TripAdvisor, Inc.
Form 10-Q
May 09, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number: 001-35362

TRIPADVISOR, INC.

(Exact name of registrant as specified in its charter)

Delaware	80-0743202
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

400 1st Avenue

Needham, MA 02494

(Address of principal executive office) (Zip Code)

Registrant's telephone number, including area code:

(781) 800-5000

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

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

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

Class	Outstanding Shares at May 3, 2016
Common Stock, $0.001 par value per share	132,906,172 shares
Class B common stock, $0.001 par value per share	12,799,999 shares

TripAdvisor, Inc.

Form 10-Q

For the Quarter Ended March 31, 2016

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PART I – FINANCIAL INFORMATION

Item 1. Unaudited Condensed Financial Statements

TRIPADVISOR, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share amounts)

	Three months ended March 31,	
	2016	2015
Revenue	$352	$363
Costs and expenses:		
Cost of revenue (1)	16	13
Selling and marketing (2)	172	157
Technology and content (2)	61	49
General and administrative (2)	37	33
Depreciation	16	14
Amortization of intangible assets	8	7
Total costs and expenses:	310	273
Operating income	42	90
Other income (expense):		
Interest expense	(4)	(2)
Interest income and other, net	-	(2)
Total other expense, net	(4)	(4)
Income before income taxes	38	86
Provision for income taxes	(11)	(23)
Net income	$27	$63
Earnings per share attributable to common stockholders (Note 11):		
Basic	$0.19	$0.44
Diluted	$0.18	$0.43
Weighted average common shares outstanding (Note 11):		
Basic	145	143
Diluted	147	146
(1) Excludes amortization as follows:		
Amortization of acquired technology included in amortization of intangible assets	$2	$2
Amortization of website development costs included in depreciation	11	9
	$13	$11
(2) Includes stock-based compensation expense as follows:		
Selling and marketing	$4	$4

Technology and content	$9	$6
General and administrative	$6	$6

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

TRIPADVISOR, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

	Three months ended March 31,	
	2016	2015
Net income	$27	$63
Other comprehensive income (loss):		
Foreign currency translation adjustments (1)	9	(28)
Total other comprehensive income (loss)	9	(28)
Comprehensive income	$36	$35

(1) Foreign currency translation adjustments exclude income taxes due to our practice and intention to indefinitely reinvest the earnings of our foreign subsidiaries in those operations.

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

TRIPADVISOR, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except number of shares and per share amounts)

	March 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents (Note 4)	$ 653	$ 614
Short-term marketable securities (Note 4)	39	47
Accounts receivable, net of allowance for doubtful accounts of $6 and $6, respectively	244	180
Prepaid expenses and other current assets	28	24
Total current assets	964	865
Long-term marketable securities (Note 4)	17	37
Property and equipment, net of accumulated depreciation of $104 and $88, respectively	252	247
Intangible assets, net of accumulated amortization of $61 and $52, respectively	172	176
Goodwill	737	732
Other long-term assets	72	71
TOTAL ASSETS	$ 2,214	$ 2,128
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 15	$ 10
Deferred merchant payables	179	105
Deferred revenue	93	64
Current portion of debt (Note 5)	1	1
Taxes payable	10	9
Accrued expenses and other current liabilities (Note 8)	134	123
Total current liabilities	432	312
Deferred income taxes, net	16	15
Other long-term liabilities	192	189
Long-term debt (Note 5)	110	200
Total Liabilities	750	716
Commitments and contingencies (Note 9)		
Stockholders’ equity:		
Preferred stock, $0.001 par value	-	-
Authorized shares: 100,000,000		
Shares issued and outstanding: 0 and 0		
Common stock, $0.001 par value	-	-
Authorized shares: 1,600,000,000		
Shares issued: 134,295,396 and 133,836,242, respectively		
Shares outstanding: 132,878,188 and 132,443,111, respectively		
Class B common stock, $0.001 par value	-	-
Authorized shares: 400,000,000		

Shares issued and outstanding: 12,799,999 and 12,799,999, respectively		
Additional paid-in capital	758	741
Retained earnings	853	826
Accumulated other comprehensive income (loss)	(54)	(63)
Treasury stock-common stock, at cost, 1,417,208 and 1,393,131 shares, respectively	(93)	(92)
Total Stockholders’ Equity	1,464	1,412
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,214	$ 2,128

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

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TRIPADVISOR, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE THREE MONTHS ENDED MARCH 31, 2016

(in millions, except number of shares)

	Common stock		Class B common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury Stock		
	Shares	Amount	Shares	Amount				Shares	Amount	Total
Balance as of December 31, 2015	133,836,242	$ -	12,799,999	$ -	$ 741	$ 826	$ (63)	(1,393,131)	$ (92)	$ 1,412
Net income						27				27
Other comprehensive income							9			9
Issuance of common stock related to exercises of options and vesting of RSUs	459,154	-			2					2
Repurchase of common stock								(24,077)	(1)	(1)
Tax benefits on equity awards, net					2					2
Minimum withholding taxes on net share settlements of equity awards					(9)					(9)
Stock-based compensation					22					22
Balance as of March 31, 2016	134,295,396	$ -	12,799,999	$ -	$ 758	$ 853	$ (54)	(1,417,208)	$ (93)	$ 1,464

