

TripAdvisor, Inc.  
Form 10-Q  
November 07, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2018

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 (I.R.S. Employer  
incorporation or organization) Identification No.)

400 1<sup>st</sup> Avenue

Needham, MA 02494

Edgar Filing: TripAdvisor, Inc. - Form 10-Q

(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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Small reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Class	Outstanding Shares at November 1, 2018
Common Stock, \$0.001 par value per share	124,866,383 shares
Class B common stock, \$0.001 par value per share	12,799,999 shares

TripAdvisor, Inc.

Form 10-Q

For the Quarter Ended September 30, 2018

Table of Contents

	Page
Part I—Financial Information	
Item 1. Unaudited Condensed Financial Statements	
<u>Unaudited Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2018 and 2017</u>	3
<u>Unaudited Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2018 and 2017</u>	4
<u>Unaudited Condensed Consolidated Balance Sheets at September 30, 2018 and December 31, 2017</u>	5
<u>Unaudited Condensed Consolidated Statement of Changes in Stockholders' Equity for the Nine Months Ended September 30, 2018</u>	6
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2018 and 2017</u>	7
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	27
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	42
<u>Item 4. Controls and Procedures</u>	42
Part II—Other Information	
<u>Item 1. Legal Proceedings</u>	43
<u>Item 1A. Risk Factors</u>	43
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	60
<u>Item 3. Defaults Upon Senior Securities</u>	60
<u>Item 4. Mine Safety Disclosures</u>	60
<u>Item 5. Other Information</u>	60
<u>Item 6. Exhibits</u>	61
<u>Signatures</u>	62



## PART I – FINANCIAL INFORMATION

## Item 1. Unaudited Condensed Consolidated Financial Statements

## TRIPADVISOR, INC.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share amounts)

	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Revenue (Note 3)	\$458	\$439	\$1,269	\$1,235
Costs and expenses:				
Cost of revenue (1)	23	20	67	56
Selling and marketing (2)	206	247	621	683
Technology and content (2)	72	61	207	184
General and administrative (2)	40	42	129	115
Depreciation	20	19	61	57
Amortization of intangible assets	8	8	24	25
Total costs and expenses:	369	397	1,109	1,120
Operating income	89	42	160	115
Other income (expense):				
Interest expense	(4 )	(4 )	(10 )	(11 )
Interest income and other, net	2	-	-	3
Total other income (expense), net	(2 )	(4 )	(10 )	(8 )
Income before income taxes	87	38	150	107
Provision for income taxes	(18 )	(13 )	(45 )	(42 )
Net income	\$69	\$25	\$105	\$65
Earnings per share attributable to common stockholders (Note 4):				
Basic	\$0.50	\$0.18	\$0.76	\$0.46
Diluted	\$0.49	\$0.18	\$0.75	\$0.46
Weighted average common shares outstanding (Note 4):				
Basic	138	139	138	141
Diluted	141	139	140	142
(1) Excludes amortization as follows:				
Amortization of acquired technology included in amortization of intangible assets	\$2	\$2	\$6	\$6
Amortization of website development costs included in depreciation	14	14	44	39
	\$16	\$16	\$50	\$45

Edgar Filing: TripAdvisor, Inc. - Form 10-Q

(2) Includes stock-based compensation expense as follows (Note 5):

Selling and marketing	\$ 5	\$ 5	\$ 17	\$ 16
Technology and content	\$ 13	\$ 12	\$ 38	\$ 31
General and administrative	\$ 11	\$ 9	\$ 35	\$ 25

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 September 30, 2018		Nine months ended September 30, 2017	
Net income	\$ 69	\$ 25	\$ 105	\$ 65
Other comprehensive income (loss):				
Foreign currency translation adjustments (1)	(5 )	10	(14 )	30
Total other comprehensive income (loss)	(5 )	10	(14 )	30
Comprehensive income	\$ 64	\$ 35	\$ 91	\$ 95

(1) Foreign currency translation adjustments exclude income taxes due to our 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)

	September 30, 2018	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (Note 6)	\$ 663	\$ 673
Short-term marketable securities (Note 6)	-	35
Accounts receivable and contract assets, net of allowance for doubtful accounts of \$19 and \$16, respectively (Note 3)	237	230
Income taxes receivable (Note 8)	-	30
Prepaid expenses and other current assets	26	25
Total current assets	926	993
Property and equipment, net of accumulated depreciation of \$227 and \$177, respectively	256	263
Intangible assets, net of accumulated amortization of \$131 and \$112, respectively	129	142
Goodwill	760	758
Deferred income taxes, net	28	16
Other long-term assets	93	100
<b>TOTAL ASSETS</b>	<b>\$ 2,192</b>	<b>\$ 2,272</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 22	\$ 8
Deferred merchant payables	204	156
Deferred revenue	73	60
Current portion of debt (Note 7)	-	7
Accrued expenses and other current liabilities	154	141
Total current liabilities	453	372
Long-term debt (Note 7)	-	230
Deferred income taxes, net	20	14
Other long-term liabilities	277	293
Total Liabilities	750	909
Commitments and contingencies (Note 9)		
Stockholders' equity: (Note 10)		
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		



Edgar Filing: TripAdvisor, Inc. - Form 10-Q

Shares issued: 136,869,883 and 135,617,263, respectively

Shares outstanding: 124,813,195 and 126,142,773, 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	1,010	926
----------------------------	-------	-----

Retained earnings	1,035	926
-------------------	-------	-----

Accumulated other comprehensive income (loss)	(56 )	(42 )
---	-------	-------

Treasury stock-common stock, at cost, 12,056,688 and 9,474,490 shares, respectively	(547 )	(447 )
---	--------	--------

Total Stockholders' Equity	1,442	1,363
----------------------------	-------	-------

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 2,192	\$ 2,272
--	----------	----------

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

## TRIPADVISOR, INC.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

(in millions, except number of shares)

	Common stock Shares	Amount	Class B common stock Shares	Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury Stock Shares	Amount	Total
Balance as of December 31, 2017	135,617,263	\$ -	12,799,999	\$ -	\$ 926	\$ 926	\$ (42 )	(9,474,490 )	\$(447 )	\$ 1,363
Net income						105				105
Cumulative effect adjustment from adoption of new accounting guidance (Note 2)						4				4
Other comprehensive loss							(14 )			(14 )
Issuance of common stock related to exercises of options and vesting of RSUs	1,252,620	-			3					3
Repurchase of common stock								(2,582,198 )	(100 )	(100 )
Withholding taxes on net share settlements of equity awards					(19 )					(19 )
Stock-based compensation					100					100
Balance as of September 30, 2018	136,869,883	\$ -	12,799,999	\$ -	\$ 1,010	\$ 1,035	\$ (56 )	(12,056,688 )	\$(547 )	\$ 1,442

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)

	Nine months ended September 30,	
	2018	2017
<b>Operating activities:</b>		
Net income	\$ 105	\$ 65
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation of property and equipment, including amortization of internal-use software and website development	61	57
Amortization of intangible assets	24	25
Stock-based compensation expense	90	72
Other, net	3	(6 )
<b>Changes in operating assets and liabilities, net of effects from acquisitions:</b>		
Accounts receivable, prepaid expenses and other assets	(16 )	(58 )
Accounts payable, accrued expenses and other liabilities	24	(2 )
Deferred merchant payables	53	62
Income tax receivables/payables, net	15	5
Deferred revenue	15	-
Net cash provided by operating activities	374	220
<b>Investing activities:</b>		
Capital expenditures, including internal-use software and website development	(45 )	(50 )
Purchases of marketable securities	(1 )	(16 )
Sales of marketable securities	59	105
Maturities of marketable securities	5	25
Acquisitions and other investments, net of cash acquired	(24 )	-
Other investing activities, net	(12 )	-
Net cash (used in) provided by investing activities	(18 )	64
<b>Financing activities:</b>		
Repurchase of common stock	(100 )	(250 )
Proceeds from 2015 credit facility, net of financing costs	5	413
Payments to 2015 credit facility	(235 )	(241 )
Payments to 2016 credit facility	-	(73 )
Proceeds from Chinese credit facilities	2	-
Payments to Chinese credit facilities	(10 )	-
Proceeds from exercise of stock options	3	3
Payment of withholding taxes on net share settlements of equity awards	(19 )	(15 )
Net cash used in financing activities	(354 )	(163 )
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(12 )	17

Edgar Filing: TripAdvisor, Inc. - Form 10-Q

Net (decrease) increase in cash, cash equivalents and restricted cash	(10 )	138
Cash, cash equivalents and restricted cash at beginning of period	673	612
Cash, cash equivalents and restricted cash at end of period	\$663	\$750
Supplemental disclosure of non-cash investing and financing activities:		
Stock-based compensation capitalized with internal-use software and website development costs	\$10	\$10

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 and our mission is to help people around the world to plan, book and experience the perfect trip. We seek to achieve our mission by providing users and travel partners a global platform about destinations, accommodations, travel activities and experiences, and restaurants that includes rich user-generated content, price comparison tools and online reservation and related services.

TripAdvisor, Inc., by and through its subsidiaries, owns and operates a portfolio of leading online travel brands. Our flagship brand is TripAdvisor. TripAdvisor-branded websites include tripadvisor.com in the United States and localized versions of the website in 48 markets and 28 languages worldwide. In addition to the flagship TripAdvisor brand, we manage and operate the following more than 20 other travel media brands, connected by the common goal of providing users the most comprehensive travel-planning and trip-taking resources in the travel industry: www.airfarewatchdog.com, www.bokun.io, www.bookingbuddy.com, www.citymaps.com, www.cruise critic.com, www.familyvacationcritic.com, www.flipkey.com, www.thefork.com (including www.lafourchette.com, www.eltenedor.com, www.iens.nl, and www.dimmi.com.au), www.gateguru.com, www.holidaylettings.co.uk, www.holidaywatchdog.com, www.housetrip.com, www.jetsetter.com, www.niumba.com, www.onetime.com, www.oyster.com, www.seatguru.com, www.smartertravel.com, www.tingo.com, www.vacationhomerentals.com, and www.viator.com.

We manage our business in two reportable segments: Hotel and Non-Hotel. Our Non-Hotel segment consists of our Experiences, Restaurants, and Rentals offerings. During the first quarter of 2018 we renamed Attractions as “Experiences” and Vacation Rentals as “Rentals.” These changes had no impact on the composition of our segments or on any financial information. For further information on our segments and principal revenue streams within these segments refer to “Note 3: Revenue Recognition” and “Note 12: Segment Information”.

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) and include all normal and recurring adjustments that management of the Company considers necessary for a fair presentation of its financial position and operating results. 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 condensed or omitted certain footnotes or other financial information that are normally required by GAAP for annual financial statements. Additionally, certain prior period amounts have been reclassified for comparability with the current period presentation. 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, 2017, previously filed with the SEC. The unaudited condensed consolidated balance sheet as of December 31, 2017 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, definite-lived intangibles and other long-lived assets; and (ii) accounting for income taxes.

#### Seasonality

Traveler expenditures in the global travel market tend to follow a seasonal pattern. As such, expenditures by travel partners/advertisers to market to potential travelers and, therefore our financial performance, or revenue and profits, tend to be seasonal as well. Our financial performance tends to be seasonally highest in the second and third quarters of a year, as it is a key period for leisure travel research and trip-taking, which includes the seasonal peak in traveler hotel and rental stays, and tours and experiences taken, compared to the first and fourth quarters which represent seasonal low points. Further significant shifts in our business mix or adverse economic conditions could result in future seasonal patterns that are different from historical trends.

#### NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

##### New Accounting Pronouncements Not Yet Adopted

In August 2018, the SEC adopted a final rule under SEC Release No. 33-10532, Disclosure Update and Simplification, that amends certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. The amendments also expanded the disclosure requirements on the analysis of stockholders' equity for interim financial statements, in which registrants must now analyze changes in stockholders' equity, in the form of reconciliation, for the current and comparative year-to-date periods, with subtotals for each interim period. This final rule is effective on November 5, 2018. As clarified by the SEC under Question 105.09 of the Exchange Act Forms C&DIs, which provides some relief to registrants that file Form 10-Q shortly after the final rule's effective date, the Company will apply the disclosure change in stockholders' equity analysis in its March 31, 2019, Form 10-Q. Additionally, the Company is in the process of evaluating the other disclosure impacts this final rule may have on its consolidated financial statement disclosures.

In August 2018, the Financial Accounting Standards Board ("FASB") issued new accounting guidance which require a customer in a cloud computing arrangement (i.e., hosting arrangement) that is a service contract to follow the internal-use software guidance to determine which implementation costs to capitalize as assets or expense as incurred. The accounting for the cost of the hosting component of the arrangement (i.e., service costs the customer pays for the cloud computing service) is not affected by this new guidance. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted, including adoption in any interim period. Entities have the option to apply the guidance retrospectively or prospectively to all implementation costs incurred after the date of adoption. We are currently considering our timing of adoption and the transition application method. We are also in the process of evaluating the impact of adopting this guidance on our consolidated financial statements and related disclosures.



In June 2016, the FASB issued new accounting guidance on the measurement of credit losses for financial assets measured at amortized cost, which includes accounts receivable, and available-for-sale debt securities. For financial assets measured at amortized cost, this new guidance requires an entity to: (1) estimate its lifetime expected credit losses upon recognition of the financial assets and establish an allowance to present the net amount expected to be collected; (2) recognize this allowance and changes in the allowance during subsequent periods through net income; and (3) consider relevant information about past events, current conditions and reasonable and supportable forecasts in assessing the lifetime expected credit losses. For available-for-sale debt securities, this new guidance made several targeted amendments to the existing other-than-temporary impairment model, including: (1) requiring disclosure of the allowance for credit losses; (2) allowing reversals of the previously recognized credit losses until the entity has the intent to sell, is more-likely-than-not required to sell the securities or the maturity of the securities; (3) limiting impairment to the difference between the amortized cost basis and fair value; and (4) not allowing entities to consider the length of time that fair value has been less than amortized cost as a factor in evaluating whether a credit loss exists. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted, including interim periods within those fiscal years beginning after December 15, 2018. We are currently considering our timing of adoption and in the process of evaluating the impact of adopting this guidance on our consolidated financial statements and related disclosures.

In February 2016, the FASB issued new guidance related to accounting for leases. The new standard requires the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet for all leases with a term longer than 12 months, which will initially be measured at the present value of the future lease payments over the lease term. For leases with a term of 12 months or less and that do not include an option to purchase the underlying asset or renew the lease term, that the lessee is reasonably certain to exercise, a lessee can make an accounting policy election by class of underlying asset to not recognize these leases on the balance sheet. Additionally, a lessee can also make an accounting policy election by class of underlying asset to not separate lease and non-

lease components. Under the new guidance, leases will be classified as either finance or operating leases, with classification affecting the pattern and presentation of expenses and cash flows on our consolidated financial statements. The new guidance will require us to provide additional qualitative and quantitative disclosures regarding the amount, timing and uncertainty of cash flows arising from leases which include, among other things, the computation and disclosure of our weighted average remaining lease term and discount rate, cash paid for amounts included in the measurement of lease liabilities, and supplemental non-cash information on lease liabilities arising from obtaining the ROU assets. These disclosures are intended to provide supplemental information to the amounts recorded in the financial statements so that users can better understand the nature of an entity's leasing activities. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. We will adopt the new standard on January 1, 2019 and use the effective date as our date of initial application based on the modified retrospective approach without adjusting the comparative periods presented.

We expect to elect certain available practical expedients under the transition guidance at adoption. While we continue to assess all of the effects of adoption on our consolidated financial statements, including providing significant new disclosures about our leasing activities, we currently believe the primary effects of this new guidance relate to: (1) our existing operating leases for office space in which the new guidance requires us to recognize on our balance sheet the new ROU assets and lease liabilities; (2) our corporate headquarters lease, which is currently accounted for as a financing obligation, and of which we were deemed the owner for accounting purposes under the current build-to-suit lease guidance. The transition guidance for a build-to-suit lease arrangement requires the lessee to derecognize the assets and liabilities that were recognized solely as a result of a transaction's build-to-suit designation under the current guidance, with any difference recorded as an adjustment to equity as of the adoption date. We will subsequently apply the general lessee guidance under the new standard to our corporate headquarters lease, including classifying it as either a finance or operating lease, and record a ROU asset and lease liability on the balance sheet, which will be initially measured at the present value of the remaining lease payments over the lease term. We are currently still assessing the quantitative impact this new guidance may have on our consolidated financial statements related to the aforementioned leases.

We continue to update our accounting policies and accounting memos under the new guidance, and evaluate our existing population of contracts to ensure all contracts that meet the definition of a lease contract under the new standard are identified. We have completed the implementation of our lease accounting software to support our accounting process, financial reporting and the new additional quantitative and qualitative financial disclosure requirements and are now engaging in readiness activities during the fourth quarter for the January 1, 2019- go-live date. In addition, we are evaluating the impact of this new system implementation and new accounting guidance on our internal accounting process and controls. We will continue to provide updates on our assessment of the effect that this new lease guidance will have on our consolidated financial statements, disclosures, systems and related internal controls, and will disclose material effects, if any, when known.

#### Recently Adopted Accounting Pronouncements

In May 2017, the FASB issued new accounting guidance that clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications which will reduce diversity in practice. Under the new guidance, an entity will not apply modification accounting to a share-based payment award if the award's fair value (or calculated value or intrinsic value, if those measurement methods are used), the award's vesting conditions, and the award's classification as an equity or liability instrument are the same immediately before and after the change. The guidance also states that an entity is not required to estimate the value of the award immediately before and after the change if the change does not affect any of the inputs to the model used to value the award. We adopted this guidance prospectively in the first quarter of 2018. We believe the new guidance will likely result in fewer changes to the terms of an award being accounted for as modifications.

In January 2017, the FASB issued new accounting guidance to clarify the definition of a business and provide additional guidance to assist entities with evaluating whether transactions should be accounted for as asset acquisitions (or asset disposals) or business combinations (or disposals of a business). Under this new guidance, an entity first determines whether substantially all of the fair value of the assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. If this criterion is met, the transaction should be accounted for as an asset acquisition as opposed to a business combination. This distinction is important because the accounting for an asset acquisition significantly differs from the accounting for a business combination. This new guidance eliminates the requirement to evaluate whether a market participant could replace missing elements (e.g. inputs or processes), narrows the definition of outputs and requires that a business include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. We adopted this guidance in the first quarter of 2018 and it will be applied prospectively to any transactions occurring within and after the adoption date.

In November 2016, the FASB issued new accounting guidance on the classification and presentation of restricted cash in the statement of cash flows to address the diversity in practice. This new guidance requires entities to show changes in cash, cash equivalents and restricted cash on a combined basis in the statement of cash flows. In addition, this accounting guidance requires a reconciliation of the total cash, cash equivalent and restricted cash in the statement of cash flows to the related captions in the balance

sheet if cash, cash equivalents and restricted cash are presented in more than one line item in the balance sheet. We adopted this guidance in the first quarter of 2018 and applied it retrospectively to all prior periods presented in the financial statements as required under the new guidance. The adoption did not have a material impact on our consolidated financial statements and related disclosures.

In October 2016, the FASB issued new accounting guidance on income tax accounting associated with intra-entity transfers of assets other than inventory. This accounting update, which is part of the FASB's simplification initiative, is intended to reduce diversity in practice and the complexity of tax accounting, particularly for those transfers involving intellectual property. This new guidance requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. We adopted this new guidance in the first quarter of 2018 on a modified retrospective basis. Accordingly, we recognized the cumulative effect of initial application of this new guidance as an adjustment to the opening balance of retained earnings, which was not material to our consolidated financial statements.

In August 2016, the FASB issued new accounting guidance which clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. The new guidance specifically addresses the following cash flow topics in an effort to reduce diversity in practice: (1) debt prepayment or debt extinguishment costs; (2) settlement of zero-coupon bonds; (3) contingent consideration payments made after a business combination; (4) proceeds from the settlement of insurance claims; (5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; (6) distributions received from equity method investees; (7) beneficial interests in securitization transactions; and (8) separately identifiable cash flows and application of the predominance principle. We adopted this new guidance in the first quarter of 2018 retrospectively and the adoption did not have an impact on our consolidated financial statements and related disclosures.

