 during the year ended December 31, 2010, compared to \$261,000 in the prior year. Interest expense was immaterial for the years ended December 31, 2009 and 2010.

Income Taxes

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	2009		Year Ended December 31, 2010		Change	
	Amount	Percentage of Revenue	Amount (dollars in thousands)	Percentage of Revenue	Amount	Percent
Income tax (expense) benefit	\$ (4,992)	(4.2)%	\$ 6,314	3.8%	\$ 11,306	226.5%

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The change in income tax (expense) benefit from an expense of \$5.0 million for the year ended December 31, 2009 to a benefit of \$6.3 million for the year ended December 31, 2010 is primarily related to the release of the deferred tax asset valuation allowance in the second quarter of 2010, resulting in a one-time benefit of \$13.4 million. The release of the valuation allowance was based on our conclusion that it is more likely than not that we will generate sufficient future ordinary taxable income to realize our deferred tax assets. Our conclusion regarding the sufficiency of our forecast was based on four consecutive quarters of historical cumulative earnings over the preceding three-year period, as well as positive earnings trends. Additionally, our advance payment, subscription-based model and high annual listing renewal rates allow for some predictability to future earnings. There can be no assurance that we will meet our expectations of future taxable income. If we do not meet our expectations of future taxable income, we may be required to reinstate all or part of the valuation allowance on our deferred tax assets. Such an occurrence could materially adversely affect the results of our operations and financial condition.

The benefit from the release of the valuation allowance was partially offset by a \$2.3 million charge to book a reserve for uncertain tax positions related to an income tax audit being undertaken with respect to our subsidiaries in France.

Comparison of the Years Ended December 31, 2008 and 2009**Revenue**

Revenue	2008		Year Ended December 31, 2009		Change	
	Amount	Percentage of Revenue	Amount (dollars in thousands)	Percentage of Revenue	Amount	Percent
Listings	\$ 80,012	97.2%	\$ 115,881	96.4%	\$ 35,869	44.8%
Other	2,314	2.8	4,349	3.6	2,035	87.9
Total	\$ 82,326	100.0%	\$ 120,230	100.0%	\$ 37,904	46.0%

Revenue	2008		Year Ended December 31, 2009		Change	
	Amount	Percentage of Revenue	Amount (dollars in thousands)	Percentage of Revenue	Amount	Percent
United States	\$ 52,136	63.3%	\$ 70,042	58.3%	\$ 17,906	34.3%
International	30,190	36.7	50,188	41.7	19,998	66.2
Total	\$ 82,326	100.0%	\$ 120,230	100.0%	\$ 37,904	46.0%

Revenue was \$120.2 million in 2009, compared to \$82.3 million in 2008, an increase of \$37.9 million, or 46.0%. Our U.S. revenue was \$70.0 million, or 58.3% of our total revenue, in 2009, compared to \$52.1 million, or 63.3% of our total revenue, in 2008.

Our listing business was 97.2% and 96.4% of the business in 2008 and 2009, with the remaining revenue generated primarily from advertising and other value added services, such as royalties from merchant accounts. Listing revenue increased by \$35.9 million from 2008 to 2009 due to a higher number of paid listings, including 47,305 new listings associated with our acquisition of Homelidays.com and related businesses, as well

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as an increase in the average sales price per listing. Paid listings increased from 338,396 at the end of 2008 to 433,295 at the end of 2009. During the first quarter of 2009, we acquired Homelidays.com, a vacation rental website in France, which added approximately 46,000 paid listings. Our average revenue per listing was \$300 in 2009 compared to \$266 in 2008, an increase of \$34, or 12.8%. The increase in other revenue of \$2.0 million was primarily due to a \$1.1 million increase in banner advertising revenue as well as \$685,000 in commission revenue calculated as a percentage for online reservations from an agreement with a third-party company.

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Of the total revenue increase, \$11.5 million was related to our acquisition of Homelidays.com and related businesses during 2009. While our overall revenue growth rate for 2009 was 46.0%, our organic revenue growth rate was 32.0%.

Cost of Revenue

	2008		Year Ended December 31, 2009		Change	
	Amount	Percentage of Revenue	Amount (dollars in thousands)	Percentage of Revenue	Amount	Percent
Cost of revenue	\$ 11,065	13.4%	\$ 17,800	14.8%	\$ 6,735	60.9%

Cost of revenue was \$17.8 million in 2009, compared to \$11.1 million in 2008, an increase of \$6.7 million, or 60.9%. A large part of the increase was due to a \$3.9 million increase in salaries, benefits, bonuses and related expenses (including non-cash stock compensation) for our customer service and web-hosting personnel. During 2009, we added 54 new customer support personnel and four additional personnel to support our website hosting operations. Facilities and depreciation expense increased \$1.8 million due to our new office headquarters lease and additional facilities associated with the acquisition of Homelidays in France. Merchant fees, which are generally incurred as a percentage of credit card receipts, increased by \$664,000, in line with our revenue growth for the same period. Expenses associated with web hosting increased by \$311,000 as we added more computing capacity for increased growth in visits to our websites. We also increased software license and maintenance.

Product Development

	2008		Year Ended December 31, 2009		Change	
	Amount	Percentage of Revenue	Amount (dollars in thousands)	Percentage of Revenue	Amount	Percent
Product development	\$ 12,535	15.2%	\$ 13,180	11.0%	\$ 645	5.1%
Capitalized software development costs	1,586	1.9	2,130	1.8	544	34.3
Total product and technology costs expensed and capitalized	\$ 14,121	17.2%	\$ 15,310	12.7%	\$ 1,189	8.4%

Product development expense was \$13.2 million for 2009, compared to \$12.5 million for 2008, an increase of \$645,000, or 5.1%. Capitalized software development costs increased to \$2.1 million in 2009 from \$1.6 million in 2008, an increase of \$544,000. During 2009, we added 27 new employees in product development, which resulted in an increase in salaries, benefits, bonuses and related expenses (including non-cash stock compensation) of \$1.8 million. Facilities and depreciation expense increased by \$481,000 as a result of an increase in the number of new employees and increased costs related to our new office headquarters. These increases were offset by a decrease in software license and maintenance and an increase in expenses capitalized for software development costs.