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

TRIPADVISOR, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	Three months ended March 31,	
	2016	2015
Operating activities:		
Net income	$27	$63
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property and equipment, including amortization of internal-use software and website development	16	14
Amortization of intangible assets	8	7
Stock-based compensation expense	19	16
Deferred tax expense	2	3
Excess tax benefits from stock-based compensation	(4)	(7)
Other, net	-	2
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable, prepaid expenses and other assets	(65)	(71)
Accounts payable, accrued expenses and other liabilities	14	4
Deferred merchant payables	72	60
Income taxes, net	1	(13)
Deferred revenue	30	21
Net cash provided by operating activities	120	99
Investing activities:		
Capital expenditures, including internal-use software and website development	(17)	(31)
Acquisitions, net of cash acquired	-	(5)
Purchases of marketable securities	(16)	(32)
Sales of marketable securities	33	25
Maturities of marketable securities	11	9
Net cash provided by (used in) investing activities	11	(34)
Financing activities:		
Repurchase of common stock	(1)	-
Proceeds from Chinese credit facilities	-	2
Principal payments on term loan	-	(10)
Payments to revolving credit facility	(90)	-
Proceeds from exercise of stock options	2	8
Payment of minimum withholding taxes on net share settlements of equity awards	(9)	(13)
Excess tax benefits from stock-based compensation	4	7
Other financing activities, net	-	3

Net cash used in financing activities	(94)	(3)
Effect of exchange rate changes on cash and cash equivalents	2	(12)
Net increase in cash and cash equivalents	39	50
Cash and cash equivalents at beginning of period	614	455
Cash and cash equivalents at end of period	$653	$505
Supplemental disclosure of non-cash investing and financing activities:		
Capitalization of construction in-process related to build to suit lease obligation	$-	$4
Capital expenditures incurred but not yet paid primarily related to build to suit lease	$-	$8

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

TRIPADVISOR, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: BUSINESS DESCRIPTION AND BASIS OF PRESENTATION

We refer to TripAdvisor, Inc. and our wholly-owned subsidiaries as “TripAdvisor,” “the Company,” “us,” “we” and “our” in these notes to the unaudited condensed consolidated financial statements.

Description of Business

TripAdvisor is an online travel company, empowering users to plan and book the perfect trip. TripAdvisor’s travel research platform aggregates reviews and opinions of members about destinations, accommodations, activities and attractions, and restaurants throughout the world so that our users have access to trusted advice wherever their trips take them. Our platform not only helps users plan their trips with our unique user-generated content, but also enables users to compare real-time pricing and availability so that they can book hotels, flights, cruises, vacation rentals, activities and attractions, and restaurant reservations.

Our flagship brand is TripAdvisor. TripAdvisor-branded websites include tripadvisor.com in the United States and localized versions of the website in 47 markets worldwide. In addition to the flagship TripAdvisor brand, we manage and operate 23 other media brands, connected by the common goal of providing comprehensive travel planning resources across the travel sector, which include: www.airfarewatchdog.com, www.bookingbuddy.com, www.cruisecritic.com, www.everytrail.com, www.familyvacationcritic.com, www.flipkey.com, www.gateguru.com, www.holidaylettings.co.uk, www.holidaywatchdog.com, www.independenttraveler.com, www.jetsetter.com, www.thefork.com (including www.lafourchette.com, www.eltenedor.com, www.iens.nl, www.besttables.com, and www.dimmi.com.au), www.niumba.com, www.onetime.com, www.oyster.com, www.seatguru.com, www.smartertravel.com, www.tingo.com, www.travelpod.com, www.tripbod.com, www.vacationhomerentals.com, www.viator.com, and www.virtualtourist.com.

We have two reportable segments: Hotel and Non-Hotel. In the first quarter of 2016, we renamed our “Other” reportable segment “Non-Hotel.” This change had no effect on our consolidated financial statements or to previously reported segment information, as there was no change in the composition of our operating or reportable segments. Our operating segments are determined based on how our chief operating decision maker manages our business, regularly assesses information and evaluates performance for operating decision-making purposes, including allocation of resources. For further information on our reportable segments see “Note 10 — Segment Information,” in these notes to our unaudited condensed consolidated financial statements.

We derive the substantial portion of our revenue from our Hotel segment, through the sale of advertising, primarily through click-based advertising and commission-based transactions via our instant booking feature and, to a lesser extent, display-based advertising, subscription-based hotel advertising, room reservations sold through our websites, and from content licensing. Our Non-Hotel segment consists of our Vacation Rentals, Restaurants and Attractions businesses. We derive revenue from our Non-Hotel segment from subscription and commission-based transaction offerings from our Vacation Rental business; destination activities primarily sold through Viator; and online restaurant reservations booked primarily through thefork.com.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements present our results of operations, financial position and cash flows on a consolidated basis. The accompanying unaudited condensed consolidated financial statements include TripAdvisor, our wholly-owned subsidiaries, and entities we control, or in which we have a variable interest and are the primary beneficiary of expected cash profits or losses. All inter-company accounts and transactions have been eliminated in consolidation.

One of our subsidiaries that operates in China has a variable interest in an affiliated entity in China in order to comply with Chinese laws and regulations, which restrict foreign investment in Internet content provision businesses. Although we do not own the capital stock of this Chinese affiliate, we consolidate its results as we are the primary beneficiary of the cash losses or profits of this variable interest affiliate and have the power to direct the activity of this affiliate. Our variable interest entity is not material for all periods presented.