In January 2016, the FASB issued new accounting guidance which amends the standard on the recognition and measurement of financial instruments. The FASB clarified certain aspects of this guidance by issuing an update for technical corrections and improvements related to this guidance in February 2018. The guidance (1) requires an entity to measure equity investments (except those accounted for under the equity method or those that result in consolidation of the investee) at fair value with changes in fair value recognized in net income rather than accumulated other comprehensive income on the balance sheet; (2) allows an entity to elect to measure the equity investments that do not have a readily determinable fair value using a new measurement alternative which measure these equity investments at cost less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer; (3) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; and (4) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's evaluation of their other deferred tax assets. We adopted this guidance in the first quarter of 2018 and elected to prospectively account for our investments in equity securities of privately-held companies that do not have a readily determinable fair value using the measurement alternative. The adoption did not have a material impact on our consolidated financial statements and related disclosures.

In May 2014, the FASB issued new accounting guidance on revenue from contracts with customers, or ASC 606, Revenue from Contracts with Customers (“ASC 606”), which replaced numerous requirements in GAAP, and provides companies with a single model for recognizing revenue from contracts with customers. The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This 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 addition, the FASB has also issued several amendments to the standard, which clarifies certain aspects of the guidance, including principal versus agent considerations and identifying performance obligations.

In the first quarter of 2018, we adopted ASC 606 under the modified retrospective method for all contracts that were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under the new revenue guidance, while prior period amounts are not adjusted and continue to be reported in accordance with our previous accounting policies under the historical revenue guidance, or ASC 605, Revenue Recognition.

We evaluated each of our revenue streams and applied ASC 606 as further discussed in “Note 3: Revenue Recognition.” As a result of adoption of the new revenue guidance, certain revenue streams, such as the instant booking revenue recorded under the consumption model which we previously recorded upon completion of the traveler stay, is now recognized upon booking. The amount of the recognized transaction price for the commission is recorded as revenue net of the impact of estimated cancellations. We also recorded an adjustment to capitalize certain costs to obtain contracts for existing arrangements as of the implementation date. We expect the adoption of this new revenue standard will not have a material impact, either on an annual or quarterly basis, to our consolidated financial statements on an ongoing basis. Our systems and internal controls were not significantly impacted as a result of the accounting changes and we have made the necessary changes to our accounting policies and internal processes to support the new revenue recognition standard, including the related disclosures.

We recognized the cumulative effect of initial application of ASC 606 as an adjustment to the opening balance of retained earnings. We recorded a net increase in opening retained earnings of \$4 million as of January 1, 2018 due to the cumulative impact of adoption of the new revenue guidance and all other accounts were not materially impacted.

There have been no changes to our significant accounting policies since December 31, 2017, other than noted above. See “Note 3: Revenue Recognition” for further discussion about our revenue recognition policies under ASC 606. For additional information about our significant accounting policies and estimates, refer to “Note 2: Significant Accounting Policies”, in the notes to consolidated financial statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2017.

### NOTE 3: REVENUE RECOGNITION

#### Revenue Recognition under ASC 606

We generate all of our revenue from contracts with customers. We recognize revenue when we satisfy a performance obligation by transferring control of the promised services to a customer in an amount that reflects the consideration that we expect to receive in exchange for those services. When we act as an agent in the transaction under ASC 606, we recognize revenue for only our commission on the arrangement. We determine revenue recognition through the following steps:

- (1) Identification of the contract, or contracts, with a customer
- (2) Identification of the performance obligations in the contract
- (3) Determination of the transaction price
- (4) Allocation of the transaction price to the performance obligations in the contract
- (5) Recognition of revenue when, or as, we satisfy a performance obligation.

At contract inception, we assess the services promised in our contracts with customers and identify a performance obligation for each promise to transfer to the customer a service (or bundle of services) that is distinct. To identify the performance obligations, we consider all of the services promised in the contract regardless of whether they are explicitly stated or are implied by customary business practices. We have provided qualitative information about our performance obligations for our principal revenue streams discussed below. There was no significant revenue recognized in the three and nine months ended September 30, 2018 related to performance obligations satisfied in prior periods. We have applied a practical expedient and do not disclose the value of unsatisfied performance obligations that have an original expected duration of less than one year, and we do not have any material unsatisfied performance obligations over one year. The value related to our remaining or partially satisfied performance obligations relates to subscription services that are satisfied over time or services that are recognized at a point in time, but not yet achieved. Our timing of services, invoicing and payments are discussed in more detail below and do not include a significant financing component. Our customer invoices are generally due 30 days from the time of

invoicing.

We recognize an asset for the incremental costs of obtaining a contract with a customer if we expect the benefit of those costs to be longer than one year. Although the substantial majority of our contract costs have an amortization period of less than one year, we have determined contract costs arising from certain sales incentives have an amortization period in excess of one year given the high likelihood of contract renewal. Sales incentives are not paid upon renewal of these contracts and therefore are not commensurate with the initial sales incentive costs. Total capitalized costs to obtain a contract were approximately \$1 million as of September 30, 2018. We amortize these contract costs on a straight-line basis over the estimated customer life, which is based on historical customer retention rates. Amortization expense recorded to selling and marketing during the three and nine months ended September 30, 2018 was not material. We assess such assets for impairment when events or circumstances indicate that the carrying amount may not be recoverable.

The recognition of revenue may require the application of judgment related to the determination of the performance obligations, the timing of when the performance obligations are satisfied and other areas. The determination of our performance obligations does not require significant judgment given that we generally do not provide multiple services to a customer in a transaction, and the point in which control is transferred to the customer is readily determinable. In instances where we recognize revenue over time, we generally have either a subscription service that is recognized over time on a straight-line basis using the time-elapsed output method, or based on other output measures that provide a faithful depiction of the transfer of our services. When an estimate for cancellations is included in the transaction price, we base our estimate on historical cancellation rates. There have been no significant adjustments to our cancellation estimates and is not material. Taxes assessed by a government authority that are both imposed on and concurrent with a specific revenue –producing transaction, that are collected by us from a customer, are reported on a net basis, or in other words excluded from revenue on our consolidated financial statements, which is consistent with prior periods. The application of our revenue

recognition policies and a description of our principal activities, organized by segment, from which we generate our revenue, are presented below.

## Hotel Segment

TripAdvisor-branded Click-based Advertising and Transaction Revenue. Our largest source of Hotel segment revenue is generated from click-based advertising on TripAdvisor-branded websites, which is primarily comprised of contextually-relevant booking links to our travel partners' sites. Our click-based travel partners are predominantly online travel agencies, or OTAs, and direct suppliers in the hotel category. Click-based advertising is generally priced on a cost-per-click, or "CPC", basis, with payments from advertisers determined by the number of users who click on a link multiplied by the price that partner is willing to pay for that click, or hotel shopper lead. CPC rates that our travel partners are willing to pay are determined in a dynamic, competitive auction process, or metasearch auction. We record click-based advertising revenue as the click occurs and traveler leads are sent to the travel partner websites as our performance obligation is fulfilled at that time. Click-based revenue is generally billed to our travel partners on a monthly basis consistent with the timing of the service.

Transaction revenue is generated from our instant booking feature, which enables hotel shoppers to book directly with a travel partner, or the merchant of record, without leaving our website. We earn a commission from our travel partner for a user that completes a hotel reservation on our website. Our instant booking revenue includes (i) arrangements where commissions are billable on all instant booking hotel reservations; and (ii) arrangements where the commission is billable only upon the completion of the traveler's stay resulting from the reservation. The travel partner provides the service to the traveler and we act as an agent under ASC 606. Our performance obligation in both arrangements is complete at the time of the booking and the commission earned is recognized upon booking, as we have no post-booking service obligations. The amount of revenue recognized for commissions which are billable contingent upon a traveler stay requires an estimate of the impact of cancellations using historical cancellation rates. Contract assets are recognized at the time of booking for commissions that are billable at the time of stay.

TripAdvisor-branded Display-based Advertising and Subscription Revenue. Travel partners can promote their brands in a contextually-relevant manner through a variety of display-based advertising placements on our websites. Our display-based advertising clients are predominately direct suppliers of hotels, airlines and cruises, as well as destination marketing organizations. We also sell display-based advertising to OTAs and other travel related businesses, as well as advertisers from non-travel categories. Display-based advertising is sold predominantly on a cost per thousand impressions, or CPM, basis. The performance obligation in our display-based advertising business is to display a number of advertising impressions on our websites and we recognize revenue for impressions as they are delivered. Services are generally billed monthly. We have applied the practical expedient to measure progress toward completion, as we have the right to invoice the customer in an amount that directly corresponds with the value to the customer of our performance to date, which is measured based on impressions delivered.

In addition, we offer subscription-based advertising to hotels, B&Bs and other specialty lodging properties. Our performance obligation is generally to enable subscribers to advertise their business on our website, including such information as a website URL, email address and phone number, as well as other information. Subscription advertising services are predominantly sold for a flat fee for a contracted period of time of one year or less and revenue is recognized on a straight-line basis over the period of the subscription service as efforts are expended evenly throughout the contract period. Subscription advertising services are generally billed in advance of service. When prepayments are received, we recognize deferred revenue for the amount of prepayment in excess of revenue recognized until the performance obligation is satisfied.



Other Hotel Revenue. Our other Hotel revenue primarily includes revenue from non-TripAdvisor-branded websites, such as [www.bookingbuddy.com](http://www.bookingbuddy.com), [www.cruisecritic.com](http://www.cruisecritic.com), and [www.onetime.com](http://www.onetime.com), which primarily includes click-based advertising and display-based advertising revenue. The performance obligations and timing of customer payments for these brands and methods of recognizing revenue are generally consistent with click-based advertising or display-based advertising revenue, as described above.

#### Non-Hotel Segment

We provide information and services for users to research, book and experience activities and attractions in popular travel destinations both through Viator, our dedicated Experiences offering, and on our TripAdvisor website and applications. We also power travel activities and experiences booking capabilities to users for affiliate partners, including some of the world's top airlines, hotel chains and online and offline travel agencies. We work with local tour or travel activities/experiences operators ("the supplier") to provide our users with access to book tours, activities and experiences ("the activity") in popular destinations worldwide. We generate commissions for each booking transaction we facilitate through our online reservation system. We provide post-booking service to the user until the time of the activity, which is the completion of the performance obligation. Revenue is recognized at the time that the activity occurs. We do not control the activity before the supplier provides the activity to our users and therefore act as agent for nearly all of these transactions under ASC 606. We generally collect payment from the user at the time of booking that

includes both our commission revenue and the amount due to the supplier. Our commission revenue is recorded as deferred revenue until revenue is recognized, and the amount due to the supplier is recorded to deferred merchant payables on our consolidated balance sheet, until payment is made to the supplier after the completion of the activity. To a lesser extent, we earn commissions from third-party merchant partners, who display and promote our supplier activities on their websites to generate bookings. In these transactions, where we are not the merchant of record, we generally invoice and receive commissions directly from the third-party merchant partners. Our performance obligation is to allow the third-party merchant partners to display and promote our supplier activities on their website and we earn a commission when users book and complete an activity. We do not control the service and act as an agent for these transactions under ASC 606. Our performance obligation is complete and revenue is recognized at the time of the booking, as we have no post-booking obligations. We recognize this revenue net of an estimate of the impact of cancellations using historical cancellation rates. Contract assets are recognized for commissions that are billable contingent upon completion of the activity.

We also provide information and services for users to research and book restaurants in popular travel destinations through our dedicated restaurant reservations offering, TheFork, and on our TripAdvisor website and applications. TheFork is an online restaurant booking platform operating on a number of websites (including [www.lafourchette.com](http://www.lafourchette.com), [www.eltenedor.com](http://www.eltenedor.com), [www.iens.nl](http://www.iens.nl) and [www.dimmi.com.au](http://www.dimmi.com.au)), with a network of restaurant partners located primarily across Europe and Australia. Our bookable restaurants are available on [www.thefork.com](http://www.thefork.com) and on TripAdvisor-branded websites and mobile applications. We primarily generate transaction fees (or per seated diner fees) that are paid by restaurants for diners seated primarily from bookings through TheFork's online reservation system. The transaction fee is recognized as revenue after the reservation is fulfilled, or as diners are seated by our restaurant customers. Revenue is billed monthly when the transaction fees are payable, which is at the time the diner is seated. To a lesser extent, we also generate subscription fees for access to certain online reservation management services and marketing analytic tools provided by TheFork and TripAdvisor. As the performance obligation is to provide restaurants with access to these services over the subscription period, subscription fee revenue is recognized over the period of the subscription service on a straight-line basis as efforts are expended evenly throughout the contract period. Subscription fees are generally billable in advance of service. When prepayments are received, we recognize deferred revenue for the amount of prepayment in excess of revenue recognized until the performance obligation is satisfied.

In addition, we provide information and services for users to research and book vacation and short-term rental properties, including full home rentals, condominiums, villas, beach rentals, cabins and cottages. Our Rentals offering generates revenue primarily by offering individual property owners and managers the ability to list their properties on our websites and mobile applications thereby connecting homeowners with travelers through a free-to-list, commission-based option or, to a lesser extent, by an annual subscription-based fee structure. These properties are listed on [www.flipkey.com](http://www.flipkey.com), [www.holidaylettings.co.uk](http://www.holidaylettings.co.uk), [www.housetrip.com](http://www.housetrip.com), [www.niumba.com](http://www.niumba.com), and [www.vacationhomerentals.com](http://www.vacationhomerentals.com), and on our TripAdvisor-branded websites and mobile applications. We earn commissions associated with rental transactions through our free-to-list model from both the traveler and the property owner or manager. We provide post-booking service to the travelers, property owners and managers until the time the rental commences, which is the time the performance obligation is completed. Revenue from transaction fees is recognized at the time that the rental commences. We act as an agent, under ASC 606, in the transactions as we do not control any properties before the property owner provides the accommodation to the traveler and do not have inventory risk. We generally collect payment from the traveler at the time of booking that includes our commissions, which is recorded as deferred revenue until revenue is recognized, and the amount due to the property owner, which is recorded in deferred merchant payables on our consolidated balance sheet, until payment is made to the property owner after the completion of the rental. Payments for term-based subscription fees related to online advertising services for the listing of rental properties are generally due in advance. As the performance obligation is the listing service provided to the property owner or manager over the subscription period, revenue is recognized over the period of the subscription service on a straight-line basis as efforts are expended evenly throughout the contract period. We

recognize deferred revenue for the amount of prepayment in excess of revenue recognized until the performance obligation is satisfied.

#### Practical Expedients and Exemptions

We expense costs to obtain a contract as incurred, such as sales incentives, when the amortization period would have been one year or less.

We do not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed.

#### Impact of Adoption of ASC 606

The impact of this new revenue recognition guidance on our unaudited condensed consolidated statement of operations for the three and nine months ended September 30, 2018 was as follows:

Edgar Filing: TripAdvisor, Inc. - Form 10-Q

INCOME STATEMENT	Three months ended September 30, 2018		
	As Reported -	ASC 606 September 30, 2018	Adjusted - Impact of Accounting ASC 606 September 30, 2018
	(in millions, except per share amounts)		
Revenue	\$458	\$ 3	\$ 461
Operating income	89	3	92
Income before income taxes	87	3	90
Provision for income taxes	(18 )	-	(18 )
Net income	69	3	72
Basic EPS	0.50	0.02	0.52
Diluted EPS	0.49	0.02	0.51

INCOME STATEMENT	Nine months ended September 30, 2018		
	As Reported - ASC 606 September 30, 2018	Adjusted - Impact of Accounting ASC 606 September 30, 2018	Adjusted - ASC 605 September 30, 2018
	(in millions, except per share amounts)		
Revenue	\$1,269	\$ (3 )	\$ 1,266
Operating income	160	(3 )	157
Income before income taxes	150	(3 )	147
Provision for income taxes	(45 )	1	(44 )
Net income	105	(2 )	103
Basic EPS	0.76	(0.01 )	0.75
Diluted EPS	0.75	(0.01 )	0.74

The impact of the new guidance was not meaningful as of and for the nine months ended September 30, 2018 for the unaudited condensed consolidated balance sheet and unaudited condensed consolidated statement of cash flows, respectively.

Disaggregation of Revenue

Edgar Filing: TripAdvisor, Inc. - Form 10-Q

We disaggregate revenue from contracts with customers into major products/revenue sources. We have determined that disaggregating revenue into these categories achieves the disclosure objective to depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. As noted in “Note 12: Segment Information”, our business consists of two reportable segments – Hotel and Non-Hotel. A reconciliation of disaggregated revenue to segment revenue is also included below.

	Three months ended September 2018	Nine months ended September 2018
Major products/revenue sources:	(in millions)	
TripAdvisor-branded click-based advertising and transaction revenue	\$ 194	\$ 583
TripAdvisor-branded display-based advertising and subscription revenue	81	231
Other hotel revenue	30	103
Total Hotel Revenue (1)	305	917
Non-Hotel Revenue (1)	153	352
Total Revenue	\$ 458	\$ 1,269

(1) Our revenue is recognized primarily at a point in time for both our Hotel and Non-Hotel segments.

Contract Balances

The following table provides information about the opening and closing balances of accounts receivables and contract assets from contracts with customers (in millions):

	September 30, 2018	December 31, 2017
Accounts receivable	227	230
Contract assets	10	-
Total	\$ 237	\$ 230

Accounts receivable are recognized when the right to consideration becomes unconditional. Contract assets are rights to consideration in exchange for services that we have transferred to a customer when that right is conditional on something other than the passage of time, such as commission payments that are contingent upon the completion of the service by the principal in the transaction. Contract liabilities generally include payments received in advance of performance under the contract, and are realized as revenue as the performance obligation to the customer is satisfied, which we present as deferred revenue on our unaudited condensed consolidated balance sheets. As of January 1, 2018, we had \$59 million recorded as deferred revenue on our unaudited condensed consolidated balance sheet, of which \$8 million and \$53 million was recognized in revenue, during the three and nine months ended September 30, 2018, respectively. The difference between the opening and closing balances of our contract assets and deferred revenue primarily results from the timing differences between when we receive customer payments and the time in which we satisfy our performance obligations. There were no significant changes in contract assets or deferred revenue during the nine months ended September 30, 2018 related to business combinations, impairments, cumulative catch-ups or other material adjustments.

#### NOTE 4: EARNINGS PER SHARE

##### Basic Earnings Per Share Attributable to Common Stockholders

We compute basic earnings per share, or 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 common shares repurchased during the reporting period.

##### Diluted Earnings Per Share Attributable to Common Stockholders

Diluted earnings per share, or Diluted EPS, includes the potential dilution of common equivalent shares outstanding that could occur from stock-based awards and other stock-based commitments using the treasury stock method. We compute 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, primarily related to stock options and the vesting of restricted stock units using the treasury stock method, and (iii) if dilutive, performance-based and market-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 of outstanding equity awards and the average unrecognized compensation cost during the period. The treasury stock method assumes that a company uses the proceeds from the exercise of an equity award to repurchase common stock at the average market price for the reporting period.

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		Nine months ended	
September 30,		September 30,	
2018	2017	2018	2017

Edgar Filing: TripAdvisor, Inc. - Form 10-Q

Numerator:				
Net income	\$69	\$25	\$105	\$65
Denominator:				
Weighted average shares used to compute Basic EPS	137,574	138,779	138,239	140,961
Weighted average effect of dilutive securities:				
Stock options	518	193	305	312
RSUs/MSUs	2,421	416	1,607	408
Weighted average shares used to compute Diluted EPS	140,513	139,388	140,151	141,681
Basic EPS	\$0.50	\$0.18	\$0.76	\$0.46
Diluted EPS	\$0.49	\$0.18	\$0.75	\$0.46

Potential common shares, consisting of outstanding stock options and restricted stock units (“RSUs”), totaling approximately 3.4 million shares and 7.1 million shares for the three and nine months ended September 30, 2018, respectively, and approximately 6.4

million shares and 6.6 million shares for the three and nine months ended September 30, 2017, respectively, have been excluded from the calculation of Diluted EPS because their effect would have been antidilutive. In addition, potential common shares, consisting of performance-based awards, totaling approximately 0.5 million shares for both the three and nine months ended September 30, 2018, respectively, and approximately 0.1 million shares for both the three and nine months ended September 30, 2017, respectively, for which all targets required to trigger vesting had not been achieved, were excluded from the calculation of weighted average shares used to compute Diluted EPS for those reporting periods.