Sales and Marketing

	2008		Year Ended December 31, 2009		Change	
	Amount	Percentage of Revenue	Amount (dollars in thousands)	Percentage of Revenue	Amount	Percent
Sales and marketing	\$ 22,434	27.3%	\$ 39,483	32.8%	\$ 17,049	76.0%

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Sales and marketing expense was \$39.5 million for 2009, compared to \$22.4 million for 2008, an increase of \$17.0 million, or 76.0%. Marketing expenses increased by \$13.0 million due to production and related costs associated with our 2010 broad reach marketing campaign. In addition, we incurred higher expenses associated with pay-per-click advertising to support the growth of the business overall. During 2009, we added 50 new employees in sales and marketing, which resulted in an increase in salaries, benefits, bonuses and related expenses (including non-cash stock compensation) of \$2.2 million. Facilities and depreciation expense increased \$1.3 million.

General and Administrative

	2008		Year Ended December 31, 2009		Change	
	Amount	Percentage of Revenue	Amount (dollars in thousands)	Percentage of Revenue	Amount	Percent
General and administrative	\$ 17,937	21.8%	\$ 29,331	24.4%	\$ 11,394	63.5%

General and administrative expense was \$29.3 million for 2009, compared to \$17.9 million for 2008, an increase of \$11.4 million. During 2009, we had a \$9.3 million increase in salaries, benefits, bonuses and related expenses (including non-cash stock compensation). During 2009, we added 28 new employees and executives in operations, finance, human resources, and legal. Software license and maintenance costs for our corporate systems and equipment expense increased by \$2.1 million as we more fully implemented new business systems such as Oracle, Clarity, salesforce.com and Omniture. Increases in consulting and professional fees were offset by a decrease in allocated facilities expense.

Amortization

	2008		Year Ended December 31, 2009		Change	
	Amount	Percentage of Revenue	Amount (dollars in thousands)	Percentage of Revenue	Amount	Percent
Amortization expense	\$ 9,026	11.0%	\$ 9,516	7.9%	\$ 490	5.4%

Amortization expense was \$9.5 million for year ended December 31, 2009, compared to \$9.0 million for the year ended December 31, 2008, an increase of \$490,000, or 5.4%. Amortization increased in 2009 related to the acquisition of Homelidays but was partially offset by lower levels of amortization from earlier acquisitions.

Other Income (Expense)

	2008		Year Ended December 31, 2009		Change	
	Amount	Percentage of Revenue	Amount (dollars in thousands)	Percentage of Revenue	Amount	Percent

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Other income (expense)	\$ (9,442)	(11.5)%	\$ 1,739	1.4%	\$ 11,181	(118.4)%
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Other income was \$1.7 million for year ended December 31, 2009, compared to expense of \$9.4 million for the year ended December 31, 2008. Interest expense was \$3,000 for year ended December 31, 2009, compared to \$9.7 million for the year ended December 31, 2008, a decrease of \$9.7 million, or 100%. At the end of 2007, we had \$98.4 million in bank debt, which was fully repaid in October 2008. Other income increased by \$1.4 million in 2009 due to foreign exchange translation gains on intercompany debt denominated in GBP and Euro currencies. During 2009, the Euro and the GBP gained strength against the U.S. dollar, which resulted in a gain on the instruments denominated in those currencies.

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	2008		Year Ended December 31, 2009		Change	
	Amount	Percentage of Revenue	Amount (dollars in thousands)	Percentage of Revenue	Amount	Percent
Income tax expense	\$ 5,552	6.7%	\$ 4,992	4.2%	\$ (560)	(10.1)%

Income tax expense was \$5.0 million for the year ended December 31, 2009, compared to expense of \$5.6 million for the year ended December 31, 2008. For both years ended December 31, 2008 and 2009, \$4.3 million and \$3.9 million, respectively, related to the creation of deferred tax liabilities associated with the tax amortization of indefinite lived intangible assets, namely goodwill and trade names. Because of the indefinite life of the deferred tax liability, it is not offset against deferred tax assets in considering the need for a valuation allowance. As a result, changes in this deferred tax liability directly impact tax expense. In addition to the \$400,000 decrease in tax expense related to indefinite lived intangible assets, there was a \$300,000 decrease in foreign taxes resulting from decreased foreign pre-tax income as a result of increased interest expense on intercompany loans, as well as a decrease in foreign exchange rates. These decreases were offset by a \$100,000 increase in current state tax expense.

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Quarterly Results of Operations

The following tables present the unaudited consolidated statements of operations data for the nine quarters in the period ended March 31, 2011, in dollars and as a percentage of revenue. This quarterly information has been prepared on the same basis as our audited consolidated financial statements and, in the opinion of our management, reflects all adjustments necessary for a fair representation of the information for the periods presented. This data should be read in conjunction with our audited consolidated financial statements and the related notes included in this prospectus. Operating results for any quarter apply to that quarter only and are not necessarily indicative of results for any future period.

For the Three Months Ended:							
March 31,	June 30,	September 30,	December 31,	March 31,	June 30,	September 30,	December 31,
2009	2009	2009	2009	2010	2010	2010	2010