We have prepared the accompanying unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States (“GAAP”). In the opinion of management, all adjustments necessary for a fair presentation of the results of the interim period have been included. These adjustments consist of normal recurring items. We prepared the unaudited condensed consolidated financial statements following the requirements of the U.S. Securities and Exchange Commission (“SEC”) for interim reporting. As permitted under those rules, we have condensed or omitted certain footnotes or other financial information that are normally required by GAAP for annual financial statements. Our interim unaudited condensed consolidated financial statements are not necessarily indicative of results that may be expected for any other interim period or for the full year. These interim unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2015, previously filed with the SEC. The condensed consolidated balance sheet as of December 31, 2015 included herein was derived from the audited consolidated financial statements as of that date, but does not include all disclosures including notes required by GAAP.

Accounting Estimates

We use estimates and assumptions in the preparation of our unaudited condensed consolidated financial statements in accordance with GAAP. Our estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of our unaudited condensed consolidated financial statements. These estimates and assumptions also affect the reported amount of net income or loss during any period. Our actual financial results could differ significantly from these estimates. The significant estimates underlying our unaudited condensed consolidated financial statements include: (i) recognition and recoverability of goodwill, intangible and other long-lived assets; (ii) accounting for income taxes; and (iii) stock-based compensation.

Seasonality

The global travel market is large and traveler expenditures tend to follow a seasonal pattern. As such, expenditures by travel advertisers to market to potential travelers, and, therefore, our financial performance, tend to be seasonal as well. As a result, our third quarter tends to be our seasonal high, as it is a key period for travel research and trip-taking, and our seasonal low generally occurs in the first and/or fourth quarter. Significant shifts in our business mix or adverse economic conditions could influence the typical trend of our seasonality in the future.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

New Accounting Pronouncements Not Yet Adopted

In March 2016, the Financial Accounting Standards Board ("FASB") issued new accounting guidance on stock compensation which changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, with early adoption permitted. We are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

In February 2016, the FASB issued new accounting guidance on leases that is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet. The new guidance will continue to classify leases as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

In May 2014, the FASB issued new accounting guidance on revenue from contracts with customers. The new guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This new guidance also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In March 2016, the FASB issued additional guidance which clarifies principal versus agent considerations and in April 2016, the FASB issued further guidance which clarifies the identification of performance obligations and the implementation guidance for licensing. The updated guidance will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective approach or a modified retrospective approach, which requires the initial cumulative effect to be recognized at the date of initial application. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017 and early adoption is permitted for fiscal years beginning after December 15, 2016. We have not yet selected a transition method and are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

Recently Adopted Accounting Pronouncements

In September 2015, the FASB issued new accounting guidance which eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. Instead, acquirers must recognize measurement-period adjustments during the period in which they determine the amounts, including the effect on earnings of any amounts that would have been recorded in previous periods if the accounting had been completed at the acquisition date. The Company adopted this guidance in the first quarter of 2016. The adoption of this guidance did not have a material impact on our consolidated financial statements and related disclosures.

There have been no material changes to our significant accounting policies since December 31, 2015. For additional information about our critical accounting policies and estimates, refer to “Note 2— Significant Accounting Policies”, in the notes to our consolidated financial statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2015.

NOTE 3: STOCK BASED AWARDS AND OTHER EQUITY INSTRUMENTS

Stock-Based Compensation Expense

The following table presents the amount of stock-based compensation expense related to stock-based awards, primarily stock options and restricted stock units (“RSUs”), on our unaudited condensed consolidated statements of operations during the periods presented:

	Three months ended March 31, 2016	2015
	(in millions)	
Selling and marketing	$4	$ 4
Technology and content	9	6
General and administrative	6	6
Total stock-based compensation	19	16
Income tax benefit from stock-based compensation	(7)	(6)
Total stock-based compensation, net of tax effect	$12	$ 10

Stock-Based Award Activity and Valuation

2016 Stock Option Activity

During the three months ended March 31, 2016, we have issued 629,896 service-based non-qualified stock options under the Company’s 2011 Stock and Annual Incentive Plan, as amended (the “2011 Plan”). These stock options have a term of ten years from the date of grant and vest equitably over a four-year requisite service period.

A summary of the status and activity for stock option awards relating to our common stock for the three months ended March 31, 2016, is presented below:

	Weighted Average	Weighted Average

	Options Outstanding (in thousands)	Exercise Price Per Share	Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in millions)
Options outstanding at January 1, 2016	5,720	$ 53.71		
Granted	630	63.33		
Exercised (1)	(327)	25.14		
Cancelled or expired	(74)	60.62		
Options outstanding at March 31, 2016	5,949	$ 56.22	5.9	$ 93
Exercisable as of March 31, 2016	3,076	$ 41.91	4.8	$ 83
Vested and expected to vest after March 31, 2016	5,799	$ 55.83	5.8	$ 92

(1) Inclusive of 118,491 options which were not converted into shares due to net share settlement in order to cover the aggregate exercise price and the minimum amount of required employee withholding taxes. Potential shares that had been convertible under stock options that were withheld under net share settlement remain in the authorized but unissued pool under the 2011 Plan and can be reissued by the Company. Total payments for the employees' tax obligations to the taxing authorities due to net share settlements are reflected as a financing activity within the unaudited condensed consolidated statements of cash flows.