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

#### NOTE 5: STOCK BASED AWARDS AND OTHER EQUITY INSTRUMENTS

On June 21, 2018, our stockholders approved the 2018 Stock and Annual Incentive Plan (the “2018 Plan”) primarily for the purpose of providing sufficient reserves of shares of our common stock to ensure our ability to continue to provide new hires, employees and management with equity incentives. The number of shares reserved and available for issuance under the 2018 Plan is 6,000,000 plus the number of shares available for issuance (and not subject to outstanding awards) under the TripAdvisor, Inc. Amended and Restated 2011 Stock and Annual Incentive Plan (the “2011 Plan”), as of the effective date of the 2018 Plan. Both plans provide for the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, and other stock-based awards.

#### Stock-Based Compensation Expense

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

	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	(in millions)		(in millions)	
Selling and marketing	\$ 5	\$ 5	\$ 17	\$ 16
Technology and content	13	12	38	31
General and administrative	11	9	35	25
Total stock-based compensation	29	26	90	72
Income tax benefit from stock-based compensation	(7 )	(9 )	(22 )	(27 )
Total stock-based compensation, net of tax effect	\$ 22	\$ 17	\$ 68	\$ 45

We capitalized \$3 million and \$10 million of stock-based compensation expense as internal-use software and website development costs during both the three and nine months ended September 30, 2018 and 2017, respectively.

#### Stock-Based Award Activity and Valuation

##### 2018 Stock Option Activity



During the nine months ended September 30, 2018, we granted 632,114 service-based non-qualified stock options under both the 2018 Plan and its predecessor, the 2011 Plan. Our stock options generally have a term of ten years from the date of grant and typically vest equally over a four-year requisite service period.

A summary of our stock option activity during the nine months ended September 30, 2018, is presented below:

	Options Outstanding (in thousands)	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in millions)
Options outstanding at December 31, 2017	6,853	\$ 52.78		
Granted	632	41.87		
Exercised (1)	(619 )	36.46		
Cancelled or expired	(266 )	51.93		
Options outstanding at September 30, 2018	6,600	\$ 53.29	6.3	\$ 44
Exercisable as of September 30, 2018	3,764	\$ 58.79	4.5	\$ 19
Vested and expected to vest after September 30, 2018 (2)	6,600	\$ 53.29	6.3	\$ 44

(1) Inclusive of 458,413 options which were not converted into shares due to net share settlement in order to cover the aggregate exercise price and the required amount of 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 2018 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.

(2) The Company accounts for forfeitures as they occur, rather than estimate expected forfeitures as allowed under GAAP and therefore do not include a forfeiture rate in our vested and expected to vest calculation unless necessary for a performance condition award.

Aggregate intrinsic value represents the difference between the closing stock price of our common stock and the exercise price of outstanding, in-the-money options. Our closing stock price as reported on NASDAQ as of September 30, 2018 was \$51.07. The total intrinsic value of stock options exercised was \$7 million and \$8 million, for the nine months ended September 30, 2018 and 2017, respectively.

The fair value of stock option grants 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 September 30, 2018		September 30, 2017		Nine months ended September 30, 2018		September 30, 2017	
Risk free interest rate	2.78 %	1.84 %	2.66 %	1.90 %				
Expected term (in years)	5.45	5.32	5.45	5.35				
Expected volatility	40.22 %	41.31 %	42.26 %	41.52 %				
Expected dividend yield	— %	— %	— %	— %				

The weighted-average grant date fair value of options granted was \$23.12 and \$17.72 for the three and nine months ended September 30, 2018, respectively. The weighted-average grant date fair value of options granted was \$15.49 and \$17.16 for the three and nine months ended September 30, 2017, respectively. The total fair value of stock options vested was \$35 million and \$39 million for the nine months ended September 30, 2018 and 2017, respectively. Cash received from stock option exercises was \$3 million for both the nine months ended September 30, 2018 and 2017, respectively.

2018 RSU Activity

During the nine months ended September 30, 2018, we granted 3,263,455 of primarily service-based RSUs under the 2018 Plan and its predecessor, the 2011 Plan, which typically vest over a four-year requisite service period. A summary of our RSU activity for service-based and performance-based awards during the nine months ended September 30, 2018, is presented below:

18

---

	RSUs Outstanding (in thousands)	Weighted Average Grant- Date Fair Value Per Share	Aggregate Intrinsic Value (in millions)
Unvested RSUs outstanding as of December 31, 2017 (1)	6,015	\$ 48.14	
Transfer (1)	(213 )	30.04	
Granted	3,263	42.19	
Vested and released (2)	(1,454 )	53.38	
Cancelled	(715 )	46.51	
Unvested RSUs outstanding as of September 30, 2018	6,896	\$ 44.95	\$ 352
Expected to vest after September 30, 2018 (3)	6,896	\$ 44.95	\$ 352

- (1) RSUs outstanding as of December 31, 2017 include 213,000 market-based restricted stock units (“MSUs”) awarded to the Company’s CEO in November 2017. This award has been transferred to the MSU activity table below.
- (2) Inclusive of 378,235 RSUs withheld due to net share settlement to satisfy required employee tax withholding requirements. Potential shares which had been convertible under RSUs that were withheld under net share settlement remain in the authorized but unissued pool under the 2018 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.
- (3) The Company accounts for forfeitures as they occur, rather than estimate expected forfeitures as allowed under GAAP and therefore do not include a forfeiture rate in our expected to vest calculation unless necessary for a performance condition award.

A summary of our RSU activity for MSUs, during the nine months ended September 30, 2018 is presented below:

	MSUs Outstanding (in thousands)	Weighted Average Grant- Date Fair Value Per Share	Aggregate Intrinsic Value (in millions)
Unvested MSUs outstanding as of December 31, 2017 (1)	213	\$ 30.04	
Granted (2)	71	59.40	
Vested and released			
Cancelled			
Unvested MSUs outstanding as of September 30, 2018	284	\$ 37.41	\$ 15

- (1) Represents 213,000 MSUs awarded to the Company’s CEO in November 2017.
- (2) MSUs provide for vesting based upon the Company’s total shareholder return, or TSR, performance over the period commencing January 1, 2018 through December 31, 2020 relative to the TSR performance of the Nasdaq Composite Total Return Index. A Monte-Carlo simulation model, which simulated the present value of the potential outcomes of future stock prices and TSR of the Company and the Nasdaq Composite Total Return Index over the performance period, was used to calculate the grant-date fair value of these awards. The estimated grant-date fair value of these awards is being amortized on a straight-line basis over the requisite service period through December 31, 2020. Based upon actual attainment relative to the target performance metric, the grantee has the ability to receive up to 200% of the target number of MSUs originally granted, or to be issued none at all.

These MSUs were granted under the 2011 Plan.

Total current income tax benefits associated with the exercise or settlement of TripAdvisor stock-based awards held by our employees were \$1 million and \$10 million during the three and nine months ended September 30, 2018, respectively, and \$1 million and \$17 million during the three and nine months ended September 30, 2017, respectively.

## Unrecognized Stock-Based Compensation

A summary of our remaining unrecognized stock-based compensation expense and the weighted average remaining amortization period at September 30, 2018 related to our non-vested equity awards is presented below (in millions, except in years information):

	Stock		
	Options	RSUs	MSUs
Unrecognized compensation expense	\$ 39	\$ 245	\$ 8
Weighted average period remaining (in years)	3.0	2.8	2.3

## NOTE 6: FINANCIAL INSTRUMENTS

## Cash, Cash Equivalents, Restricted Cash and Marketable Securities

The following tables show our cash, cash equivalents, restricted cash and short-term and long-term available-for-sale marketable debt securities, by major security type, that are measured at fair value on a recurring basis and were categorized using the fair value hierarchy, as well as their classification on our unaudited condensed consolidated balance sheets, as of the periods presented (in millions):

	September 30, 2018				
	Fair Value		Cash, Cash	Short-Term	Long-Term
	Amortized	Cost (2)	Equivalents and	Marketable	Marketable
	Cost	(2)	Restricted Cash	Securities	Securities
	(1)	(2)	(3)	(3)	(3)
Cash and restricted cash (1)	\$421	\$ 421	\$ 421	\$ -	\$ -
Level 1:					
Money market funds	242	242	242	-	-
Total	\$663	\$ 663	\$ 663	\$ -	\$ -

	December 31, 2017				
	Fair Value		Cash, Cash	Short-Term	Long-Term
	Amortized	Cost (2)	Equivalents and	Marketable	Marketable
	Cost	(2)	Restricted Cash	Securities	Securities
	(1)	(2)	(3)	(3)	(3)
Cash and restricted cash (1)	\$663	\$ 663	\$ 663	\$ -	\$ -
Level 1:					
Money market funds	1	1	1	-	-
Level 2:					
U.S. agency securities	11	11	-	6	5
U.S. treasury securities	1	1	-	1	-
Certificates of deposit	2	2	-	2	-
Commercial paper	11	11	9	2	-

Edgar Filing: TripAdvisor, Inc. - Form 10-Q

Corporate debt securities	46	46	-	24	22
Subtotal	71	71	9	35	27
Total	\$735	\$735	\$673	\$35	\$27

- (1) As of September 30, 2018 and December 31, 2017, our restricted cash, which primarily consists of escrowed security deposits, was not material and is included in other long-term assets on our unaudited condensed consolidated balance sheets.
- (2) As of September 30, 2018 and December 31, 2017, any unrealized gains or losses related to our marketable securities were not material.
- (3) Long-term marketable securities are included in other long-term assets on our unaudited condensed consolidated balance sheets.

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 of purchase. 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 September 30, 2018 and December 31, 2017, respectively.

For assets and liabilities required to be reported at fair value, GAAP provides a hierarchy that prioritizes inputs to valuation techniques used to measure fair value into three broad levels:

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

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

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

We classify our cash, cash equivalents, restricted cash and marketable securities within Level 1 and Level 2 as we value these financial instruments 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 was derived from quoted prices in active markets for identical assets or liabilities. Fair values for Level 2 marketable securities 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 and nine months ended September 30, 2018 and 2017, respectively. Realized gains and losses on the sale of securities are determined by specific identification of each security’s cost basis. We consider any unrealized loss position in our available-for-sale marketable debt securities to be temporary in nature and do not consider any of these investments other-than-temporarily impaired as of September 30, 2018 and December 31, 2017.

#### Derivative Financial Instruments

We use foreign currency forward contracts to reduce the effects of foreign currency exchange rate fluctuations on our cash flows primarily for the Euro versus the U.S. Dollar. We do not use derivatives for trading or speculative purposes. Counterparties to foreign 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. Our foreign currency forward contracts, which we have entered into to date, have not been designated as hedges and typically have had current maturities of less than 90 days.

Derivative financial instruments are carried at fair value on our unaudited condensed consolidated balance sheets. Any gain or loss resulting from the change in fair value of the foreign currency forward contracts has been recognized in our unaudited condensed consolidated statement of operations in “Interest income and other, net.” All gains and losses for the three months ended September 30, 2018 were not material. We recorded a net loss of \$3 million for the nine months ended September 30, 2018, related to our settled forward contracts in our unaudited condensed consolidated statement of operations in “Interest income and other, net.” All gains and losses for both the three and nine months ended September 30, 2017, respectively, were not material. The Company had no outstanding foreign currency forward contracts as of September 30, 2018 and December 31, 2017, respectively.

#### Other Financial Instruments

Other financial instruments not measured at fair value on a recurring basis include accounts receivable and contract assets, accounts payable, deferred merchant payables, short-term debt, accrued expenses and other current liabilities and long-term debt. The carrying amount of these financial instruments, with the exception of long-term debt, approximate their fair value because of the short maturity of these instruments as reported on our unaudited condensed consolidated balance sheets as of September 30, 2018 and December 31, 2017. 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 its fair value.



In addition, we hold investments in equity securities of privately-held companies that do not have a readily determinable fair value. As of both September 30, 2018 and December 31, 2017, the total carrying value of our equity investments in these privately-held companies were \$12 million and are included in “Other long-term assets” on our unaudited condensed consolidated balance sheets. Our policy is to measure these investments at cost less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. On a quarterly basis, we perform a qualitative assessment considering impairment indicators to evaluate whether these investments are impaired and also monitor for any observable price changes. During the three and nine months ended September 30, 2018, we did not have any impairment loss on these equity investments. The Company recognized a loss of \$2 million related to an investment in a privately-held company during the three and nine months ended September 30, 2017 in “Interest income and other, net” on our unaudited condensed consolidated statements of operations.

The Company did not have any material assets or liabilities measured at fair value on a recurring basis using the Level 3 unobservable inputs at both September 30, 2018 and December 31, 2017.

## NOTE 7: DEBT

## 2015 Credit Facility

We are party to a five year credit agreement with a group of lenders which, among other things, provides for a \$1.2 billion unsecured revolving credit facility (the “2015 Credit Facility”) with a maturity date of May 12, 2022. Borrowings under the 2015 Credit Facility generally bear interest, at the Company’s option, at a rate per annum equal to either (i) the Eurocurrency Borrowing rate, or the adjusted LIBO rate for the interest period in effect for such borrowing; plus an applicable margin ranging from 1.25% to 2.00% (“Eurocurrency Spread”), based on the Company’s leverage ratio; or (ii) the Alternate Base Rate (“ABR”) Borrowing, which is the greatest of (a) the Prime Rate in effect on such day, (b) the New York Fed Bank Rate in effect on such day plus 1/2 of 1.00% per annum and (c) the Adjusted LIBO Rate (or LIBO rate multiplied by the Statutory Reserve Rate) for an interest period of one month plus 1.00%; in addition to an applicable margin ranging from 0.25% to 1.00% (“ABR Spread”), based on the Company’s leverage ratio. The Company may borrow from the 2015 Credit Facility in U.S. dollars, Euros and British pound sterling.

During the nine months ended September 30, 2018, the Company borrowed an additional \$5 million and repaid \$235 million of our outstanding borrowings on the 2015 Credit Facility. These net repayments were primarily made from a one-time cash repatriation of \$325 million of foreign earnings to the United States during the first quarter of 2018. As of September 30, 2018, there were no outstanding borrowings under the 2015 Credit Facility. We are required to pay a quarterly commitment fee, at an applicable rate ranging from 0.15% to 0.30%, on the daily unused portion of the revolving credit facility for each fiscal quarter and additional fees in connection with the issuance of letters of credit. As of September 30, 2018, our unused revolver capacity was subject to a commitment fee of 0.15%, given the Company’s leverage ratio. The 2015 Credit Facility includes \$15 million of borrowing capacity available for letters of credit and \$40 million for Swingline borrowings on same-day notice. As of September 30, 2018, we had issued \$3 million of outstanding letters of credit under the 2015 Credit Facility. Total interest expense and commitment fees recorded on our 2015 Credit Facility were not material for the three months ended September 30, 2018. We recorded total interest expense and commitment fees on our 2015 Credit Facility of \$2 million for the nine months ended September 30, 2018 and \$2 million and \$4 million for the three and nine months ended September 30, 2017, respectively, to “Interest expense” on our unaudited condensed consolidated statements of operations. All unpaid interest and commitment fee amounts as of September 30, 2018 and December 31, 2017, respectively, were not material.

There is no specific repayment date prior to the maturity date for borrowings under this credit agreement. 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. Additionally, the Company believes that the likelihood of the lender exercising any subjective acceleration rights, which would permit the lenders to accelerate repayment of any outstanding borrowings, is remote. As such, we classify any borrowings under this facility as long-term debt. 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 the 2015 Credit Facility. As of September 30, 2018, we were in compliance with all of our debt covenants.

## 2016 Credit Facility

We were party to an uncommitted facility agreement which provided for a \$73 million unsecured revolving credit facility (the “2016 Credit Facility”) with no specific expiration date. We initially borrowed \$73 million from this uncommitted credit facility in 2016 and repaid the full amount during the three months ended March 31, 2017. As of December 31, 2017, there were no outstanding borrowings under the 2016 Credit Facility. In June 2018, the Company terminated the 2016 Credit Facility. We had no outstanding borrowings under the 2016 Credit Facility at the time of termination.

#### Chinese Credit Facilities

As of September 30, 2018, in addition to our 2015 Credit Facility, we maintain two credit facilities in China (jointly, the “Chinese Credit Facilities”).

We are party 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. Borrowings under our Chinese Credit Facility – BOA generally bear interest at a rate based on People’s Bank of China benchmark, including certain adjustments which may be made in accordance with market conditions at the time of borrowing. As of September 30, 2018 and December 31, 2017, there were no outstanding borrowings under our Chinese Credit Facility—BOA.

We are also party to a RMB 70,000,000 (approximately \$10 million) one-year revolving credit facility with J.P. Morgan Chase Bank (“Chinese Credit Facility-JPM”). Our Chinese Credit Facility—JPM generally bears interest at a rate based on People’s Bank of China benchmark, including certain adjustments which may be made in accordance with market conditions at the time of borrowing. As of December 31, 2017, we had \$7 million of outstanding borrowings from the Chinese Credit Facility – JPM at a weighted average interest rate of 5.00%. During the nine months ended September 30, 2018, we borrowed an additional \$2 million and repaid in full the outstanding borrowings under our Chinese Credit Facility-JPM of \$10 million. As of September 30, 2018, there were no outstanding borrowings under our Chinese Credit Facility—JPM.

#### NOTE 8: INCOME TAXES

Each interim period is considered an integral part of the annual period and, accordingly, we measure our income 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 and nine months ended September 30, 2018 was 20.7% and 30.0%, respectively. Our effective tax rate for the three and nine months ended September 30, 2017 was 34.2% and 39.3%, respectively. For the three months ended September 30, 2018, the effective tax rate was lower than the federal statutory rate primarily due to a release of valuation allowances on certain foreign deferred tax assets. For the nine months ended September 30, 2018, the effective tax rate was greater than the federal statutory rate primarily due to other foreign valuation allowances and the income tax effects of the accounting for share-based compensation. The change in the effective tax rate for the three and nine months ended September 30, 2018 when compared to the same periods in 2017 was primarily due to the rate reduction from the enactment of the U.S. Tax Cuts and Jobs Act of 2017 (“2017 Tax Act”), as discussed below.

The 2017 Tax Act introduced significant changes to U.S. income tax law. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a territorial system, and a one-time tax on the mandatory deemed repatriation of cumulative foreign earnings (the “Transition Tax”) as of December 31, 2017.

On December 22, 2017, the SEC issued Staff Accounting Bulletin No. 118, or SAB 118, which allows us to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. The measurement period is deemed to have ended earlier when the registrant has obtained, prepared, and analyzed the information necessary to finalize its accounting. During the measurement period, impacts of the law are expected to be recorded at the time a reasonable estimate for all or a portion of the effects can be made, and provisional amounts can be recognized and adjusted as information becomes available, prepared, or analyzed.

During both the three and nine months ended September 30, 2018, we recorded a \$2 million income tax expense related to the Transition Tax, which reflects additional information that we obtained during 2018 related to uncertain tax positions, earnings and profits, foreign tax credits, and state taxes. Additional work is still necessary for a more detailed analysis of our historical foreign earnings. Any subsequent adjustment to these amounts will be recorded to

current tax expense in the fourth quarter of 2018 when the analysis is complete. In addition, as of September 30, 2018, we reclassified our 2017 federal tax return overpayment of \$25 million from income taxes receivable to other long-term liabilities, as pursuant to Internal Revenue Service (“IRS”) guidance, this overpayment will be applied first toward the Transition Tax, which is payable over eight years. The remaining unpaid Transition Tax of \$31 million is included in other long-term liabilities on our condensed unaudited consolidated balance sheet as of September 30, 2018.

We are subject to additional requirements of the 2017 Tax Act during the year ended December 31, 2018. Those provisions include a tax on global intangible low-taxed income (“GILTI”), a limitation of certain executive compensation, and a deduction for foreign derived intangible income (“FDII”). We have elected to account for GILTI as a period cost, and therefore included GILTI expense in the effective tax rate calculation. Our 2018 effective tax rate includes our estimates of these new provisions, with a net tax benefit of \$3 million and \$6 million recorded during the three and nine months ended September 30, 2018, respectively. Our estimates may be revised in future periods as we obtain additional data, and as the IRS issues new guidance implementing the law changes.

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 September 30, 2018, accrued interest was \$14 million, net of federal and state benefit, and no penalties have been accrued.

By virtue of consolidated income tax returns previously filed with Expedia, we are currently under an IRS audit for the 2009, 2010 and short-period 2011 tax years, and have various ongoing audits for state income tax returns. We are separately under

examination by the IRS for the short-period 2011, 2012 and 2013 tax years and under an employment tax audit by the IRS for the 2013 and 2014 tax years. These audits include questions about 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 2009. As of September 30, 2018, no material assessments have resulted, except as noted below regarding our 2009 and 2010 IRS audit with Expedia.