Aggregate intrinsic value represents the difference between the closing stock price of our common stock and the exercise price of outstanding, in-the-money options. Our closing stock price as reported on The NASDAQ Global Select Market as of March 31, 2016 was $66.50. The total intrinsic value of stock options exercised for the three months ended March 31, 2016 and 2015 was $12 million and $31 million, respectively.

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

	Three months ended March 31,	
	2016	2015
Risk free interest rate	1.28 %	1.51 %
Expected term (in years)	5.18	5.21
Expected volatility	41.64 %	41.86 %
Expected dividend yield	— %	— %

The weighted-average grant date fair value of options granted was $24.41 and $33.79 for the three months ended March 31, 2016 and 2015, respectively. The total fair value of stock options vested for the three months ended March 31, 2016 and 2015 was $23 million and $25 million, respectively.

2016 RSU Activity

During the three months ended March 31, 2016, we issued 1,503,603 RSUs under the 2011 Plan for which the fair value was measured based on the quoted price of our common stock on the date of grant. These RSUs generally vest over a four-year requisite service period.

The following table presents a summary of our RSU activity during the three months ended March 31, 2016:

	RSUs Outstanding (in thousands)	Weighted Average Grant-Date Fair Value Per Share	Aggregate Intrinsic Value (in millions)
Unvested RSUs outstanding as of January 1, 2016	1,750	$ 79.02	
Granted	1,504	63.73	
Vested and released (1)	(365)	71.37	
Cancelled	(50)	75.50	
Unvested RSUs outstanding as of March 31, 2016	2,839	$ 71.95	$ 189
Expected to vest after March 31, 2016	2,415	$ 72.21	$ 161

(1)

Inclusive of 113,117 RSUs withheld to satisfy employee minimum tax withholding requirements due to net share settlement. Potential shares which had been convertible under RSUs that were withheld under net share settlement remain in the authorized but unissued pool under the 2011 Plan and can be reissued by the Company. Total payments for the employees' tax obligations to the taxing authorities due to net share settlements are reflected as a financing activity within the unaudited condensed consolidated statements of cash flows.

Unrecognized Stock-Based Compensation

A summary of our remaining unrecognized stock-based compensation expense, net of estimated forfeitures, and the weighted average remaining amortization period at March 31, 2016 related to our non-vested stock options and RSU awards is presented below (in millions, except per year information):

	Stock Options	RSUs
Unrecognized compensation expense (net of forfeitures)	$ 61	$ 157
Weighted average period remaining (in years)	2.7	3.2

NOTE 4: FINANCIAL INSTRUMENTS

Cash, Cash Equivalents and Marketable Securities

The following tables show our cash and available-for-sale securities' amortized cost, gross unrealized gains, gross unrealized losses and fair value by significant investment category recorded as cash and cash equivalents or short and long-term marketable securities for the periods presented (in millions):

	March 31, 2016						
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities
Cash	$ 623	$ -	$ -	$ 623	$ 623	$ -	$ -
Level 1:							
Money market funds	29	-	-	29	29	-	-
Level 2:							
U.S. agency securities	10	-	-	10	-	10	-
U.S. treasury securities	6	-	-	6	-	6	-
Certificates of deposit	4	-	-	4	-	2	2
Commercial paper	1	-	-	1	1	-	-
Corporate debt securities	36	-	-	36	-	21	15
Subtotal	57	-	-	57	1	39	17
Total	$ 709	$ -	$ -	$ 709	$ 653	$ 39	$ 17

	December 31, 2015						
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities
Cash	$ 598	$ -	$ -	$ 598	$ 598	$ -	$ -
Level 1:							
Money market funds	11	-	-	11	11	-	-
Level 2:							
U.S. agency securities	13	-	-	13	-	9	4
U.S. treasury securities	16	-	-	16	4	12	-
Certificates of deposit	5	-	-	5	-	4	1
Commercial paper	1	-	-	1	-	1	-
Corporate debt securities	54	-	-	54	1	21	32
Subtotal	89	-	-	89	5	47	37
Total	$ 698	$ -	$ -	$ 698	$ 614	$ 47	$ 37

Our cash and cash equivalents consist of cash on hand in global financial institutions, money market funds and marketable securities with maturities of 90 days or less at the date purchased. The remaining maturities of our long-term marketable securities range from one to three years and our short-term marketable securities include maturities that were greater than 90 days at the date purchased and have 12 months or less remaining at March 31, 2016 and December 31, 2015, respectively.

We classify our cash equivalents and marketable securities within Level 1 and Level 2 as we value our cash equivalents and marketable securities using quoted market prices (Level 1) or alternative pricing sources (Level 2). The valuation technique we used to measure the fair value of money market funds were derived from quoted prices in active markets for identical assets or liabilities. Fair values for Level 2 investments are considered “Level 2” valuations because they are obtained from independent pricing sources for identical or comparable instruments, rather than direct observations of quoted prices in active markets. Our procedures include controls to ensure that appropriate fair values are recorded, including comparing the fair values obtained from our independent pricing services against fair values obtained from another independent source.

There were no material realized gains or losses related to sales of our marketable securities for the three months ended March 31, 2016 and 2015, respectively. Realized gains and losses on the sale of securities are determined by specific identification of each security's cost basis. We consider any individual investments in an unrealized loss position to be temporary in nature and do not consider any of our investments other-than-temporarily impaired as of March 31, 2016.

Derivative Financial Instruments

In certain circumstances, we enter into foreign currency forward exchange contracts ("forward contracts") to reduce the effects of fluctuating foreign currency exchange rates on our cash flows denominated in foreign currencies. We do not use derivatives for trading or speculative purposes.

Our current forward contracts are not designated as hedges and have current maturities of less than 90 days. We account for our derivative instruments as either assets or liabilities and carry them at fair value. Consequently, any gain or loss resulting from the change in fair value was recognized in our unaudited condensed consolidated statements of operations. We recorded a net loss of $1 million and a net gain of $3 million for the three months ended March 31, 2016 and 2015, respectively, related to our settled and outstanding forward contracts in our unaudited condensed consolidated statements of operations in "Interest income and other, net."

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

	Balance Sheet Caption	March 31, 2016		
		Fair Value of Derivative (2)		U.S. Dollar Notional
		Asset	Liability	
		(in millions)		
Foreign exchange-forward contracts (1)	Accrued expenses and other current liabilities	$ -	$ 1	$ 26

	Balance Sheet Caption	December 31, 2015		
		Fair Value of Derivative (2)		U.S. Dollar Notional
		Asset	Liability	
		(in millions)		
Foreign exchange-forward contracts (1)	Prepaid expenses and other	$ -	$ -	$ 25

current assets

(1) Derivative contracts address foreign exchange fluctuations for the Euro versus the U.S. Dollar.
(2) We measure the fair value of our outstanding or unsettled derivatives using Level 2 fair value inputs, as we use a pricing model that takes into account the contract terms as well as current foreign currency exchange rates in active markets.

Concentration of Credit Risk

Counterparties to currency exchange derivatives consist of major international financial institutions. We monitor our positions and the credit ratings of the counterparties involved and, by policy limits, the amount of credit exposure to any one party. While we may be exposed to potential losses due to the credit risk of non-performance by these counterparties, losses are not anticipated and any credit risk amounts associated with our outstanding or unsettled derivative instruments are deemed to be not material for any period presented.

Other Financial Instruments

Other financial instruments not measured at fair value on a recurring basis include trade receivables, trade payables, deferred merchant payables, short-term debt, accrued and other current liabilities and long-term debt. With the exception of long-term debt, the carrying amount approximates fair value because of the short maturity of these instruments as reported on our unaudited condensed consolidated balance sheets as of March 31, 2016 and December 31, 2015, respectively. The carrying value of the long-term debt from our 2015 Credit Facility bears interest at a variable rate and therefore is also considered to approximate fair value.

We did not have any Level 3 assets or liabilities at March 31, 2016 and December 31, 2015.

NOTE 5: DEBT

The Company's outstanding debt consisted of the following for the periods presented:

	March 31, 2016	December 31, 2015
	(in millions)	
Short-Term Debt:		
Chinese Credit Facilities	$ 1	$ 1
Total Short-Term Debt	$ 1	$ 1
Long-Term Debt:		
2015 Credit Facility	$ 110	$ 200
Total Long-Term Debt	$ 110	$ 200

2011 Credit Facility

On December 20, 2011, we entered into a credit agreement (the "2011 Credit Facility"), which provided $600 million of borrowing including:

- ~~a~~ term loan facility in an aggregate principal amount of $400 million with a term of five years due December 2016 ("Term Loan"); and
- ~~a~~ revolving credit facility in an aggregate principal amount of $200 million available in U.S. dollars, Euros and British pound sterling with a term of five years expiring December 2016.

On June 26, 2015, the entire outstanding principal on our Term Loan in the amount of $290 million was repaid with borrowings from our 2015 Credit Facility (described below) and the 2011 Credit Facility was subsequently terminated. Principal payments aggregating $10 million were made during the three months ended March 31, 2015. During the three months ended March 31, 2015, we recorded total interest and commitment fees on our 2011 Credit Facility of $1 million to interest expense on our unaudited condensed consolidated statements of operations.

2015 Credit Facility

On June 26, 2015, we entered into a five year credit agreement with JPMorgan Chase Bank, N.A., as Administrative Agent; J.P. Morgan Europe Limited, as London Agent; Morgan Stanley Bank, N.A.; Bank of America, N.A.; BNP Paribas; SunTrust Bank; Wells Fargo Bank, National Association; Royal Bank of Canada; Barclays Bank PLC; U.S. Bank National Association; Citibank, N.A.; The Bank of Tokyo-Mitsubishi UFJ, Ltd.; Goldman Sachs Bank USA; and Deutsche Bank AG New York Branch (the "2015 Credit Facility").

The 2015 Credit Facility, among other things, provides for (i) a $1 billion unsecured revolving credit facility, (ii) an interest rate on borrowings and commitment fees based on the Company's and its subsidiaries' consolidated leverage ratio; and (iii) uncommitted incremental revolving loan and term loan facilities, subject to compliance with a leverage covenant and other conditions. Any overdue amounts under or in respect of the revolving credit facility not paid when due shall bear interest at (i) in the case of principal, the applicable interest rate plus 2.00% per annum, (ii) in the case of interest denominated in Sterling or Euro, the applicable rate plus 2.00% per annum; and (iii) in the case of interest denominated in US Dollars, 2.00% per annum plus the Alternate Base Rate plus the interest rate spread applicable to ABR loans. The Company may borrow from the 2015 Credit Facility in U.S dollars, Euros and British pound sterling with a term of five years expiring June 26, 2020.