In January 2017, as part of the IRS audit of Expedia, we received Notices of Proposed Adjustment from the IRS for the 2009 and 2010 tax years. These proposed adjustments are related to certain transfer pricing arrangements with our foreign subsidiaries, and would result in an increase to our worldwide income tax expense in an estimated range of \$10 million to \$14 million after consideration of competent authority relief, exclusive of interest and penalties. We disagree with the proposed adjustments and we intend to defend our position through applicable administrative and, if necessary, judicial remedies. 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. In addition to the risk of additional tax for 2009 and 2010 transactions, if the IRS were to seek transfer pricing adjustments of a similar nature for transactions in subsequent years, we would be subject to significant additional tax liabilities.

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 an income tax benefit of \$1 million and \$2 million during the three and nine months ended September 30, 2018, respectively, and an income tax benefit of \$2 million and \$5 million for the three and nine months ended September 30, 2017, respectively, in its unaudited condensed consolidated statement of operations. Since the Court’s 2015 opinion, the Company has taken total income tax benefits of \$15 million to date as of September 30, 2018. On July 24, 2018, the IRS won the appeals court case at the Ninth Circuit; however, on August 7, 2018, the Ninth Circuit withdrew its decision regarding Altera and the case will be reheard. While we have taken an income tax benefit based on the Court’s 2015 opinion, as discussed above, we will continue to review the latest decisions on the case and its impact to our consolidated financial statements.

#### NOTE 9: COMMITMENTS AND CONTINGENCIES

There have been no material changes to our commitments and contingencies since December 31, 2017. Refer to “Note 13: 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, 2017.

#### 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 patent and intellectual property rights (including alleged infringement of third-party intellectual property rights), tax matters (including value-added, excise, transient occupancy and accommodation taxes), regulatory compliance (including competition and consumer matters), defamation 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 on the best information available at the time which can be highly subjective. Although occasional adverse decisions or settlements may occur, we do not believe that the final disposition of any of these matters will have a material adverse effect on our 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 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.

We continue to accumulate cash flows, in foreign jurisdictions which we consider indefinitely reinvested, although we will

continue to evaluate the impact of the 2017 Tax Act on our capital deployment within and outside the U.S. Any repatriation of funds currently held in foreign jurisdictions may result in withholding taxes and state taxes. Refer to “Note 8: Income Taxes” for further information on potential contingencies surrounding income taxes.

#### NOTE 10: STOCKHOLDERS’ EQUITY

On January 31, 2018, our Board of Directors authorized up to \$250 million of share repurchases. Our Board of Directors authorized and directed management, working with the Executive Committee of our Board of Directors, to affect the share repurchase program in compliance with applicable legal requirements. This repurchase program has no expiration date but may be suspended or terminated by the Board of Directors at any time.

During the three months ended September 30, 2018 we did not repurchase any shares of our common stock. During the nine months ended September 30, 2018, we repurchased 2,582,198 shares of our outstanding common stock under the share repurchase program at an aggregate cost of \$100 million, or an average share price of \$38.73 per share, exclusive of fees and commissions.

As of September 30, 2018, we had a remaining balance of \$150 million available to repurchase shares of our common stock under the share repurchase program.

#### NOTE 11: RELATED PARTY TRANSACTIONS

We consider Liberty TripAdvisor Holdings, Inc. (“LTRIP”) a related party. As of September 30, 2018, LTRIP beneficially owned approximately 18.2 million shares of our common stock and 12.8 million shares of our Class B common stock, which shares constitute 14.5% of the outstanding shares of common stock and 100% of the outstanding shares of Class B common stock. Assuming the conversion of all of LTRIP’s shares of Class B common stock into common stock, LTRIP would beneficially own 22.5% of the outstanding common stock. Because each share of Class B common stock is entitled to ten votes per share and each share of common stock is entitled to one vote per share, LTRIP may be deemed to beneficially own equity securities representing 57.8% of our voting power.

We had no related party transactions with LTRIP during both the three and nine months ended September 30, 2018 and 2017.

#### NOTE 12: SEGMENT INFORMATION

Our reporting structure includes two reportable segments: Hotel and Non-Hotel. Our Non-Hotel segment consists of the aggregation of three operating segments: Experiences, Restaurants and Rentals. The nature of the services provided are summarized in “Note 3: Revenue Recognition”.

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. The chief operating decision maker for the Company is our CEO.

Adjusted EBITDA is our segment profit measure and a key measure used by our management and board of directors to understand and evaluate the operating performance of our business and on which internal budgets and forecasts are based and approved. In particular, the exclusion of certain expenses in calculating Adjusted EBITDA can provide a useful measure for period-to-period comparisons of our core business. Accordingly, we believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in



the same manner as our management and board of directors. 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 and income.

The following tables present our segment information for the three and nine months ended September 30, 2018 and 2017 and include a reconciliation of Adjusted EBITDA to Net Income. 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 and income, 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 use this information to evaluate operating segments. Accordingly, we do not regularly provide such information by segment to our chief operating decision maker. Intersegment revenue is not material and, in addition, already eliminated in the information by segment provided to our chief operating decision maker. Our consolidated general and administrative expenses, excluding stock-based compensation costs, are

Edgar Filing: TripAdvisor, Inc. - Form 10-Q

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 September 30, 2018			
	Hotel	Non-Hotel	Corporate and Unallocated	Total
	(in millions)			
Revenue	\$305	\$ 153	\$ -	\$458
Adjusted EBITDA (1)	99	47	-	146
Depreciation			(20 )	(20 )
Amortization of intangible assets			(8 )	(8 )
Stock-based compensation			(29 )	(29 )
Operating income (loss)				89
Other expense, net				(2 )
Income before income taxes				87
Provision for income taxes				(18 )
Net income				\$69

	Three months ended September 30, 2017			
	Hotel	Non-Hotel	Corporate and Unallocated	Total
	(in millions)			
Revenue	\$312	\$ 127	\$ -	\$439
Adjusted EBITDA (2)	51	44	-	95
Depreciation			(19 )	(19 )
Amortization of intangible assets			(8 )	(8 )
Stock-based compensation			(26 )	(26 )
Operating income (loss)				42
Other expense, net				(4 )
Income before income taxes				38
Provision for income taxes				(13 )
Net income				\$25

	Nine months ended September 30, 2018			
	Hotel	Non-Hotel	Corporate and Unallocated	Total
	(in millions)			
Revenue	\$917	\$ 352	\$ -	\$1,269
Adjusted EBITDA (1)	276	59	-	335
Depreciation			(61 )	(61 )

Edgar Filing: TripAdvisor, Inc. - Form 10-Q

Amortization of intangible assets	(24 )	(24 )
Stock-based compensation	(90 )	(90 )
Operating income (loss)		160
Other expense, net		(10 )
Income before income taxes		150
Provision for income taxes		(45 )
Net income		\$105

Edgar Filing: TripAdvisor, Inc. - Form 10-Q

	Nine months ended September 30, 2017			
	Hotel	Non-Hotel	Corporate and Unallocated	Total
	(in millions)			
Revenue	\$952	\$ 283	\$ -	\$1,235
Adjusted EBITDA (2)	223	46	-	269
Depreciation			(57 )	(57 )
Amortization of intangible assets			(25 )	(25 )
Stock-based compensation			(72 )	(72 )
Operating income (loss)				115
Other expense, net				(8 )
Income before income taxes				107
Provision for income taxes				(42 )
Net income				\$65

(1) Includes allocated general and administrative expenses in our Hotel segment of \$17 million and \$57 million; and in our Non-Hotel segment of \$12 million and \$37 million for the three and nine months ended September 30, 2018, respectively.

(2) Includes allocated general and administrative expenses in our Hotel segment of \$22 million and \$60 million; and in our Non-Hotel

segment of  
\$11 million  
and \$30  
million for the  
three and nine  
months ended  
September 30,  
2017,  
respectively.

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The information included in this Management’s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our unaudited condensed consolidated financial statements and the accompanying notes included in this Quarterly Report on Form 10-Q, and the consolidated financial statements and accompanying notes, as well as Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2017.

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect the views of our management regarding current expectations and projections about future events and are based on currently available information. Actual results could differ materially from those contained in these forward-looking statements for a variety of reasons, including, but not limited to, those discussed in this Quarterly Report on Form 10-Q for the three and nine months ended September 30, 2018 including, but not limited to, those discussed in Part II, Item 1A, “Risk Factors.” Other unknown or unpredictable factors also could have a material adverse effect on our business, financial condition and results of operations. Accordingly, readers should not place undue reliance on these forward-looking statements. The use of words such as “anticipates,” “estimates,” “expects,” “intends,” “plans” and “believes,” among others, generally identify forward-looking statements; however, these words are not the exclusive means of identifying such statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. These forward-looking statements are inherently subject to uncertainties, risks and changes in circumstances that are difficult to predict. We are not under any obligation to, and do not intend to, publicly update or review any of these forward-looking statements, whether as a result of new information, future events or otherwise, even if experience or future events make it clear that any expected results expressed or implied by those forward-looking statements will not be realized. Please carefully review and consider the various disclosures made in this report and in our other reports filed with the SEC that attempt to advise interested parties of the risks and factors that may affect our business, prospects and results of operations.

### Overview

TripAdvisor is an online travel company and our mission is to help people around the world to plan, book and experience the perfect trip. We seek to achieve our mission by providing users and travel partners a global platform about destinations, accommodations, travel activities and experiences, and restaurants that includes rich user-generated content, price comparison tools and online reservation and related services.

TripAdvisor, Inc., by and through its subsidiaries, owns and operates a portfolio of leading online travel brands. Our flagship brand, TripAdvisor, is the world’s largest travel site based on monthly unique visitors, which reached 490 million during the quarter ended September 30, 2018, according to our internal log files. Our TripAdvisor-branded websites include tripadvisor.com in the United States and localized versions of the TripAdvisor website in 48 markets

and 28 languages worldwide. TripAdvisor features approximately 702 million reviews and opinions on approximately 8.0 million places to stay, places to eat and things to do – including 1.2 million hotels, inns, B&Bs and specialty lodging, 880,000 rental properties, 4.9 million restaurants and 1,015,000 travel activities

and experiences worldwide. We also enable users to compare prices and/or book a number of these travel experiences on either a TripAdvisor website or mobile application, or on the website or mobile application of one of our travel partners.

In addition to the flagship TripAdvisor brand, we manage and operate the following more than 20 other travel media brands, connected by the common goal of providing users the most comprehensive travel-planning and trip-taking resources in the travel industry: [www.airfarewatchdog.com](http://www.airfarewatchdog.com), [www.bokun.io](http://www.bokun.io), [www.bookingbuddy.com](http://www.bookingbuddy.com), [www.citymaps.com](http://www.citymaps.com), [www.cruisecritic.com](http://www.cruisecritic.com), [www.familyvacationcritic.com](http://www.familyvacationcritic.com), [www.flipkey.com](http://www.flipkey.com), [www.thefork.com](http://www.thefork.com) (including [www.lafourchette.com](http://www.lafourchette.com), [www.eltenedor.com](http://www.eltenedor.com), [www.iens.nl](http://www.iens.nl), and [www.dimmi.com.au](http://www.dimmi.com.au)), [www.gateguru.com](http://www.gateguru.com), [www.holidaylettings.co.uk](http://www.holidaylettings.co.uk), [www.holidaywatchdog.com](http://www.holidaywatchdog.com), [www.housetrip.com](http://www.housetrip.com), [www.jetsetter.com](http://www.jetsetter.com), [www.niumba.com](http://www.niumba.com), [www.onetime.com](http://www.onetime.com), [www.oyster.com](http://www.oyster.com), [www.seatguru.com](http://www.seatguru.com), [www.smartertravel.com](http://www.smartertravel.com), [www.tingo.com](http://www.tingo.com), [www.vacationhomerentals.com](http://www.vacationhomerentals.com), and [www.viator.com](http://www.viator.com).

Our reporting structure includes two reportable segments: Hotel and Non-Hotel. Our Non-Hotel reportable segment consists of our Experiences, Restaurants and Rentals offerings. During the first quarter of 2018, we renamed Attractions as “Experiences” and Vacation Rentals as “Rentals.” These changes had no impact on the composition of our segments or on any financial information. Financial information and additional descriptive information related to our segments is contained in “Note 12: Segment Information” and “Note 3: Revenue Recognition,” in the notes to our unaudited condensed consolidated financial statements in Item 1 in this Quarterly Report on Form 10-Q.

## Executive Financial Summary

As the world’s largest online travel site, as measured by unique monthly visitors, TripAdvisor represents an attractive platform for travel advertisers—including hotel chains, independent hoteliers, online travel agencies (or “OTAs”), destination marketing organizations, and other travel-related and non-travel related product and service providers—who seek to market and sell their products and services to a global audience. Our platform and product offerings enable users to find, research and price shop and book hotels, flights, cruises, rental properties, tours, travel activities and experiences, and restaurants either directly on our websites or mobile applications, or on our travel partners’ websites or mobile applications. Key drivers of our financial results are described below, including a summary of our long-term growth strategy, current trends affecting our business, and our segment information.

## Our Long-Term Growth Strategy

Our mission is to help people around the world plan, book and experience the perfect trip. We seek to deliver on this mission by: increasing and leveraging our rich, user-generated content and global brand to attract users to our websites and mobile applications; delivering the best user experience throughout all phases of the travel journey from inspiration and travel-planning, to trip-taking and sharing the experience; deepening our partnerships with travel partners by providing them an array of advertising opportunities to generate qualified leads and bookings; and investing in technology, product development, marketing, and other strategic areas that we believe can improve the TripAdvisor mobile experience and improve our long-term business prospects.

Drive user engagement with our platform. Since its founding, TripAdvisor has become a globally-recognized travel brand synonymous with travel reviews and travel research. We believe that our user-generated content and our brand have enabled us to build a large, highly engaged and loyal community of travelers who use TripAdvisor to discover, plan, and book their travel experiences. For millions of those users, TripAdvisor also gives them an interactive

platform to share their travel experiences. We seek to amplify our global brand and raise user awareness for - and engagement with - our end-to-end product offerings, such as the ability to price compare and book, and we aim to attract users to our websites and mobile applications through domain direct and various online and offline marketing channels, including search engines through search engine optimization, or SEO, and search engine marketing, or SEM, and through television brand advertising.

Deliver the best user experience possible on our platform. We believe that making investments to ensure we continue to improve the TripAdvisor product experience is critically important for the long-term health of our business. We have made and will continue to make product improvements to deliver users a more enjoyable and engaging comprehensive user experience throughout all phases of the travel journey – from inspiration and discovery, to researching, price shopping and booking, to in-destination activities and places to eat and finally to sharing the details of these travel experiences on TripAdvisor. These enhancements include growing the number of hotels, inns, B&Bs and specialty lodging, rental properties, restaurants, travel activities and experiences listed on our platform to approximately 8.0 million worldwide as of September 30, 2018 as well as 702 million reviews and opinions. In addition to listings and content, we are enabling users to price compare and book more of their travel experiences either directly on our websites or mobile applications, or on our travel partners' websites or mobile applications. During 2018, we have continued to improve the hotel shopping experience helping hotel shoppers find the best prices on TripAdvisor. We have also continued to rapidly grow listings and bookable Experiences and Restaurants supply, which enables TripAdvisor to better serve travelers' needs in-destination. We believe that delivering an increasingly more robust user experience that

28

---



delights users will ultimately result in a more engaged user base, more value for our partners, and greater revenue growth and profit growth for our business.

◆ Deepen relationships with our travel partners. TripAdvisor is a global platform consisting of listing and advertising opportunities that help generate impressions, brand awareness, qualified leads and bookings for travel partners. As of September 30, 2018, TripAdvisor had approximately 1.2 million hotels, inns, B&Bs and specialty lodging, 880,000 rental properties, 4.9 million restaurants, and 1,015,000 travel activities and experiences worldwide. We believe that continuing to grow the number of listings and bookable supply, especially in our in-destination Experiences and Restaurants offerings, will enable TripAdvisor to not only delight users in more moments during more trips, but also help partners drive transactions for their business. We are also increasingly providing business-to-business services that are designed to help our partners grow their business. For example, TripAdvisor's Business Advantage and Premium for Restaurants offer hoteliers and restaurateurs, respectively, affordable marketing analytics tools to help them attract customers and more effectively manage their business pages on TripAdvisor.

◆ Invest in technology, product, marketing and other strategic areas to improve the mobile experience. Continuous product testing and speed to market are two of our most important priorities, as they enable us to create a richer user experience. We release new product features on our websites and mobile applications on a regular product release cycle. For example, innovating and improving our mobile phone offerings are key priorities since mobile phone adoption continues to scale and consumers increasingly conduct more internet searches and commerce on these devices than on desktop or tablet devices. During the quarter ended September 30, 2018, more than half of our average monthly unique visitors came from mobile phones, according to our internal log files. We anticipate that the growth rate in mobile phone monthly unique visitors will continue to exceed the growth rate of our overall monthly unique visitors, resulting in an increased proportion of users continuing to use their mobile phones to access the full range of services available on our websites and applications. We are investing significant resources to improve the features, functionality, engagement, and commercialization of our travel products on our mobile websites and applications.

#### Current Trends in Our Business

The online travel industry in which we operate, is large and growing, and also remains highly dynamic and competitive.

#### Hotel Segment

We have made – and will continue to make – product enhancements to give users an engaging and comprehensive hotel shopping experience. We continue to increase the amount of content on travel destinations, properties and room types; we optimized price discovery and the room selection process to help users to find the best room prices offered by our hotelier and OTA partners. We continue to increase supply, adding more properties, more unique consumer brands and more partners with competitive room prices for consumers to research and price compare. We believe providing consumers a robust experience, with rich content and a comprehensive selection of accommodations helps increase loyalty to our products, resulting in repeat usage, improved conversion of hotel shoppers to bookings and higher CPC rates on our platform.

In any given period, we aim to maximize the number of hotel shoppers, which we define as the users who view either a listing of hotels in a city or on a specific hotel page on our platform, and we continue to compete with other travel companies and search engines who also seek to attract hotel shoppers to their websites and mobile applications. We do this by investing in a number of marketing channels, both paid and unpaid, to increase user awareness of – and long-term engagement with – TripAdvisor's hotel offering.

On paid channels, we seek to acquire traffic as long as the expected return on these investments meets or exceeds our desired marketing efficiency targets. Since the third quarter of 2017, we have progressively and significantly reduced our direct selling and marketing investments on our least-profitable paid online marketing campaigns, resulting in

increased Hotel adjusted EBITDA. We believe we have increased the quality of our hotel shoppers on our platform, delivering better conversion to bookings and increased booking value of our hotel shopper leads to hotelier and OTA partners. At the same time, we have re-invested some savings into offline marketing channels, including re-launching TripAdvisor-branded television advertising in June 2017. This has come with expected trade-offs as progressively reducing paid online marketing investments and re-investing in long-term payback channels such as television advertising has caused hotel shopper growth to slow. We expect the aforementioned product and marketing initiatives will enable us to establish a more durable, long-lasting direct relationship with users, which, in turn, will enhance the long-term growth profile of our business.

We also aim to maximize our revenue per hotel shopper, the key metric for our metasearch auction. Revenue per hotel shopper performance increased for the three months ended September 30, 2018, primarily attributable to the success of our aforementioned product and marketing efforts, partially offset by the continued hotel shopper growth on mobile phone, which has a significantly lower revenue per hotel shopper compared to desktop and tablet. In addition, metasearch auction stability has persisted during 2018 and year-over-year growth comparisons have started to ease from auction volatility in the second half of 2017.

User growth and engagement on mobile phones continues to drive overall average monthly unique visitor growth on our platform. We continue to prioritize user experience improvements instead of maximizing the number of display advertising impressions we can sell in a given period. While this may limit our ability to grow TripAdvisor-branded display-based advertising revenue, we continue working on a number of product enhancements and media ad products that we believe can deliver increased value to both users and partners on our platform, resulting in greater monetization over time. Other Hotel revenue, which consists of hotel revenue from non-TripAdvisor branded sites, has decreased in recent periods primarily due to increased marketing efficiency from paid online marketing channels.

#### Non-Hotel Segment

TripAdvisor's Non-Hotel offerings – Experiences, Restaurants and Rentals – enable users to discover and book great travel experiences across a diversified spectrum of travel products. Experiences and Restaurants demand growth, as well as listings and bookable supply growth, has driven revenue growth. Rentals remains a strategically important part of our comprehensive consumer offering, as we continue to focus on delivering users a larger selection of high-quality alternative accommodation listings in order to deliver a better user experience through more selection in our Rentals offering, which in turn helps support higher conversion on our platform in an increasingly competitive environment in the alternative accommodations marketplace.

We remain focused on revenue growth and market share gains in this segment. To achieve this, we aim to continue to deliver product enhancements, to grow user demand on our platform, to grow bookable supply in our marketplaces and to help drive bookings and marketing opportunities for more partners on our platform. We also continue to empower suppliers through demand and bookings generation, software solutions and marketing tools to help them grow and manage their business through TripAdvisor.

#### Segments

Refer to “Note 12: Segment Information” and “Note 3: Revenue Recognition” in the notes to the unaudited condensed consolidated financial statements in Item 1 in this Quarterly Report on Form 10-Q for financial information and additional descriptive information related to our segments.

#### Employees

As of September 30, 2018, we had 3,281 employees. Of these employees, approximately 50% were based in the United States. We believe we have good relationships with our employees, including relationships with employees represented by international works councils or other similar organizations.

#### Seasonality

Traveler expenditures in the global travel market tend to follow a seasonal pattern. As such, expenditures by travel partners/advertisers to market to potential travelers and, therefore, our financial performance, or revenue and profits, tend to be seasonal as well. Our financial performance tends to be seasonally highest in the second and third quarters of a year, as it is a key period for leisure travel research and trip-taking, which includes the seasonal peak in traveler hotel and rental stays, and tours and experiences taken, compared to the first and fourth quarters which represent seasonal low points. Further significant shifts in our business mix or adverse economic conditions could result in future seasonal patterns that are different from historical trends.

Critical Accounting Policies and Estimates

Critical accounting policies and estimates are those that we believe are important in the preparation of our consolidated financial statements because they require that management use judgment and estimates in applying those policies. We prepare our consolidated financial statements and accompanying notes in accordance with GAAP. Preparation of the consolidated financial statements and accompanying notes requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements as well as revenue and expenses during the periods reported. Management bases its estimates on historical experience, when applicable and other assumptions that it believes are reasonable under the circumstances. Actual results may differ from estimates under different assumptions or conditions.

There are certain critical estimates that we believe require significant judgment in the preparation of our consolidated financial statements. We consider an accounting estimate to be critical if:

It requires us to make an assumption because information was not available at the time or it included matters that were highly uncertain at the time we were making the estimate; and

30

---

Changes in the estimate or different estimates that we could have selected may have had a material impact on our financial condition or results of operations.

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

#### Significant Accounting Policies and New Accounting Pronouncements

Refer to “Note 2: Significant Accounting Policies” in the notes to our unaudited condensed consolidated financial statements in Item 1 in this Quarterly Report on Form 10-Q for an overview of new accounting pronouncements that we have adopted or that we plan to adopt that have had or may have an impact on our unaudited condensed consolidated financial statements.

Notably, in the first quarter of 2018, we adopted new revenue guidance, or ASC 606, Revenue from Contracts with Customers. The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This 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. Results for reporting periods beginning after January 1, 2018 are presented under the new revenue guidance, while prior period amounts are not adjusted and continue to be reported in accordance with our previous accounting policies under the historical revenue guidance, or ASC 605, Revenue Recognition. Refer to “Note 2: Significant Accounting Policies” and “Note 3: Revenue Recognition” in the notes to our unaudited condensed consolidated financial statements in Item 1 in this Quarterly Report on Form 10-Q for further discussion about our new revenue recognition policy and its impact to our unaudited condensed consolidated financial statements under this new revenue guidance.

There have been no other significant changes to our significant accounting policies and estimates, other than revenue recognition, as discussed above, as compared to the significant accounting policies and estimates described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017. For additional information about our 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, 2017.

## Statement of Operations

## Selected Financial Data

(in millions, except percentages)

	Three months ended		% Change 2018 vs. 2017	Nine months ended		% Change 2018 vs. 2017
	September 30, 2018	2017		September 30, 2018	2017	
Revenue	\$ 458	\$ 439	4 %	\$ 1,269	\$ 1,235	3 %
<b>Costs and expenses:</b>						
Cost of revenue	23	20	15 %	67	56	20 %
Selling and marketing	206	247	(17) %	621	683	(9) %
Technology and content	72	61	18 %	207	184	13 %
General and administrative	40	42	(5) %	129	115	12 %
Depreciation	20	19	5 %	61	57	7 %
Amortization of intangible assets	8	8	0 %	24	25	(4) %
Total costs and expenses:	369	397	(7) %	1,109	1,120	(1) %
Operating income	89	42	112 %	160	115	39 %
<b>Other income (expense):</b>						
Interest expense	(4 )	(4 )	0 %	(10 )	(11 )	(9) %
Interest income and other, net	2	-	100 %	-	3	(100) %
Total other income (expense), net	(2 )	(4 )	(50) %	(10 )	(8 )	25 %
Income before income taxes	87	38	129 %	150	107	40 %
Provision for income taxes	(18 )	(13 )	38 %	(45 )	(42 )	7 %
Net income	\$ 69	\$ 25	176 %	\$ 105	\$ 65	62 %
<b>Other Financial Data:</b>						
Adjusted EBITDA (1)	\$ 146	\$ 95	54 %	\$ 335	\$ 269	25 %

(1) See “Adjusted EBITDA” discussion below for more information and for a reconciliation of Adjusted EBITDA to Net Income for the periods presented.

## Revenue and Segment Information

	Three months ended		% Change 2018 vs. 2017	Nine months ended		% Change 2018 vs. 2017
	September 30, 2018	2017		September 30, 2018	2017	
Revenue by Segment:	(in millions)			(in millions)		
Hotel	\$ 305	\$ 312	(2) %	\$ 917	\$ 952	(4) %
Non-Hotel	153	127	20 %	352	283	24 %
Total revenue	\$ 458	\$ 439	4 %	\$ 1,269	\$ 1,235	3 %
Adjusted EBITDA by Segment (1):						
Hotel	\$ 99	\$ 51	94 %	\$ 276	\$ 223	24 %

Edgar Filing: TripAdvisor, Inc. - Form 10-Q

Non-Hotel	47	44	7	%	59	46	28	%
Total Adjusted EBITDA	\$ 146	\$ 95	54	%	\$ 335	\$ 269	25	%
Adjusted EBITDA Margin by Segment (2):								
Hotel	32	%	16	%	30	%	23	%
Non-Hotel	31	%	35	%	17	%	16	%
32								

---

(1) Included in Adjusted EBITDA is a general and administrative expense allocation for each segment, which is based on the segment's percentage of our total personnel costs, excluding stock-based compensation. Refer to "Note 12: Segment Information," in the notes to our unaudited condensed consolidated financial statements for more information.

(2) We define "Adjusted EBITDA Margin by Segment", as Adjusted EBITDA by segment divided by revenue by segment.

Hotel Segment

Our Hotel segment revenue decreased by \$7 million and \$35 million during the three and nine months ended September 30, 2018, respectively, when compared to the same periods in 2017, due to decreases in TripAdvisor-branded click-based and transaction revenue of \$1 million and \$36 million, respectively, as well as \$11



million and \$15 million decreases in Other Hotel revenue during the three and nine months ended September 30, 2018, respectively, partially offset by increases in TripAdvisor-branded display-based advertising and subscription revenue of \$5 million and \$16 million, respectively, all of which are discussed below.

Hotel segment Adjusted EBITDA increased \$48 million and \$53 million during the three and nine months ended September 30, 2018, respectively, when compared to the same periods in 2017, primarily due to a decrease in our direct selling and marketing expenses related to SEM and other online traffic acquisition costs as we have continued to optimize and improve our marketing efficiency from our online marketing campaigns, and to a lesser extent, growth in our TripAdvisor-branded display-based advertising and subscription revenue.

The following is a detailed discussion of the revenue sources within our Hotel segment:

	Three months ended				Nine months ended			
	September 30, 2018	September 30, 2017	% Change 2018 vs. 2017		September 30, 2018	September 30, 2017	% Change 2018 vs. 2017	
	(in millions)				(in millions)			
<b>Hotel:</b>								
TripAdvisor-branded click-based and transaction	\$ 194	\$ 195	(1	%)	\$ 583	\$ 619	(6	%)
TripAdvisor-branded display-based advertising and subscription	81	76	7	%	231	215	7	%
Other hotel revenue	30	41	(27	%)	103	118	(13	%)
<b>Total Hotel revenue</b>	<b>\$ 305</b>	<b>\$ 312</b>	<b>(2</b>	<b>%)</b>	<b>\$ 917</b>	<b>\$ 952</b>	<b>(4</b>	<b>%)</b>
TripAdvisor-branded Click-based and Transaction Revenue								

TripAdvisor-branded click-based and transaction revenue includes cost-per-click-based advertising revenue from our TripAdvisor-branded websites as well as transaction-based revenue from our hotel instant booking feature. For both the three and nine months ended September 30, 2018, 64% of our Hotel segment revenue was derived from our TripAdvisor-branded click-based and transaction revenue. For the three and nine months ended September 30, 2017, 63% and 65%, respectively, of our Hotel segment revenue was derived from our TripAdvisor-branded click-based and transaction revenue. TripAdvisor-branded click-based and transaction revenue during the three months ended September 30, 2018 was relatively flat and decreased \$36 million or 6% during the nine months ended September 30, 2018, when compared to the same periods in 2017, primarily due to a 5% increase in our revenue per hotel shopper, offset by a 5% decrease in our average monthly unique hotel shoppers during the three months ended September 30, 2018 and a 2% decrease in both our revenue per hotel shopper and average monthly unique hotel shoppers during the nine months ended September 30, 2018, which is explained below.

Our largest source of Hotel segment revenue is click-based advertising revenue from our TripAdvisor-branded websites, which include links to our travel partners' sites and contextually-relevant branded and related text links. Click-based advertising is generated primarily through our metasearch auction, a description of which follows. Our click-based travel partners are predominantly OTAs and hoteliers. Click-based advertising is generally priced on a cost-per-click, or CPC, basis with payments to us from advertisers based on the number of user clicks on each type of link or, in other words, the conversion of a hotel shopper to a paid click. CPC is the price that a partner is willing to pay us for a hotel shopper lead and is determined in a competitive process as partner CPC bids for rates and availability listed on our site are submitted. When a CPC bid is submitted, the partner agrees to pay us the bid amount each time a user subsequently clicks on the link to that partner's website. Bids can be submitted periodically – as often as daily – on a property-by-property basis. Primary factors used to determine the placement of partner links on our site include, but are not limited to, nightly room rate, the size of the bid relative to other bids, and other variables. CPCs are generally lower in markets outside the U.S. market, and hotel shoppers visiting via mobile phones currently monetize at a significantly lower rate than hotel shoppers visiting via desktop



or tablet. Our Hotel segment transaction-based revenue is comprised of revenue from our hotel instant booking feature, which enables the merchant of record, generally an OTA or hotel partner, to pay a commission to TripAdvisor for a user that completes a hotel reservation via our website.

The key drivers of TripAdvisor-branded click-based and transaction revenue include average monthly unique hotel shoppers and revenue per hotel shopper, the latter of which measures how effectively we convert our hotel shoppers into revenue. We measure performance by calculating revenue per hotel shopper on an aggregate basis by dividing total TripAdvisor-branded click-based and transaction revenue by total average monthly unique hotel shoppers on TripAdvisor-branded websites for the periods presented.

While we believe that total traffic growth, or growth in monthly visits from unique visitors, is reflective of our overall brand growth, we also track and analyze sub-segments of our traffic and their correlation to revenue generation and utilize data regarding hotel shoppers as one of the key indicators of revenue growth. Hotel shoppers are visitors who view either a listing of hotels in a city or on a specific hotel page. The number of hotel shoppers tends to vary based on seasonality of the travel industry and general economic conditions, as well as other factors outside of our control.

The table below summarizes our revenue per hotel shopper calculation and growth rate, in the aggregate, for the periods presented (in millions, except calculated revenue per hotel shopper and percentages):

	Three months ended				Nine months ended			
	September 30, 2018	2017	% Change 2018 vs. 2017		September 30, 2018	2017	% Change 2018 vs. 2017	
Revenue per hotel shopper:								
TripAdvisor-branded click-based and transaction revenue	\$ 194	\$ 195	(1 %)		\$ 583	\$ 619	(6 %)	
Divided by: Total average monthly unique hotel shoppers for the quarter	479	504	(5 %)		1,402	1,431	(2 %)	
	\$0.41	\$0.39	5 %		\$0.42	\$0.43	(2 %)	

Revenue per hotel shopper increased 5% and decreased 2% during the three and nine months ended September 30, 2018, respectively, when compared to the same periods in 2017, according to our internal log files. Revenue per hotel shopper increased 5% during the three months ended September 30, 2018 primarily due to the success of our product improvements and marketing optimization efforts, as discussed above, which we believe has resulted in increased user awareness of TripAdvisor's price shopping tools, partially offset by a greater percentage of hotel shoppers visiting TripAdvisor-branded websites and applications on mobile phones and a reduced mix of paid traffic, which tends to click with greater frequency than free traffic. Revenue per hotel shopper decreased 2% during the nine months ended September 30, 2018 primarily due to difficult year-over-year growth comparisons during the first half of 2018, as beginning in the third quarter of 2017 we began significantly reducing our direct selling and marketing investments on our least-profitable paid online marketing campaigns, as well as a greater percentage of hotel shoppers visiting TripAdvisor-branded websites and applications on mobile phones, partially offset by our success in product improvements and marketing optimization efforts, as discussed above.

Our aggregate average monthly unique hotel shoppers on TripAdvisor-branded websites decreased by 5% and 2% during the three and nine months ended September 30, 2018, respectively, when compared to the same periods in 2017, according to our internal log files. The decrease was primarily due to the continued optimization of our marketing investment mix between online and offline channels, which we believe limits our ability to grow hotel shoppers in the near term, as discussed above, partially offset by the general trend of an increasing number of hotel shoppers visiting our websites and applications on mobile phones which we continued to experience during both the three and nine months ended September 30, 2018.



### TripAdvisor-branded Display-based Advertising and Subscription Revenue

For the three and nine months ended September 30, 2018, 27% and 25%, respectively, of our Hotel segment revenue was derived from our TripAdvisor-branded display-based advertising and subscription revenue, which primarily consists of revenue from display-based advertising and subscription-based hotel advertising revenue. For the three and nine months ended September 30, 2017, 24% and 23%, respectively, of our Hotel segment revenue was derived from our TripAdvisor-branded display-based advertising and subscription revenue.

Our TripAdvisor-branded display-based advertising and subscription revenue increased by \$5 million or 7%, and \$16 million or 7% during the three and nine months ended September 30, 2018, respectively, when compared to the same periods in 2017, primarily attributable to our new media ad product, which enables hotels to enhance their visibility on TripAdvisor hotel pages. The increase was partially offset by the general trend of an increasing percentage of our traffic visiting our websites and applications on mobile phones.

### Other Hotel Revenue

For the three and nine months ended September 30, 2018, 10% and 11%, respectively, of our Hotel segment revenue was derived from other Hotel revenue. For the three and nine months ended September 30, 2017, 13% and 12%, respectively, of our Hotel segment revenue was derived from other Hotel revenue. Our other Hotel revenue primarily includes revenue from non-TripAdvisor branded websites, such as [www.bookingbuddy.com](http://www.bookingbuddy.com), [www.cruisecritic.com](http://www.cruisecritic.com) and [www.onetime.com](http://www.onetime.com), primarily through click-based advertising revenue and display-based advertising revenue generated through these websites. Our other Hotel revenue decreased \$11 million and \$15 million during the three and nine months ended September 30, 2018, respectively, when compared to the same periods in 2017, primarily due to increased marketing efficiency from paid online marketing channels within this revenue stream.

### Non-Hotel Segment

Our Non-Hotel segment revenue increased by \$26 million or 20%, and \$69 million or 24% during the three and nine months ended September 30, 2018, respectively, when compared to the same periods in 2017, driven by Experiences and Restaurants.

Experiences continued to generate strong revenue due to increased growth in bookings, which was primarily driven by an increase in bookable supply and growth in demand from bookings sourced by TripAdvisor. Another contributing factor is the ongoing key feature improvements made to the shopping experience, which we believe have contributed to increased demand and revenue conversion. Continued strong revenue growth in Restaurants was primarily due to seated diner growth, mobile bookings growth, user experience improvements, and increased bookable supply of restaurant listings as well as increased revenue from TripAdvisor websites. Rentals' revenue, during the three and nine months ended September 30, 2018, decreased when compared to the same periods in 2017, primarily due to increasing competition in the alternative accommodations marketplace and also the continued migration of our subscription model to our free-to-list model, which we believe will have a longer term return.

Adjusted EBITDA in our Non-Hotel segment increased \$3 million or 7% and \$13 million or 28% during the three and nine months ended September 30, 2018, respectively, when compared to the same periods in 2017. This increase was primarily driven by the increase in our Non-Hotel segment revenue, partially offset by increased personnel and overhead costs of \$13 million and \$32 million, respectively, to support growth in this segment during the three and

nine months ended September 30, 2018, as well as an increase in online and offline advertising costs.

## Consolidated Expenses

### Cost of Revenue

Cost of revenue consists of expenses that are directly related or closely correlated to revenue generation, including direct costs, such as credit card and other booking transaction payment fees, data center costs, costs associated with prepaid tour tickets, ad serving fees, flight search fees, and other transaction costs. In addition, cost of revenue includes personnel and overhead expenses, including salaries, benefits, stock-based compensation and bonuses for certain customer support personnel who are directly involved in revenue generation.

	Three months ended			Nine months ended			
	September 30, 2018	2017	% Change 2018 vs. 2017	September 30, 2018	2017	% Change 2018 vs. 2017	
	(in millions)			(in millions)			
Direct costs	\$ 18	\$ 15	20	% \$ 52	\$ 42	24	%
Personnel and overhead	5	5	0	% 15	14	7	%
Total cost of revenue	\$ 23	\$ 20	15	% \$ 67	\$ 56	20	%
% of revenue	5.0 %	4.6 %		5.3 %	4.5 %		

Cost of revenue increased \$3 million and \$11 million during the three and nine months ended September 30, 2018, respectively, when compared to the same periods in 2017, due to increased direct costs associated with prepaid tour tickets and credit card and other transaction payment processing fees as a result of revenue growth in our Non-Hotel segment, and to a lesser extent an increase in transaction costs related to revenue generation in our Hotel segment.

### Selling and Marketing

Selling and marketing expenses primarily consist of direct costs, including traffic generation costs from SEM and other online traffic acquisition costs, syndication costs and affiliate program commissions, social media costs, brand advertising, television and other offline advertising, promotions and public relations. In addition, our sales and marketing expenses consist of indirect costs such as personnel and overhead expenses, including salaries, commissions, benefits, stock-based compensation expense and bonuses for sales, sales support, customer support and marketing employees.

	Three months ended			Nine months ended			
	September 30,		% Change 2018 vs. 2017	September 30,		% Change 2018 vs. 2017	
	2018	2017			2018	2017	
	(in millions)			(in millions)			
Direct costs	\$150	\$195	(23 %)	\$451	\$526	(14 %)	
Personnel and overhead	56	52	8 %	170	157	8 %	
Total selling and marketing	\$206	\$247	(17 %)	\$621	\$683	(9 %)	
% of revenue	45.0%	56.3%		48.9%	55.3%		

Direct selling and marketing costs decreased \$45 million and \$75 million during the three and nine months ended September 30, 2018, respectively, when compared to the same periods in 2017, primarily due to decreased SEM and online traffic acquisition costs in our Hotel segment, partially offset by the increase in our Hotel segment television advertising campaign spend of \$34 million during the nine months ended September 30, 2018, and to a lesser extent, an increase in online and offline advertising costs in our Non-Hotel segment in the three and nine months ended September 30, 2018, when compared to the same periods in 2017. Our television advertising campaign spend during the three months ended September 30, 2018 in our Hotel segment decreased by \$7 million, when compared to the same period in 2017. Personnel and overhead costs increased \$4 million and \$13 million during the three and nine months ended September 30, 2018, respectively, when compared to the same periods in 2017, primarily due to an increase in headcount in our Non-Hotel segment to support business growth.