There is no specific repayment date prior to the five-year maturity date for our outstanding borrowings under the 2015 Credit Facility. During the three months ended March 31, 2016, the Company repaid $90 million of our outstanding borrowings on the 2015 Credit Facility. Based on the Company's current leverage ratio, our borrowings bear interest at LIBOR plus 125 basis points, or the Eurocurrency Spread. The Company is currently borrowing under a one-month interest period of 1.7% per annum, using a one-month interest period Eurocurrency Spread, which will reset periodically. Interest will be payable on a monthly basis while the Company is borrowing under the one-month interest rate period.

We are also required to pay a quarterly commitment fee, on the daily unused portion of the revolving credit facility for each fiscal quarter and fees in connection with the issuance of letters of credit. Unused revolver capacity is currently subject to a commitment fee of 20.0 basis points, given the Company's current leverage ratio. The 2015 Credit Facility includes $15 million of borrowing capacity available for letters of credit and $40 million for borrowings on same-day notice. As of March 31, 2016, we had issued $2 million of outstanding letters of credit under the 2015 Credit Facility.

During the three months ended March 31, 2016, we recorded total interest and commitment fees on our 2015 Credit Facility of $2 million to interest expense on our unaudited condensed consolidated statements of operations. Unpaid interest and commitment fees as of March 31, 2016 were not material.

We may voluntarily repay any outstanding borrowing under the 2015 Credit Facility at any time without premium or penalty, other than customary breakage costs with respect to Eurocurrency loans. Certain wholly-owned domestic subsidiaries of the Company have agreed to guarantee the Company’s obligations under the 2015 Credit Facility.

The 2015 Credit Facility contains a number of covenants that, among other things, restrict our ability to: incur additional indebtedness, create liens, enter into sale and leaseback transactions, engage in mergers or consolidations, sell or transfer assets, pay dividends and distributions, make investments, loans or advances, prepay certain subordinated indebtedness, make certain acquisitions, engage in certain transactions with affiliates, amend material agreements governing certain subordinated indebtedness, and change our fiscal year. The 2015 Credit Facility also requires us to maintain a maximum leverage ratio and contains certain customary affirmative covenants and events of default, including a change of control. If an event of default occurs, the lenders under the 2015 Credit Facility will be entitled to take various actions, including the acceleration of all amounts due under 2015 Credit Facility. As of March 31, 2016, we are in compliance with all of our debt covenants.

Chinese Credit Facilities

In addition to our borrowings under the 2015 Credit Facility, we maintain our Chinese Credit Facilities. As of March 31, 2016 and December 31, 2015, we had short-term borrowings outstanding of $1 million.

We are parties to a $30 million, one-year revolving credit facility with Bank of America (the “Chinese Credit Facility—BOA”) that is currently subject to review on a periodic basis with no specific expiration period. Our Chinese Credit Facility—BOA currently bears interest at a rate based on 100% of the People’s Bank of China’s base rate, which was 4.35% as of March 31, 2016. As of March 31, 2016, we had $1 million of outstanding borrowings from the Chinese Credit Facility—BOA.

We are also parties to a RMB 125,000,000 (approximately $20 million), one-year revolving credit facility with J.P. Morgan Chase Bank (“Chinese Credit Facility—JPM”). Our Chinese Credit Facility—JPM currently bears interest at a rate based on 100% of the People’s Bank of China’s base rate, which was 4.35% as of March 31, 2016. As of March 31, 2016, there are no outstanding borrowings under our Chinese Credit Facility – JPM.

NOTE 6: INCOME TAXES

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

Our effective tax rate for the three months ended March 31, 2016 and 2015 was 28.9% and 26.7%, respectively. For the three months ended March 31, 2016, the effective tax rate is less than the federal statutory rate primarily due to earnings in jurisdictions outside the United States, where our effective tax rate is lower, which was partially offset by state income taxes, non-deductible stock compensation and accruals on uncertain tax positions. The change in the effective tax rate for 2016 compared to the 2015 rate was primarily due to a change in jurisdictional earnings.

Our policy is to recognize accrued interest and penalties related to unrecognized tax benefits and income tax liabilities as part of our income tax expense. As of March 31, 2016, accrued interest is $4 million, net of federal benefit, and no penalties have been accrued. We do not anticipate any material releases in the next twelve months.

By virtue of previously filed consolidated income tax returns filed with Expedia, we are currently under an Internal Revenue Service ("IRS") audit for the 2009 and 2010 tax years, and have various ongoing state income tax audits. We are separately under examination by the IRS for the 2012 and 2013 tax years and have an employment tax audit with the IRS for the 2013 and 2014 tax years. These audits include questioning of the timing and the amount of income and deductions and the allocation of income among various tax jurisdictions. These examinations may lead to proposed or ordinary course adjustments to our taxes. We are no longer subject to tax examinations by tax authorities for years prior to 2007. As of March 31, 2016, no material assessments have resulted.

During the year ended December 31, 2015, we received notification of a draft proposed adjustment from the IRS for the 2009 and 2010 tax years and we anticipate receiving additional notices of proposed adjustments for the same years. These proposed adjustments are related to transfer pricing with our foreign subsidiaries, and would result in an increase to U.S. taxable income and federal tax expense for 2009 and 2010, subject to interest. Our policy is to review and update tax reserves as facts and circumstances change. Based on our interpretation of the regulations and available case law, we believe the position we have taken with regard to transfer pricing with our foreign subsidiaries is sustainable. We intend to defend our position through IRS administrative and, if necessary, by judicial remedies. As of March 31, 2016, no additional adjustments have been proposed.

In July 2015, the United States Tax Court (the "Court") issued an opinion favorable to Altera Corporation ("Altera") with respect to Altera's litigation with the IRS. This opinion was submitted as a final decision under Tax Court Rule 155 during December 2015. The litigation relates to the treatment of stock-based compensation expense in an inter-company cost-sharing arrangement with Altera's foreign subsidiary. In its opinion, the Court accepted Altera's position of excluding stock based compensation from its inter-company cost-sharing arrangement. The IRS appealed the Court decision on February 19, 2016. At this time, the U.S. Department of the Treasury has not withdrawn the requirement from its regulations to include stock-based compensation in intercompany cost-sharing arrangements. The Company recorded a tax benefit of $13 million in its consolidated statement of operations for the year ended December 31, 2015 and an additional $1 million during the three months ended March 31, 2016. The Company will continue to monitor this matter and related potential impacts to its consolidated financial statements.

NOTE 7: STOCKHOLDERS' EQUITY

On February 15, 2013, our Board of Directors authorized the repurchase of $250 million of our shares of common stock under a share repurchase program. The repurchase program has no expiration but may be suspended or terminated by the Board of Directors at any time. Our Board of Directors will determine the price, timing, amount and method of such repurchases based on its evaluation of market conditions and other factors, and any shares repurchased will be in compliance with applicable legal requirements, at prices determined to be attractive and in the best interests of both the Company and its stockholders.

During the three months ended March 31, 2016, we repurchased 24,077 shares of outstanding common stock under the share repurchase program at an aggregate cost of $1 million, or an average share price of $59.85. As of March 31, 2016, we have repurchased 2,144,786 shares of outstanding common stock under the share repurchase program at an aggregate cost of $147 million. As of March 31, 2016, we have a remaining amount from the authorized share repurchase program granted by the Board of Directors of $103 million to repurchase shares of our common stock.

NOTE 8: ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consisted of the following for the periods presented:

	March 31, 2016	December 31, 2015
	(in millions)	
Accrued salary, bonus, and related benefits	$32	$ 47
Accrued marketing costs	59	43
Other	43	33
Total	$134	$ 123

NOTE 9: COMMITMENTS AND CONTINGENCIES

There have been no material changes to our commitments and contingencies since December 31, 2015. Refer to "Note 12— Commitments and Contingencies," in the notes to our consolidated financial statements in Item 8 of our Annual

Report on Form 10-K for the year ended December 31, 2015.

Legal Proceedings

In the ordinary course of business, we are parties to regulatory and legal matters arising out of our operations. These matters may involve claims involving alleged infringement of third-party intellectual property rights (including patent infringement), defamation, taxes, regulatory compliance privacy issues and other claims. Periodically, we review the status of all significant outstanding matters to assess any potential financial exposure. When (i) it is probable that an asset has been impaired or a liability has been incurred and (ii) the amount of the loss can be reasonably estimated, we record the estimated loss in our consolidated statements of operations. We provide disclosures in the notes to the consolidated financial statements for loss contingencies that do not meet both of these conditions if there is a reasonable probability that a loss may have been incurred and whether such loss is reasonably estimable. We base accruals made on the best information available at the time which can be highly subjective. Although occasional adverse decisions or settlements may occur, the Company does not believe that the final disposition of any of these matters will have a material adverse effect on the business. However, the final outcome of these matters could vary significantly from our estimates. Finally, there may be claims or actions pending or threatened against us of which we are currently not aware and the ultimate disposition of which could have a material adverse effect on us.

Income Taxes

We are also under audit by the IRS and various other domestic and foreign tax authorities with regards to income tax matters. We have reserved for potential adjustments to our provision for income taxes that may result from examinations by, or any negotiated agreements with, these tax authorities. Although we believe our tax estimates are reasonable, the final determination of audits could be materially different from our historical income tax provisions and accruals. The results of an audit could have a material effect on our financial position, results of operations, or cash flows in the period for which that determination is made.

Additionally, we earn an increasing portion of our income, and accumulate a greater portion of cash flows, in foreign jurisdictions which we consider indefinitely reinvested. Any repatriation of funds currently held in foreign jurisdictions may result in higher effective tax rates and incremental cash tax payments. In addition, there have been proposals to amend U.S. tax laws that would significantly impact the manner in which U.S. companies are taxed on foreign earnings. Although we cannot predict whether or in what form any legislation will pass, if enacted, it could have a material adverse impact on our U.S. tax expense and cash flows. See "Note 6— Income Taxes" above for further information on potential contingencies surrounding income taxes.

NOTE 10: SEGMENT INFORMATION

Our reporting structure includes two reportable segments: Hotel and Non-Hotel.