### Technology and Content

Technology and content expenses consist primarily of personnel and overhead expenses, including salaries and benefits, stock-based compensation expense and bonuses for salaried employees and contractors engaged in the design, development, testing, content support, and maintenance of our websites and mobile applications. Other costs include licensing, maintenance expense, computer supplies, telecom costs, content translation costs, and consulting costs.

Edgar Filing: TripAdvisor, Inc. - Form 10-Q

	Three months ended			Nine months ended			
	September 30, 2018	2017	% Change 2018 vs. 2017	September 30, 2018	2017	% Change 2018 vs. 2017	
	(in millions)			(in millions)			
Personnel and overhead	\$64	\$55	16	% \$186	\$166	12	%
Other	8	6	33	% 21	18	17	%
Total technology and content	\$72	\$61	18	% \$207	\$184	13	%
% of revenue	15.7%	13.9%		16.3%	14.9%		

Technology and content costs increased \$11 million and \$23 million during the three and nine months ended September 30, 2018, respectively, when compared to the same periods in 2017, primarily due to increased personnel and overhead costs to support the business growth in our Non-Hotel segment, as well as an increase in stock-based compensation of \$7 million for the nine months ended September 30, 2018, primarily as a result of an increase in headcount.

#### General and Administrative

General and administrative expenses consist primarily of personnel and related overhead costs, including personnel engaged in leadership, finance, legal, and human resources, as well as stock-based compensation expense for those same personnel. General and



administrative costs also include professional service fees and other fees including audit, legal, tax and accounting, and other costs including bad debt expense, non-income taxes, such as sales, use and other non-income related taxes.

	Three months ended			Nine months ended			
	September 30, 2018	2017	% Change 2018 vs. 2017	September 30, 2018	2017	% Change 2018 vs. 2017	
	(in millions)			(in millions)			
Personnel and overhead	\$ 30	\$ 29	3 %	\$ 98	\$ 85	15 %	
Professional service fees and other	10	13	(23 %)	31	30	3 %	
Total general and administrative	\$ 40	\$ 42	(5 %)	\$ 129	\$ 115	12 %	
% of revenue	8.7 %	9.6 %		10.2 %	9.3 %		

General and administrative costs decreased \$2 million and increased \$14 million during the three and nine months ended September 30, 2018, respectively, when compared to the same periods in 2017. Personnel and overhead costs increased \$1 million and \$13 million during the three and nine months ended September 30, 2018, respectively, when compared to the same periods in 2017, primarily related to an increase in stock-based compensation of \$2 million and \$10 million, respectively, which was primarily as a result of equity awards granted to our CEO in November 2017. Professional service fees and other decreased \$3 million during the three months ended September 30, 2018, when compared to the same period in 2017, primarily due to a decrease in bad debt expense and outside consulting costs.

#### Depreciation

Depreciation expense consists of depreciation on computer equipment, leasehold improvements, furniture, office equipment and other assets, our corporate headquarters building and amortization of capitalized software and website development costs.

	Three months ended		Nine months ended	
	September 30, 2018	2017	September 30, 2018	2017
	(in millions)		(in millions)	
Depreciation	\$ 20	\$ 19	\$ 61	\$ 57
% of revenue	4.4 %	4.3 %	4.8 %	4.6 %

Depreciation expense increased \$1 million and \$4 million during the three and nine months ended September 30, 2018, respectively, when compared to the same periods in 2017, primarily due to an increase in amortization related to capitalized software and website development costs.

#### Amortization of Intangible Assets

Amortization consists of the amortization of purchased definite-lived intangibles.

	Three months ended		Nine months ended	
	September 30, 2018	2017	September 30, 2018	2017
	(in millions)		(in millions)	

Edgar Filing: TripAdvisor, Inc. - Form 10-Q

Amortization of intangible assets	\$ 8	\$ 8	\$ 24	\$ 25
% of revenue	1.7 %	1.8 %	1.9 %	2.0 %

Amortization of intangible assets remained flat during both the three and nine months ended September 30, 2018, when compared to the same periods in 2017.

## Interest Expense

Interest expense primarily consists of interest incurred, commitment fees and debt issuance cost amortization related to our 2015 Credit Facility and Chinese Credit Facilities, as well as interest on our financing obligation related to our corporate headquarters. Refer to “Note 7: Debt” in the notes to our unaudited condensed consolidated financial statements in Item 1 in this Quarterly Report on Form 10-Q for additional information on our credit facilities.

	Three months ended September 30, 2018		Nine months ended September 30, 2017	
	2018	2017	2018	2017
	(in millions)		(in millions)	
Interest expense	\$ (4 )	\$ (4 )	\$ (10 )	\$ (11 )

Interest expense remained relatively flat during both the three and nine months ended September 30, 2018, when compared to the same periods in 2017.

## Interest Income and Other, Net

Interest income and other, net primarily consists of interest earned from our money market funds and marketable securities, amortization of discounts and premiums on our marketable securities, net foreign exchange gains and losses, and gains and losses on sales of our marketable securities.

	Three months ended September 30, 2018		Nine months ended September 30, 2017	
	2018	2017	2018	2017
	(in millions)		(in millions)	
Interest income and other, net	\$ 2	\$ -	\$ -	\$ 3

Interest income and other, net increased \$2 million during the three months ended September 30, 2018, when compared to the same period in 2017, primarily due to the increase in interest income earned from our money market funds, partially offset by a net increase in transaction losses as a result of the fluctuation of foreign exchange rates. Interest income and other, net decreased \$3 million during the nine months ended September 30, 2018, when compared to the same period in 2017, primarily due to a net increase in transaction losses as a result of the fluctuation of foreign exchange rates, partially offset by an increase in interest income earned from our money market funds. In addition, a loss related to one of our cost-method investments of \$2 million was incurred during the three and nine months ended September 30, 2017, which did not reoccur in 2018.

## Provision for Income Taxes

	Three months ended September 30, 2018		Nine months ended September 30, 2017	
	2018	2017	2018	2017

Edgar Filing: TripAdvisor, Inc. - Form 10-Q

	(in millions)		(in millions)	
Provision for income taxes	\$18	\$13	\$45	\$42
Effective tax rate	20.7%	34.2%	30.0%	39.3%

Our effective tax rate for the three and nine months ended September 30, 2018 was 20.7% and 30.0%, respectively. Our effective tax rate for the three and nine months ended September 30, 2017 was 34.2% and 39.3%, respectively. For the three months ended September 30, 2018, the effective tax rate was lower than the federal statutory rate primarily due to a release of valuation allowances on certain foreign deferred tax assets. For the nine months ended September 30, 2018, the effective tax rate was greater than the federal statutory rate primarily due to other foreign valuation allowances and the income tax effects of the accounting for stock-based compensation. The change in the effective tax rate for the three and nine months ended September 30, 2018 when compared to the same periods in 2017 was primarily due to the rate reduction from the enactment of the 2017 Tax Act. Refer to “Note 8: Income Taxes” in the notes to our unaudited condensed consolidated financial statements in Item 1 in this Quarterly Report on Form 10-Q for further information.

#### Adjusted EBITDA

To provide investors with additional information regarding our financial results, we also disclose Adjusted EBITDA, which is a non-GAAP financial measure. A “non-GAAP financial measure” refers to a numerical measure of a company’s historical or future financial performance, financial position, or cash flows that excludes (or includes) amounts that are included in (or excluded from) the most directly comparable measure calculated and presented in accordance with GAAP in such company’s financial statements.

Adjusted EBITDA is our segment profit measure and a key measure used by our management and board of directors to understand and evaluate the operating performance of our business and on which internal budgets and forecasts are based and approved. In particular, the exclusion of certain expenses in calculating Adjusted EBITDA can provide a useful measure for period-to-period comparisons of our core business. Accordingly, we believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors. 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) other non-recurring expenses and income.

Our use of Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results reported in accordance with GAAP. Because of these limitations, you should consider Adjusted EBITDA alongside other financial performance measures, including net income and our other GAAP results. Some of these limitations are:

- Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect the interest expense, or cash requirements necessary to service interest or principal payments on our debt;
- Adjusted EBITDA does not consider the potentially dilutive impact of stock-based compensation or other stock-settled obligations;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- Adjusted EBITDA does not reflect tax payments that may represent a reduction in cash available to us; and
- Other companies, including companies in our own industry, may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

The following table presents a reconciliation of Adjusted EBITDA to Net Income, the most directly comparable financial measure calculated and presented in accordance with GAAP, for the periods presented:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
	(in millions)			
Net income	\$69	\$25	\$105	\$65
Add: Provision for income taxes	18	13	45	42
Add: Other expense (income), net	2	4	10	8
Add: Stock-based compensation	29	26	90	72
Add: Amortization of intangible assets	8	8	24	25
Add: Depreciation	20	19	61	57
Adjusted EBITDA	\$146	\$95	\$335	\$269

#### Related Party Transactions

For information on our relationship with Liberty TripAdvisor Holdings, Inc., refer to “Note 11: Related Party Transactions” in the notes to our unaudited condensed consolidated financial statements in Item 1 in this Quarterly

Report on Form 10-Q. We had no related party transactions with LTRIP during the three and nine months ended September 30, 2018 and 2017.

#### Stock-Based Compensation

Refer to “Note 5: Stock Based Awards and Other Equity Instruments” in the notes to our unaudited condensed consolidated financial statements in Item 1 in this Quarterly Report on Form 10-Q for further information on current year equity award activity, including the issuance of 632,114 service-based stock options with a weighted average grant-date fair value per option of \$17.72, 3,263,455 service-based RSUs with a weighted average grant-date fair value of \$42.19, and 71,425 MSUs with a weighted average grant-date fair value of \$59.40 during the nine months ended September 30, 2018.

## Liquidity and Capital Resources

The following section explains how we have generated and used our cash during the nine months ended September 30, 2018, describes our current capital resources and discusses our future known financial commitments.

Our principal source of liquidity is cash flows generated from operations, although liquidity needs can also be met through drawdowns under our 2015 Credit Facility and Chinese Credit Facilities. As of September 30, 2018 and December 31, 2017, we had \$663 million and \$735 million, respectively, of cash, cash equivalents, and short-term and long-term available-for-sale marketable debt securities. As of September 30, 2018 approximately \$280 million of our cash and cash equivalents was held by our subsidiaries outside the United States, with the majority in the United Kingdom. As of September 30, 2018, the majority of total cash on hand was denominated in U.S. dollars. Cumulative undistributed earnings of foreign subsidiaries that we intend to indefinitely reinvest outside of the United States totaled approximately \$616 million as of September 30, 2018. Should we distribute, or be treated under certain U.S. tax rules as having distributed, the earnings of foreign subsidiaries in the form of dividends or otherwise, we may be subject to U.S. income taxes. To date, we have permanently reinvested our foreign earnings outside of the United States and we currently do not intend to repatriate these earnings to fund U.S. operations. The amount of any unrecognized deferred income tax on this temporary difference is not material.

During the nine months ended September 30, 2018, we borrowed an additional \$5 million and repaid \$235 million of outstanding borrowings under the 2015 Credit Facility. This net repayment was primarily made from a one-time cash repatriation of \$325 million of foreign earnings to the United States during the three months ended March 31, 2018. As of September 30, 2018, we had no outstanding borrowings and approximately \$1.2 billion of borrowing capacity available under our 2015 Credit Facility. During the nine months ended September 30, 2018, we borrowed an additional \$2 million and repaid in full the outstanding borrowings under our Chinese Credit Facilities of \$10 million. As of September 30, 2018, we had no outstanding borrowings and approximately \$40 million of borrowing capacity available under our Chinese Credit Facilities. For further discussion on our credit facilities refer to “Note 7: Debt” in the notes to our unaudited condensed consolidated financial statements in Item 1 in this Quarterly Report on Form 10-Q.

Our business experiences seasonal fluctuations that affect the timing of our annual cash flows related to working capital. In our Rentals free-to-list model and our Experiences offering, we receive cash from travelers at the time of booking and we record these amounts, net of commissions, on our consolidated balance sheets as deferred merchant payables. We pay the suppliers, or the property rental owners and experience providers, respectively, after the travelers’ use. Therefore, we receive cash from the traveler prior to paying the supplier and this operating cycle represents a working capital source or use of cash to us. During the first half of the year rentals and experiences bookings typically exceed stays and tour-taking, resulting in higher cash flow related to working capital, while during the second half of the year, particularly in the third quarter, this pattern reverses and cash flows from these transactions are typically negative. While we expect the impact of seasonal fluctuations to continue, further significant shifts in our business mix or adverse economic conditions could result in future seasonal patterns that are different from historical trends.

On January 31, 2018, our Board of Directors authorized the repurchase of up to \$250 million of our shares of common stock under a share repurchase program. Our Board of Directors authorized and directed management, working with the Executive Committee of our Board of Directors, to affect the share repurchase program in compliance with applicable legal requirements. This share repurchase program has no expiration date but may be suspended or terminated by the Board of Directors at any time. During the nine months ended September 30, 2018, we

repurchased 2,582,198 shares of our outstanding common stock at an aggregate cost of \$100 million. As of September 30, 2018, we had a remaining \$150 million available to repurchase shares of our common stock under the share repurchase program.

We believe that our available cash and marketable securities, combined with expected cash flows generated by operating activities and available cash from our credit facilities, will be sufficient to fund our foreseeable working capital requirements, capital expenditures, existing business growth initiatives, debt obligations, lease commitments, and other financial commitments through at least the next twelve months. Our future capital requirements may also include capital needs for acquisitions, share repurchases, and/or other expenditures in support of our business strategy, thus may potentially reduce our cash balance and/or increase our debt. We expect total capital expenditures for 2018 to be comparable to our 2017 spending levels.

Our cash flows from operating, investing and financing activities, as reflected in the unaudited condensed consolidated statements of cash flows, are summarized in the following table:

	Nine months ended September 30, 2018    2017 (in millions)	
Net cash provided by (used in):		
Operating activities	\$ 374	\$ 220
Investing activities	(18 )	64
Financing activities	(354 )	(163 )



### Operating Activities

For the nine months ended September 30, 2018, net cash provided by operating activities increased by \$154 million or 70% when compared to the same period in 2017, primarily due to an increase in working capital movements of \$84 million, and an increase in net income of \$40 million coupled with non-cash items which increased by \$30 million, with the majority related to an increase in stock-based compensation expense of \$18 million. The increase in working capital movements of \$84 million was primarily due to timing of receipt of customer receivables and timing of vendor payments and income tax payments, partially offset by the timing of payments of our deferred merchant payables.

### Investing Activities

For the nine months ended September 30, 2018, net cash provided by investing activities decreased by \$82 million when compared to the same period in 2017, primarily due to a net decrease in cash generated from the purchases, sales and maturities of our marketable securities of \$51 million, cash paid for acquisitions and other investments of \$24 million and other investing activities of \$12 million during the nine months ended September 30, 2018, partially offset by a decrease in capital expenditures of \$5 million.

### Financing Activities

For the nine months ended September 30, 2018, net cash used in financing activities increased by \$191 million when compared to the same period in 2017, primarily due to a net repayment on our 2015 Credit Facility of \$230 million during the nine months ended September 30, 2018, as compared to net borrowings of \$172 million during the nine months ended September 30, 2017, and a net repayment of our Chinese Credit Facilities of \$8 million during the nine months ended September 30, 2018, partially offset by a decrease in cash used to purchase shares of our common stock under our share repurchase program of \$150 million during the nine months ended September 30, 2018, when compared to the same periods in 2017, as well as the repayment of our 2016 Credit Facility borrowings of \$73 million during the nine months ended September 30, 2017, which did not reoccur in 2018.

### Contractual Obligations, Commercial Commitments and Off-Balance Sheet Arrangements

There have been no material changes outside the normal course of business to our contractual obligations and commercial commitments since December 31, 2017. As of September 30, 2018, other than our contractual obligations and commercial commitments, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K promulgated by the SEC. Refer to “Liquidity and Capital Resources” in Part II, Item 7. —Management’s Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K for the year ended December 31, 2017 for a discussion of our contractual obligations and commercial commitments.

### Contingencies

In the ordinary course of business, we and our subsidiaries are parties to regulatory and legal matters. These matters may relate to claims involving alleged infringement of third-party intellectual property rights, defamation, taxes, regulatory compliance and other claims. Periodically, we review the status of all significant outstanding matters to assess the 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 disclosure in the notes to the consolidated statements for loss contingencies that do not meet both of these conditions if there is a reasonable possibility that a loss may have been incurred that would be material to the financial statements. Significant judgment is required to determine the probability that a liability has

been incurred and whether such liability is reasonably estimable. We base accruals made on the best information available at the time which can be highly subjective. 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. Moreover, such claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources, divert management's attention from the Company's business objectives and adversely affect the Company's business, results of operations, financial condition and cash flows. There may also be claims or actions pending or threatened against us of which we are currently not aware and the ultimate disposition of which would have a material adverse effect on us.

On December 22, 2017, the 2017 Tax Act was signed into United States tax law. The legislation significantly changed U.S. tax law by, among other provisions, lowering corporate income tax rates, and imposing a repatriation tax on deemed repatriated earnings of foreign subsidiaries. The 2017 Tax Act permanently reduced the U.S. corporate income tax rate from a maximum of 35% to a flat 21% rate, which was effective January 1, 2018. This legislation is resulting in additional uncertainty in our income tax liability, as we obtain additional data to comply with new provisions and as the IRS issues new guidance interpreting the legal changes.

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.

By virtue of consolidated income tax returns previously filed with Expedia, we are currently under an IRS audit for the 2009, 2010, and short-period 2011 tax years, and have various ongoing state income tax audits. We are separately under examination by the IRS for the short-period 2011, 2012 and 2013 tax years and have commenced 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 2009. As of September 30, 2018, no material assessments have resulted, except as noted below regarding our 2009 and 2010 IRS audit with Expedia.

In January 2017, as part of the Company's IRS audit of Expedia, we received Notices of Proposed Adjustment from the IRS for the 2009 and 2010 tax years. These proposed adjustments are related to certain transfer pricing arrangements with our foreign subsidiaries, and would result in an increase to our worldwide income tax expense in an estimated range of \$10 million to \$14 million after consideration of competent authority relief, exclusive of interest and penalties. We disagree with the proposed adjustments and intend to defend our position through applicable administrative and, if necessary, judicial remedies. 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. In addition to the risk of additional tax for 2009 and 2010 transactions, if the IRS were to seek transfer pricing adjustments of a similar nature for transactions in subsequent years, we would be subject to significant additional tax liabilities.

Additionally, we continue to accumulate positive cash flows in foreign jurisdictions, which we consider indefinitely reinvested, although we will continue to evaluate the impact of the 2017 Tax Act on our capital deployment within and outside the U.S. Any repatriation of funds currently held in foreign jurisdictions may result in withholding taxes and state taxes.

Refer to "Note 8: Income Taxes" in the notes to our unaudited condensed consolidated financial statements in Item 1 in this Quarterly Report on Form 10-Q for further information on the impact of the 2017 Tax Act, potential contingencies surrounding current audits by the IRS and various other domestic and foreign tax authorities, and other income tax matters.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to certain market risks, including changes in interest rates and foreign currency exchange rates that could adversely affect our results of operations or financial condition. Our exposure to market risk includes our revolving credit facilities, derivative instruments and cash and cash equivalents, marketable securities, accounts receivable and contracts receivable, intercompany receivables, accounts payable and deferred merchant payables denominated in foreign currencies. We manage our exposure to these risks through established policies and procedures and by assessing the anticipated near-term and long-term fluctuations in interest rates and foreign currency exchange rates. Our objective is to mitigate potential income statement, cash flow and market exposures from changes in foreign currency exchange rates and interest rates.

There has been no material change in our market risk profile during the nine months ended September 30, 2018. For additional information, refer to “Quantitative and Qualitative Disclosures About Market Risk” in Item 7A. in Part II of our Annual Report on Form 10-K for the year ended December 31, 2017.