Hotel

Our Hotel segment includes revenue generated from services related to hotels, including click-based advertising revenue from making hotel room night reservations available for price comparison and commission-based transactions via our instant booking feature, as well as display-based advertising, subscription-based hotel advertising (or Business Listings), room reservations sold through our websites, and from content licensing. Our Hotel segment also includes click-based advertising revenue from making airline reservations and cruise reservations available for price comparison and booking. Our chief operating decision maker is also the Hotel segment manager.

Non-Hotel

Our Non-Hotel segment consists of the aggregation of three operating segments, our Attractions, Restaurants and Vacation Rentals businesses.

Attractions. We provide, primarily through Viator, information and services for researching and booking destination activities around the world. Viator works with local operators to provide travelers with access to tours and activities in popular destinations worldwide, earning a commission for such service. In addition to its consumer-direct business, Viator also provides local experiences to affiliate partners, including some of the world's top airlines, hotels and travel agencies.

Restaurants. We have several websites that provide online and mobile reservation services that connect restaurants with diners. These websites are primarily focused currently on the European and Australian markets, primarily through thefork.com (including www.lafourchette.com, www.eltenedor.com, www.iens.nl, www.besttables.com, and www.dimmi.com.au). Thefork.com is an online restaurant booking platform with a network of restaurant partners primarily across Europe and Australia. Thefork.com also helps restaurants to maximize business by providing a flexible online booking, discount and data tool. We generate revenue primarily by charging a fee for each restaurant guest seated through the online reservation systems.

Vacation Rentals. We offer individual property owners and property managers the ability to list their properties available for rental and connect with travelers using a subscription-based fee structure or a free-to-list, commission per booking based option. Our vacation rental inventory currently includes full home rentals, condos, villas, beach rentals, cabins and cottages. These properties are listed across a number of platforms, including TripAdvisor Vacation Rentals, U.S.-based FlipKey and Vacation Home Rentals, and European-based Holiday Lettings and Niumba businesses.

Each operating segment in our Non-Hotel segment has a segment manager who is directly accountable to and maintains regular contact with our chief operating decision maker to discuss operating activities, financial results, forecasts, and plans for the segment.

We define Adjusted EBITDA as net income (loss) plus: (1) provision for income taxes; (2) other income (expense), net; (3) depreciation of property and equipment, including amortization of internal use software and website development; (4) amortization of intangible assets; (5) stock-based compensation and other stock-settled obligations; (6) goodwill, long-lived asset and intangible asset impairments; and (7) non-recurring expenses. Adjusted EBITDA is the primary metric by which management evaluates the performance of its business and on which internal budgets are based. In particular, the exclusion of certain expenses in calculating Adjusted EBITDA facilitates operating performance comparisons on a period-to-period basis. We believe by excluding certain non-cash expenses, such as stock-based compensation, stock-settled obligations, asset impairments, and non-recurring expenses, Adjusted

EBITDA corresponds more closely to the cash that operating income generated from our business and allows investors to gain an understanding of the factors and trends affecting the ongoing cash earnings capabilities of our business, from which capital investments are made and debt is serviced.

The following tables present our segment information for the three months ended March 31, 2016 and 2015. We record depreciation of property and equipment, including amortization of internal-use software and website development, amortization of intangible assets, stock-based compensation and other stock-settled obligations, other income (expense), net, other non-recurring expenses, net, and income taxes, which are excluded from segment operating performance, in Corporate and unallocated. In addition, we do not report our assets, capital expenditures and related depreciation expense by segment as our chief operating decision maker does not evaluate operating segments using this information. We also do not regularly provide such information by segment to our chief operating decision maker. Our consolidated general and administrative expenses, excluding stock-based compensation costs, are shared by all operating segments. Each operating segment receives an allocated charge based on the segment's percentage of the Company's total personnel costs.

	Three months ended March 31, 2016			
	Hotel	Non-Hotel	Corporate and Unallocated	Total
	(in millions)			
Revenue	$303	$ 49	$ -	$352
Adjusted EBITDA (1)	106	(21)	-	85
Depreciation	-	-	(16)	(16)
Amortization of intangible assets	-	-	(8)	(8)
Stock-based compensation	-	-	(19)	(19)
Operating income (loss)	$106	$ (21)	$ (43)	42
Other expense, net				(4)
Income before income taxes				38
Provision for income taxes				(11)
Net income				27

	Three months ended March 31, 2015			
	Hotel	Non-Hotel	Corporate and Unallocated	Total
	(in millions)			
Revenue	$320	$ 43	$ -	$363
Adjusted EBITDA (1)	132	(5)	-	127
Depreciation	-	-	(14)	(14)
Amortization of intangible assets	-	-	(7)	(7)
Stock-based compensation	-	-	(16)	(16)
Operating income (loss)	$132	$ (5)	$ (37)	90
Other expense, net				(4)
Income before income taxes				86
Provision for income taxes				(23)
Net income				63

(1) Includes allocated general and administrative expenses in our Hotel segment of $22 million and $20 million; and in our Non-Hotel segment of $9 million and $6 million for the three months ended March 31, 2016 and 2015, respectively.

NOTE 11: EARNINGS PER SHARE

Basic Earnings Per Share Attributable to Common Stockholders

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

Diluted Earnings Per Share Attributable to Common Stockholders

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

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

Below is a reconciliation of the weighted average number of shares of common stock outstanding in calculating Diluted EPS (shares in thousands and dollars in millions, except per share amounts) for the periods presented:

	Three months ended March 31,	
	2016	2015
Numerator:		
Net income		