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

As of September 30, 2018, our management, with the participation of our President and Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(b) promulgated under the Securities Exchange Act of 1934, as amended, or the Exchange Act. Based upon that evaluation, our President and Chief Executive Officer and our Chief Financial Officer concluded that, as of September 30, 2018, our disclosure controls and procedures were effective in ensuring that material information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, including ensuring that such material information is accumulated and communicated to our management, including our President and Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

### Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting that occurred during the quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings

In the ordinary course of business, we are parties to legal proceedings and claims involving patent and intellectual property rights (including alleged infringement of third-party intellectual property rights), tax matters (including value-added, excise, transient occupancy and accommodation taxes), regulatory compliance (including competition and consumer matters), defamation and other claims. Rules and regulations promulgated by the SEC require the description of material pending legal proceedings, other than ordinary, routine litigation incident to the registrant's business, and advise that proceedings ordinarily need not be described if they primarily involve damages claims for amounts (exclusive of interest and costs) not individually exceeding 10% of the current assets of the registrant and its subsidiaries on a consolidated basis. In the judgment of management, none of the pending litigation matters that we are defending involves or is likely to involve amounts of that magnitude. Management does not expect these proceedings to have a material impact on the liquidity, results of operations, or financial condition of TripAdvisor, Inc.; however, litigation is inherently uncertain and the actual losses incurred in the event of unfavorable outcomes could have a material adverse effect on our business and financial performance. There may also 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.

### Item 1A. Risk Factors

You should consider carefully the risks described below together with all of the other information included in this Quarterly Report as they may impact our business, results of operations and/or financial condition. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently believe are immaterial may also impair our business, results of operations or financial condition. If any of the following risks occur, our business, financial condition, operating results and cash flows could be materially adversely affected.

If we are unable to continue to increase visitors to our websites and mobile applications, to cost-effectively convert these visitors into revenue-generating users and to continue to engage our users, our revenue, financial results and business could be harmed.

Our long term success depends on our continued ability to increase the overall number of visitors flowing through our platforms in a cost effective manner, to convert those visitors into regular users and then to continue to engage those users throughout the travel planning, booking and trip-taking phases. The primary asset that we use to attract visitors to our websites and convert these visitors into engaged users and bookers is our ability to collect or create, organize and distribute high-quality, commercially valuable content and products that meet users' specific interests. Our traffic

and user engagement could be adversely affected by a number of factors, including but not limited to increased competition, reduced consumer awareness of our brands, inability to provide inventory or supply to our users, declines or inefficiencies in traffic acquisition, and macroeconomic conditions. Certain of our competitors have advertising campaigns expressly designed to drive consumer traffic directly to their websites, and these campaigns may negatively impact traffic to our site. There can be no assurances that we will continue to provide content and products in a manner that meets rapidly changing consumer demand that encourages users to book on our platform and that is cost-effective. Any failure to obtain and manage content and products in a cost-effective manner that will engage users, or any failure to provide content and products that are perceived as useful, reliable and trustworthy, could adversely affect user experiences and their repeat behavior, reduce traffic to our websites and negatively impact our business and financial performance.

We rely on internet search engines and application marketplaces to drive traffic to our platform, certain providers of which offer products and services that compete directly with our products. If links to our website and applications are not displayed prominently, traffic to our platform could decline and our business would be negatively affected.

We rely heavily on internet search engines, such as Google, to generate a significant amount of traffic to our websites, principally through the purchase of travel-related keywords (what is also known as search engine marketing, or SEM) as well as through free, or organic, search (what is also known as search engine optimization, or SEO). The number of users we attract from search engines to our platform is due in large part to how and where information from, and links to, our websites are displayed on search engine results pages. The display, including rankings, of unpaid search results can be affected by a number of factors, many of which are not in our control and may change frequently. Search engines frequently update and change the logic that determines the placement and display of the results of a user's search, such that the purchased or algorithmic placement of links to our websites can be negatively affected. In addition, a search engine could, for competitive or other purposes, alter its search algorithms or results

causing our websites to place lower in organic search query results. If a major search engine changes its algorithms in a manner that negatively affects the search engine ranking of our websites or those of our partners, or if competitive dynamics impact the cost or effectiveness of SEO or SEM in a negative manner, our business and financial performance would be adversely affected. Furthermore, our failure to successfully manage our SEO and SEM strategies could result in a substantial decrease in traffic to our websites, as well as increased costs if we were to replace free traffic with paid traffic.

In addition, to the extent that Google or other leading search or metasearch engines that have a significant presence in our key markets, disintermediate OTAs or travel content providers, whether by offering their own comprehensive travel planning or shopping capabilities, or by referring leads to suppliers, other favored partners or themselves directly, there could be a negative effect on search results and traffic to our site, which in turn could have a material adverse impact on our business and financial performance.

We also rely on application marketplaces, or app stores such as Apple's App Store and Google's Play, to drive downloads of our applications. In the future, Apple, Google or other marketplace operators may make changes to their marketplaces that make access to our products more difficult. For example, Google has entered various aspects of the online travel market, including by establishing a flight metasearch product and hotel metasearch product as well as reservation functionality. Our applications may receive unfavorable treatment compared to the promotion and placement of competing applications, such as the order in which they appear within marketplaces. Similarly, if problems arise in our relationships with providers of application marketplaces, traffic to our site and our user growth could be harmed.

We derive a substantial portion of our revenue from advertising and any significant reduction in spending by advertisers or redirections of advertising spend could harm our business.

We derive a substantial portion of our revenue from the sale of advertising, primarily through click-based advertising and, to a lesser extent, display-based and subscription-based advertising. We enter into master advertising contracts with our advertising partners; however, the agreement terms are generally limited to legal matters, with campaign details governed by insertion orders, and most of these contracts can be terminated by our partners at will or on short notice. Our ability to grow advertising revenue with our existing or new advertising partners is dependent in large part on our ability to generate revenue for them relative to other alternatives. Advertisers will not continue to do business with us if their investment in such advertising does not generate sales leads, customers, bookings, or revenue and profit on a cost-effective basis. Our ability to provide value to our advertising partners depends on a number of factors, including acceptance of online advertising versus more traditional or more effective forms of advertising, competitiveness of our products, traffic quality, perception of our platform, availability and accuracy of analytics and measurement solutions to demonstrate our value, and macroeconomic conditions, whether in the advertising industry generally, among specific types of marketers or within particular geographies. We cannot guarantee that our current advertisers will fulfill their obligations under existing contracts, continue to advertise beyond the terms of existing contracts or enter into any additional contracts with us.

In addition, advertising revenue could be impacted by a number of other factors, including, but not limited to, the following:

- Our inability to increase or maintain user engagement, including time spent on our platform;
- Our inability to increase or maintain the quantity and quality of ads shown to users, including as a result of technical infrastructure constraints;
- The development of technologies that can block the display of our ads or block our ad measurement tools, particularly for advertising displayed on tablets and/or on mobile platforms;
-

The effectiveness of our ad targeting or degree to which users opt out of certain types of ad targeting, including as a result of product changes or controls that may be implemented in connection with GDPR or other regulation or regulatory action;

• Adverse government actions or legal developments relating to advertising, including legislative and regulatory developments and developments in litigation that limit our ability to deliver or target advertising, particularly in mobile devices; and

• The impact of macroeconomic conditions, whether in the advertising industry in general or among special types of marketers or within particularly geographies.

The occurrence of any of these or other factors could result in a reduction in demand for our ads, which may reduce the prices we receive for our ads, or cause marketers to stop advertising with us altogether, either of which would negatively affect our revenue and financial results.

Click-based advertising revenue accounts for the majority of our advertising revenue. Our CPC pricing for click-based advertising depends, in part, on competition between advertisers. If our large advertisers become less competitive with each other,



merge with each other or with our competitors, focus more on per-click profit than on traffic volume, or are able to reduce CPCs, this could have an adverse impact on our click-based advertising revenue which would, in turn, have an adverse effect on our business, financial condition and results of operations.

We rely on a relatively small number of significant advertising partners and any reduction in spending by or loss of these partners could seriously harm our business.

We derive a substantial portion of our revenue from a relatively small number of advertising partners and rely significantly on our relationships. For example, for the year ended December 31, 2017, our two most significant advertising partners, Expedia and Booking Holdings (and their subsidiaries), accounted for a combined 43% of total revenue. While we enter into master advertising contracts with our partners, as discussed above, most of these contracts can be terminated by our partners at will or on short notice. If any of our significant advertisers were to cease or significantly curtail advertising on our websites, we could experience a rapid decline in our revenue over a relatively short period of time which would have a material impact on our business.

Our dedication to making the user experience our highest priority may cause us to prioritize rapid innovation and user experience over short-term financial results.

We strive to create the best experience for our users, providing them with the information, products and tools to enable them to plan, book, and experience the perfect trip. We believe that in doing so we will increase our rates of conversion, our revenue per hotel shopper and, ultimately, our financial performance over the long-term. We have taken actions in the past and may continue to make decisions in the future that have the effect of reducing our short-term revenue or profitability if we believe that the decisions benefit the overall user experience. For example, we may introduce changes to existing products or new products that decrease rates of conversion but increases revenue per hotel shopper. In addition, our approach of putting users first may negatively impact our relationship with existing or prospective advertisers. These actions and practices could result in a loss of advertisers, which in turn could harm our results of operations. The short-term reductions in revenue or profitability could be more severe than we anticipate or these decisions may not produce the long-term benefits that we expect, in which case our user growth and engagement, our relationships with users and advertisers, and our business and results of operations could be harmed. In addition, if new or enhanced products fail to engage users or if we are unsuccessful in our effort to monetize these initiatives, we may fail to generate sufficient revenue, operating margin or other value to justify our investments, in which case our business and results of operations would be adversely affected.

Our business depends on a strong brand and any failure to maintain, protect and enhance our brand would hurt our ability to retain and expand our base of users and advertisers, as well as increase the frequency with which users utilize our products and services.

We believe that the strength of our brands (particularly the TripAdvisor brand) has contributed significantly to our success. We also believe that maintaining, protecting and enhancing our brands is critical to expanding our base of users, increasing the frequency with which users utilize our solutions and attracting advertisers and business partners. Our ability to maintain and protect our brand depends, in part, on our ability to maintain consumer trust in our products and in the quality and integrity of the user content and other information found on our platform. We believe that consumers must trust the integrity of our content and that they must believe that our content is reliable as well as useful. If consumers do not view our reviews to be useful and reliable, they may seek other sources to obtain the information they are looking for and may not return to our platform as often in the future, or at all. This would negatively impact our ability to attract and retain users and advertisers and the frequency with which they use our platform. We dedicate significant resources to these goals, primarily through our computer algorithms to identify inappropriate or deceptive content removing content from our website that violates our terms of service and, in certain cases, taking legal action against businesses that we believe engage in deceptive practices.

Media, legislative, or regulatory scrutiny of our decisions regarding user privacy, content, advertising, and other issues may adversely affect our reputation and brands. Negative publicity about our company, including our content, technology, business practices or strategic plans, could diminish our reputation and confidence in our brand, thereby negatively affecting the use of our products. For example, certain media outlets have reported that we have improperly filtered or screened reviews, that we have not properly verified reviews, or that we manipulate reviews, ranking and ratings in favor of our advertisers against non-advertisers. We expend significant resources to ensure the integrity of our reviews and to ensure that the most relevant reviews are available to our users; we do not establish rankings and ratings in favor of our advertisers. Nevertheless, our reputation and brand, the traffic to our platform and our business may suffer from negative publicity about our company or if users otherwise perceive that our content is manipulated or biased. In addition, regulatory inquiries or investigations require management time and attention and could result in further negative publicity, regardless of their merits or ultimate outcomes.

45

---

In addition, unfavorable publicity regarding, for example, our practices relating to privacy and data protection, product changes, competitive pressures, litigation or regulatory activity, could adversely affect our reputation with our users and our advertisers. Such negative publicity also could have an adverse effect on the size, engagement, and loyalty of our user base and result in decreased revenue.

We continue to invest significant time and effort towards educating users about our brand and our product offerings and there can be no assurances that these efforts will be successful.

In an effort to enhance our brand we invest significantly in brand marketing including, but not limited to, television advertising. We expect these investments to continue, and even increase, as a result of a variety of factors, including relatively high levels of advertising spending by competitors, the increasing costs of supporting multiple brands, expansion into new geographies, product positioning where our brands are less well known, and the continued emergence and relative traffic share growth of search engines as destination sites for travelers. We expect to continue our television advertising campaign and to adjust our marketing efforts and spend among the different marketing channels, in each case as we think appropriate based on the relative growth opportunity, the expected returns and the competitive environment in the different segments and businesses in which we operate.

Such efforts may not maintain or enhance consumer awareness of our brands and, even if we are successful in our branding efforts, such efforts may not be cost-effective or as efficient as they have been historically. If we are unable to maintain or enhance consumer awareness of our brands or to generate demand in a cost-effective manner, it would have a material adverse effect on our business and financial performance. In addition, there are no assurances that these actions will have a positive impact on our marketing efficiencies or operating margins or when the financial benefit expected to result from these efforts will exceed the costs of such efforts. Furthermore, some of our current and potential competitors have access to significantly greater and more diversified resources than we do, and they may also be able to leverage other aspects of their businesses to enable them to compete more effectively with us.

Consumer adoption and use of mobile phone devices creates new challenges and, if we are unable to operate effectively on mobile phone devices, our business may be adversely affected.

The number of people who access the internet through mobile phones continues to increase and we anticipate that the rate of use of these devices will continue to grow. A significant percentage of our traffic comes from users accessing our sites on mobile phones and we expect this percentage to continue to increase. In order to attract and retain engaged users of our mobile platform, the mobile products and services we introduce must be compelling. In addition, the mobile phones continue to monetize at a significantly lower rate than desktops and tablets and advertising opportunities are more limited on mobile phone devices. Given device sizes and technical limitations of these devices, mobile phone consumers may not be willing to download multiple applications from multiple companies providing similar service and instead prefer to use one or a limited number of applications for their hotel, restaurant and experiences activity. In addition, as new devices and platforms are released, users may begin consuming content in a manner that is more difficult to monetize.

To address these growing user demands, we continue to extend our platform to develop and improve upon our mobile applications and monetization strategies. If we are unable to continue to rapidly innovate and create new, user-friendly and differentiated mobile phone offerings and websites optimized for mobile phone devices and efficiently and effectively advertise and distribute on these platforms, or if our mobile phone offerings are not used by consumers, our future growth and results of operations could be negatively impacted.

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

Our businesses and financial performance are affected by the health of the global economy generally as well as the travel industry and leisure travel in particular. Sales of travel services tend to decline or grow more slowly during economic downturns and recessions when consumers engage in less discretionary spending, are concerned about unemployment or economic weakness, have reduced access to credit or experience other concerns that reduce their ability or willingness to travel. The global economy may be adversely impacted by unforeseen events beyond our control including incidents of actual or threatened terrorism, regional hostilities or instability, unusual weather patterns, natural disasters, political instability and health concerns (including epidemics or pandemics), defaults on government debt, significant increases in fuel and energy costs, tax increases and other matters that could reduce discretionary spending, tightening of credit markets and further declines in consumer confidence. Decreased travel spending could reduce the demand for our services and have a negative impact on our business and financial performance.

In addition, the uncertainty of macro-economic factors and their impact on consumer behavior, which may differ across regions, makes it more difficult to forecast industry and consumer trends and the timing and degree of their impact on our markets and business, which in turn could adversely affect our ability to effectively manage our business and our results of operations. For example, the United Kingdom's referendum to exit the European Union, known as Brexit, could adversely affect European and global economic or market conditions, could contribute to instability in global financial markets and may have a negative effect on the travel industry and our business.

We operate in an increasingly competitive global environment and our failure to compete effectively could reduce our market share and harm our financial performance.

We compete in rapidly evolving and competitive markets. We face competition for content, users, advertisers, online travel search and price comparison services, or what is known in the industry as hotel metasearch, and online reservations. In the competition to attract users to our platform, we rely on our ability to acquire traffic through offline brand recognition and brand-direct efforts such as SEO, SEM, email and television. These marketing strategies can be impacted by competitive site content, changes to our website architecture and page designs, changes to search engine ranking algorithms, updates in competitor advertising strategies, or changes to display ordering in search engine results such as preferred placement for internal products offered by search engines.

We also compete with different types of companies in the various markets and geographies where we participate, including large and small companies in the travel space as well as broader service providers. More specifically:

• In our Hotel segment, we face competition from OTAs (including Expedia, Inc. and Booking Holdings, Inc. and certain of their respective subsidiaries), hotel metasearch providers (including trivago, KAYAK, Ctrip.com International, Ltd., and HotelsCombined), large online search, social media, and marketplace companies (including Google, Microsoft Bing, Yahoo, Baidu, Facebook, Alibaba, and Amazon), traditional offline travel agencies, and global hotel chains seeking to promote direct bookings.

• We also face competition from different companies in each of the operating segments in our Non-Hotel segment. Experiences competes with traditional travel agencies, wholesalers, and individual tour operators as well as Airbnb and similar websites that have added other travel services such as tours and activities. Restaurants competes with other online restaurant reservation services, such as SeatMe (owned by Yelp) and OpenTable (a subsidiary of Booking Holdings). Rentals competes with companies focused on alternative lodging, shared accommodations and online accommodation searches, including Airbnb, HomeAway (a subsidiary of Expedia) and booking.com (a subsidiary of Booking Holdings).

Many of our competitors have significantly greater financial, technical, marketing and other resources than us and have more expertise in developing online commerce and facilitating internet traffic as well as large client bases. They also have the ability to leverage other aspects of their business to enable them to compete more effectively against us. In addition, many of our competitors, including online search companies, continue to expand their voice and artificial intelligence capabilities, which may provide them with a competitive advantage in travel. We cannot assure you that we will be able to compete successfully against our current, emerging and future competitors or on platforms that may emerge, or provide differentiated products and services to our traveler base.

Certain of the companies we do business with, including some of our click-based advertising partners, are also our competitors. The consolidation of our competitors and partners, including Expedia (through its acquisitions of Orbitz, Travelocity, and HomeAway) and Booking Holdings (through its acquisitions of KAYAK and OpenTable), may affect our relative competitiveness and our partner relationships. Competition and consolidation could result in higher

traffic acquisition costs, reduced margins on our advertising services, loss of market share, reduced customer traffic to our websites and reduced advertising by travel companies on our websites.

As the industry shifts towards online travel services and the technology supporting it continues to evolve, including platforms such as mobile phone and tablet computing devices, competition is likely to intensify. Competition in our industry may result in pricing pressure, loss of market share or decreased member engagement, any of which could adversely affect our business and financial performance.

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

We depend on the use of sophisticated information technologies and systems for, among other things, website and mobile applications, supplier connectivity, communications, reservations, payment processing, procurement, customer service and fraud prevention. Our future success depends on our ability to continuously improve and upgrade our systems and infrastructure to meet

rapidly evolving consumer trends and demands while at the same time maintaining the reliability and integrity of our systems and infrastructure. We may not be able to maintain or replace our existing systems or introduce new technologies and systems as quickly as we would like or in a cost-effective manner. We may not be successful, or as successful as our competitors, in developing technologies and systems that operate effectively across multiple devices and platforms in a way that is appealing to our users.

In addition, the emergence of alternative platforms such as mobile phone and tablet computing devices and the emergence of niche competitors who may be able to optimize products, services or strategies for such platforms will require new investment in technology. New developments in other areas could also make it easier for competition to enter our markets due to lower up-front technology costs. Technology changes, including new devices, services and home assistants, such as Amazon's Alexa Voice and Google Home, and developing technologies, such as machine learning and artificial intelligence, could negatively impact our business.

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

Our success depends in part on continued innovation to provide products, features and services that make our platform compelling to travelers and engage our users. Our competitors are continually developing innovations in online travel-related services and features. As a result, we are continually working to improve our business model and user experience in order to engage our users, drive user traffic and conversion rates. We have invested, and expect to continue to invest, significant resources in developing and marketing these innovations. We can give no assurances that the changes we make will yield the benefits we expect and will not have unintended or adverse impacts that we did not anticipate. If we are unable to continue offering innovative products and services and quality features that travelers want to use, existing users may become dissatisfied and use competitors' offerings and we may be unable to attract additional users, which could adversely affect our business and financial performance.

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

We use technology and processes to monitor the quality of the internet traffic that we deliver to online advertisers and have identified metrics to demonstrate the quality of that traffic. These metrics are used to not only identify the value of advertising on our website but also to identify low quality clicks such as non-human processes, including robots, spiders or other software; the mechanical automation of clicking; and other types of invalid clicks or click fraud. Even with such monitoring in place, there is a risk that a certain amount of low-quality traffic, or traffic that online advertisers deem to be invalid, will be delivered to such online advertisers. As a result, we may be required to credit amounts owed to us by our advertisers. Furthermore, low-quality or invalid traffic may be detrimental to our relationships with advertisers, and could adversely affect our advertising pricing and revenue.

We rely on assumptions and estimates and data to calculate certain of our key metrics, and real or perceived inaccuracies in such metrics may harm our reputation and negatively affect our business.

We believe that certain metrics are key to our business, including but not limited to unique visitors, hotel shoppers, and revenue per hotel shopper. As both the industry in which we operate and our business continue to evolve, so too might the metrics by which we evaluate our business. While the calculation of these metrics is based on what we believe to be reasonable estimates, our internal tools are not independently verified by a third party and have a number of limitations and, furthermore, our methodologies for tracking these metrics may change over time. For example, a single person may have multiple accounts or browse the internet on multiple browsers or devices, some users may restrict our ability to accurately identify them across visits, some mobile applications automatically contact our servers

for regular updates with no user action, and we are not always able to capture user information on all of our platforms. As such, the calculations of our unique visitors may not accurately reflect the number of people actually visiting our platforms. We continue to improve upon our tools and methodologies to capture data and believe that our current metrics are accurate; however, the improvement of our tools and methodologies could cause inconsistency between current data and previously reported data, which could confuse investors or lead to questions about the integrity of our data. Also if the internal tools we use to track these metrics under-count or over-count performance or contain algorithm or other technical errors, the data we report may not be accurate. In addition, historically, certain metrics were calculated by independent third parties. Accordingly readers should not place undue reliance on these numbers.

The loss of one or more of our key personnel, or our failure to attract and retain other highly qualified personnel in the future, could harm our business.

Our future success depends upon the continued contributions of our senior corporate management and other key employees. In particular, the contributions of Stephen Kaufer, our co-founder, Chief Executive and President, are critical to our overall management.



We cannot ensure that we will be able to retain the services of these individuals, and the loss of one or more of our key personnel could seriously harm our business. We do not maintain any key person life insurance policies.

In addition, competition remains intense for well-qualified employees in certain aspects of our business, including software engineers, developers, product management and development personnel, and other technology professionals. Our continued ability to compete effectively depends on our ability to attract new employees and to retain and motivate existing employees. As a global company, we aim to attract quality employees from all over the world, so any restrictions on travel for professional or personal purposes may cause significant disruption to our businesses or negatively affect our ability to attract and retain employees on a global basis. If we do not succeed in attracting well-qualified employees or retaining or motivating existing employees, our business would be adversely affected.

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

Certain companies in the internet and technology industries that own patents, copyrights, trademarks and trade secrets frequently enter into litigation based on allegations of infringement or other violations of those intellectual property rights in order to extract value from technology companies, such as royalties in connection with grants of licenses. We have received in the past, and expect to receive in the future, notices that claim we have misappropriated or misused other parties' intellectual property rights. Any intellectual property claim against us, regardless of merit, could be time-consuming and expensive to settle or litigate and could divert management's attention and other resources. These claims also could subject us to significant liability for damages and could result in our having to stop using technology or content found to be in violation of another party's rights. We might be required or may opt to seek a license for rights to intellectual property held by others, which may not be available on commercially reasonable terms, or at all. Even if a license is available, we could be required to pay significant royalties, which would increase our operating expenses. We may also be required to develop alternative non-infringing technology, or content, which could require significant effort and expense and make us less competitive in the relevant market. Any of these results could harm our business and financial performance.

Acquisitions, investments, significant commercial arrangements and/or new business strategies could disrupt our ongoing business and present new challenges and risks.

Our success will depend, in part, on our ability to expand our product offerings and expand user engagement in order to grow our business in response to changing technologies, user and advertiser demands and competitive pressures. As a result, we have acquired, invested in and/or entered into significant commercial arrangements with a number of new businesses in the past and our future growth may depend, in part, on future acquisitions, investments, commercial arrangements and/or changes in business strategies, any of which could be material to our financial conditions and results of operations. Such endeavors may involve significant risks and uncertainties, including, but not limited to, the following:

- Expected and unexpected costs incurred in identifying and pursuing these endeavors, and performing due diligence on potential targets that may or may not be successful;
- Use of cash resources and incurrence of debt and contingent liabilities in funding these endeavors that may limit other potential uses of our cash, including stock repurchases, retirement of outstanding indebtedness and/or dividend payments;
- Amortization expenses related to acquired intangible assets and other adverse accounting consequences;
  - Diversion of management's attention or other resources from our existing business;
- Difficulties and expenses in integrating the operations, products, technology, privacy protection systems, information systems or personnel of the company, including the assimilation of corporate cultures;

Edgar Filing: TripAdvisor, Inc. - Form 10-Q

- Difficulties in implementing and retaining uniform standards, controls, procedures, policies and information systems;
- The assumption of known and unknown debt and liabilities of the acquired company, including costs associated with litigation, cybersecurity risks assumed, and other claims relating to the acquired company;
- Failure of any company which we have acquired, in which we have invested, or with which we have a commercial arrangement, to achieve anticipated revenues, earnings or cash flows or to retain key management or employees;
- Failure to generate adequate returns on acquisitions and investments;
- With respect to minority investments, limited management or operational control and reputational risk, which risk is heightened if the controlling person in such case has business interests, strategies or goals that are inconsistent with ours;
- Entrance into markets in which we have no direct prior experience and increased complexity in our business;

49

---

• Impairment of goodwill or other intangible assets such as trademarks or other intellectual property arising from acquisitions; and  
• Adverse market reaction to acquisitions.

We have invested, and may in the future invest, in privately-held companies and these investments are currently accounted for using the measurement alternative for equity investments without a readily determinable fair value, which measure these investments at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. Such investments are inherently risky in that such companies are typically at an early stage of development, may have no or limited revenues, may not be or may never become profitable, may not be able to secure additional funding or their technologies, services or products may not be successfully developed or introduced into the market. Further, our ability to liquidate any such investments is typically dependent upon some liquidity event, such as a public offering or acquisition, since no public market exists for such securities. Valuations of such privately-held companies are inherently complex and uncertain due to the lack of liquid market for the company's securities. Moreover, we could lose the full amount of any of our investments and any impairment of our investments could have a material adverse effect on our financial condition and results of operations.

We cannot assure you that these investments will be successful or that such endeavors will result in the realization of the full benefits of synergies, cost savings, innovation and operational efficiencies that may be possible or that we will achieve these benefits within a reasonable period of time.

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

Over the years, we have experienced rapid growth in some of our business, including through acquisitions of other businesses and in new international markets. We continue to make substantial investments in our technology, product and sales and marketing organizations. This growth places substantial demands on management and our operational infrastructure. In addition, as our business matures, we make periodic changes and adjustments to our organization in response to various internal and external considerations, including market opportunities, the competitive landscape, new and enhanced products and acquisitions. These changes may result in a temporary lack of focus or productivity or otherwise impact our business.

To manage our growth, we may need to improve our operational, financial and management systems and processes which may require significant capital expenditures and allocation of valuable management and employee resources. As we continue to grow, we must effectively integrate, develop and motivate a large number of new employees, including employees in international markets, while maintaining the beneficial aspects of our company culture. If we do not manage the growth of our business and operations effectively, the quality of our platform and efficiency of our operations could suffer, which could harm our brand, results of operations and business.

We are regularly subject to claims, lawsuits, government investigations, and other proceedings that may result in adverse outcomes.

We are regularly subject to claims, lawsuits, government investigations and other proceedings involving, among other matters, patent and intellectual property rights (including alleged infringement of third-party intellectual property rights), tax matters (including value-added, excise, transient, occupancy and accommodation taxes), regulatory compliance (including competition and consumer matters), defamation and free speech, labor and employment matters and commercial disputes.

Such claims, lawsuits, government investigations and proceedings are inherently uncertain and their results cannot be predicted with certainty. Regardless of the outcome, any of these types of legal proceedings could have an adverse impact on us because of legal costs, diversion of management resources, injunctions or damage awards and other

factors. Determining reserves for our pending litigation or other legal proceedings is a complex, fact-intensive process that requires significant judgment. It is possible that a resolution of one or more such proceedings could result in substantial damages, fines or penalties that could adversely affect our business, consolidated financial position, results of operations, or cash flows in a particular period. These proceedings could also result in reputational harm, criminal sanctions, consent decrees, or orders preventing us from offering certain features, functionalities, products, or services, requiring a change in our business practices or other field action, or requiring development of non-infringing or otherwise altered products or technologies. Any of these consequences could adversely affect our business and results of operations.

We are a global company that operates in many different jurisdictions and these operations expose us to additional risks, which risks increase as our business continues to expand.

We operate in a number of jurisdictions both inside and outside of the United States and continue to expand our operations both domestically and internationally. Many regions have different economic conditions, languages, currencies, consumer expectations, legislation, regulatory environments (including labor laws and customs), tax laws, levels of consumer acceptance and use of the internet for commerce and levels of political stability. We are subject to associated risks typical of global businesses, including, but not limited to, the following:

- Compliance with additional laws and regulations, including the Foreign Corrupt Practices Act and the U.K. Bribery Act (including the European Union’s General Data Protection Regulation, or GDPR), data privacy requirements, labor and employment law, laws regarding advertisements and promotions and anti-competition regulations;
- Diminished ability to legally enforce contractual rights;
- Increased risk and limits on enforceability of intellectual property rights;
- Restrictions on repatriation of cash as well as restrictions on investments in operations in certain countries;
- Financial risk arising from transactions in multiple currencies as well as foreign currency exchange restrictions;
- Difficulties in managing staff and operations due to distance, time zones, language and cultural differences;
- Uncertainty regarding liability for services, content and intellectual property rights, including uncertainty as a result of local laws and lack of precedent;
- Economic or political instability or laws and regulations involving economic or trade prohibitions or sanctions; and
- Threatened or actual acts of terrorism.

A number of countries are actively pursuing changes to their tax laws applicable to corporate multinationals, such as the recently enacted U.S. tax legislation commonly referred to as the Tax Cuts and Jobs Act of 2017 (the “2017 Tax Act”). Foreign governments may enact tax laws that could result in further changes to global taxation and materially affect our financial position and results of operations.

The 2017 Tax Act resulted in significant changes to the U.S. corporate income tax system. The 2017 Tax Act requires complex computations to be performed that were not previously required in U.S. tax law, significant judgments to be made in interpretation of the provisions of the 2017 Tax Act and significant estimates in calculations, and the preparation of analysis of information not previously relevant or regularly produced. The U.S. Treasury Department, the IRS and other standard-setting bodies could interpret or issue guidance on how provisions of the 2017 Tax Act will be applied or otherwise administered that is different from our interpretation. As we complete our analysis of the 2017 Tax Act, collect and prepare necessary data, and interpret additional guidance, we may make adjustments to provisional amounts that we have recorded that may materially impact our provision for income taxes in the period in which the adjustments are made.

Additionally, we continue to accumulate positive cash flows in foreign jurisdictions, which we consider indefinitely reinvested, although we will continue to evaluate the impact of the 2017 Tax Act on our capital deployment within and outside the U.S. The repatriation of such funds for use in the United States, including for corporate purposes such as acquisitions, stock repurchases, dividends or debt refinancings, may result in additional U.S. income tax expense and higher cost for such capital.

A failure to comply with current laws, rules and regulations or changes to such laws, rules and regulations and other legal uncertainties may adversely affect our business or financial performance.

Our business and financial performance could be adversely affected by unfavorable changes in or interpretations of existing laws, rules and regulations or the promulgation of new laws, rules and regulations applicable to us and our business, including those relating to the internet and online commerce, internet advertising, consumer protection, data security and privacy, travel and rental licensing and listing requirements and tax. In some cases, these laws continue to evolve.

For example, there is, and will likely continue to be, an increasing number of laws and regulations pertaining to the internet and online commerce that may relate to liability for information retrieved from or transmitted over the internet, online editorial and user-generated content, user privacy, data security, behavioral targeting and online advertising, taxation, liability for third-party activities and the quality of products and services. In addition, enforcement authorities continue to rely on their authority under existing consumer protection laws to take action against companies relating to data privacy and security practices. The growth and

development of online commerce may prompt calls for more stringent consumer protection laws and more aggressive enforcement efforts, which may impose additional burdens on online businesses generally.

Further, Rentals has been and continues to be subject to regulatory developments that affect the rental industry and the ability of competitors like us to list those rentals online. For example, some states and local jurisdictions have fair housing or other laws governing whether and how properties may be rented, which they assert apply to rentals. In addition, many homeowners, condominium and neighborhood associations have adopted or are considering adopting statutes or ordinances that prohibit or restrict property owners and managers from short-term rentals.

We also have been subject, and we will likely be subject in the future, to inquiries from time to time from regulatory bodies concerning compliance with consumer protection, competition, tax and travel industry-specific laws and regulations. The failure of our businesses to comply with these laws and regulations could result in fines and/or proceedings against us by governmental agencies and/or consumers, which if material, could adversely affect our business, financial condition and results of operations. Further, if such laws and regulations are not enforced equally against other competitors in a particular market, our compliance with such laws may put us at a competitive disadvantage vis-à-vis competitors who do not comply with such requirements.

The promulgation of new laws, rules and regulations, or the new interpretation of existing laws, rules and regulations, in each case that restrict or otherwise unfavorably impact the ability or manner in which we provide services could require us to change certain aspects of our business, operations and commercial relationships to ensure compliance, which could decrease demand for services, reduce revenues, increase costs and/or subject the company to additional liabilities. For example, the European Union adopted GDPR implementing data protection requirements and other jurisdictions are contemplating and may in the future adopt similar legislation; this legislation could increase the cost and complexity of delivering our services. Unfavorable changes could decrease demand for products and services, limit marketing methods and capabilities, impede development of new products, result in negative publicity, require significant management time, increase costs and/or subject us to additional liabilities. Violations of these laws and regulations could result in fines and/or criminal sanctions against us, our officers or our employees and/or prohibitions on the conduct of our business.

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

Our websites rely on content, brands and technology, much of which is proprietary. We protect our proprietary content, brands and technology by relying on a combination of trademarks, copyrights, trade secrets, patents and confidentiality agreements. Any misappropriation or violation of our rights could have a material adverse effect on our business. Even with these precautions, it may be possible for another party to copy or otherwise obtain and use our proprietary technology, content or brands without authorization or to develop similar technology, content or brands independently.

Effective intellectual property protection is expensive to develop and maintain, both in terms of initial and ongoing registration requirements and expenses and the costs of defending our rights. In addition, effective intellectual property protection may not be available in every jurisdiction in which our services are made available, and policing unauthorized use of our intellectual property is difficult and expensive. Therefore, in certain jurisdictions, we may be unable to protect our intellectual property adequately against unauthorized third-party copying or use, which could adversely affect our business or ability to compete. We cannot be sure that the steps we have taken will prevent misappropriation or infringement of our intellectual property. Furthermore, we may need to go to court or other tribunals or administrative bodies in order to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. These proceedings might result in substantial costs and diversion of resources and management attention. Our failure to protect our intellectual property in a

cost-effective or effective manner could have a material adverse effect on our ability to protect our technology, content and brands.

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

Our processing, storage and use of personal information and other data subjects us to additional laws and regulations and failure to comply with those laws and regulations could give rise to liabilities.

We collect, process, store and transmit data, including personal information, for our users. As a result, we are subject to a variety of laws in the United States and abroad regarding privacy and the storing, sharing, use, processing, disclosure and protection of personal information and other consumer data, the scope of which are changing, subject to differing interpretations, and may be inconsistent between countries or conflict with other rules. In addition, the security of data when engaging in electronic commerce is essential to maintaining consumer and travel service provider confidences in our services. The regulatory framework for privacy



issues worldwide is currently in flux and is likely to remain so for the foreseeable future. Practices regarding the collection, use, storage, transmission and security of personal information by companies operating over the internet have recently come under increased public scrutiny. The U.S. Congress and federal agencies, including the Federal Trade Commission and the Department of Commerce, are reviewing the need for greater regulation for the collection and use of information concerning consumer behavior on the internet. Various U.S. courts are also considering the applicability of existing federal and state statutes, including computer trespass and wiretapping laws, to the collection and exchange of information online.

In addition, we are subject to GDPR, a new data protection legal framework adopted by the European Union that is intended to protect the privacy and security of personal data, including credit card information. There are a number of proposals for data privacy laws pending or proposed in other jurisdictions, including at both the state and federal level of the United States. Implementation of and compliance with these laws and regulations may be more costly or take longer than we anticipate, or could otherwise affect our business operations. We strive to comply with all applicable laws, policies, legal obligations and industry codes of conduct relating to privacy and data protection. Any failure or perceived failure by us to comply with our privacy policies, privacy-related obligations to users or other third parties, or privacy-related legal obligations, may result in governmental enforcement actions, litigation or public statements that could harm our reputation and cause our customers and members to lose trust in us, which could have an adverse effect on our business, brand, market share and results of operations.

We have acquired a number of companies over the years and may continue to do so in the future. While we make significant efforts to address any information technology security issues with respect to our acquisitions, we may still inherit such risks when we integrate the acquired businesses.

We are subject to payments-related risks and failure to manage those risks may subject us to fines, penalties and additional costs and could have a negative impact on our business.

We accept payments, both from consumers and advertising partners and suppliers, using a variety of methods, including credit card, debit card, direct debit from a customer's bank account, and invoicing. For existing and future payment options we offer to our customers, we may become subject to additional regulations and compliance requirements (including obligations to implement enhanced authentication processes). These regulations and/or requirements could result in significant costs and reduce the ease of use of our payments products and yet may still be susceptible to fraudulent activity. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs and lower profitability. We rely on third parties to provide certain payment methods and payment processing services, including the processing of credit cards and debit cards. In each case, our business could be disrupted if these companies become unwilling or unable to provide these services to us. We are also subject to payment card association operating rules, including data security rules, certification requirements, and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. If we fail to comply with these rules or requirements or if our data security systems are breached or compromised, we may be liable for card issuing banks' costs, subject to fines and higher transaction fees, and/or lose our ability to accept credit and debit card payments, process electronic funds transfers, or facilitate other types of online payments.

We are also subject to a number of other laws and regulations relating to payments, money laundering, international money transfers, privacy and information security, and electronic fund transfers. If we were found to be in violation of applicable laws or regulations, we could be subject to additional requirements and civil and criminal penalties, or forced to cease providing certain services.

Any significant system disruption in or unauthorized access to our computer systems or those of third parties that we utilize, including those relating to cybersecurity or arising from cyberattacks, could result in a loss or degradation of service, unauthorized disclosure of data or theft of intellectual property, and could harm our business.

Our reputation and ability to attract, retain and service our users and partners is dependent upon the reliable performance and security of our computer systems and those of third parties we utilize in our operations. In the past, we have experienced cyberattacks, such as computer viruses, security intrusions, “denial-of-service” or “bot” type attacks that have made portions of our websites unavailable for short periods of time as well as allowed unauthorized access of our systems and data. Significant interruptions, outages, delays or security breaches in internal systems or systems of third parties that we rely upon, could impair our ability to process transactions or display content and significantly harm our business. A party, whether internal or external, that is able to circumvent our security systems could misappropriate user information or proprietary information or cause significant interruptions in our operations. We also face risks associated with security breaches affecting third parties conducting business over the internet. Much of our business is conducted with third party marketing affiliates or, more recently, through business partners powering our instant booking feature. A security breach at such third party could be perceived by consumers as a security breach of our systems and could result in negative publicity or damage our reputation, expose us to risk of loss or litigation and possible liability and subject us to regulatory penalties and sanctions. In addition, such incidents may also result in a decline in our active user base or engagement levels. Finally, failure of such third parties to comply with applicable disclosure requirements could expose us to liability.

We may need to expend significant resources to protect against security breaches or to investigate and address problems caused by breaches. Reductions in website availability could cause a loss of substantial business volume during the occurrence of any such incident. Because the techniques used to sabotage security change frequently, often are not recognized until launched against a target and may originate from less regulated and remote areas around the world, we may be unable to proactively address these techniques or to implement adequate preventive measures. Security breaches could result in negative publicity, damage to reputation, exposure to risk of loss or litigation and possible liability due to regulatory penalties and sanctions. Media coverage of data breaches has escalated, in part because of the increased number of enforcement actions, investigations and lawsuits. As this focus and attention on privacy and data protection increases, we also risk exposure to potential liabilities and costs resulting from the compliance with, or any failure to comply with, applicable legal requirements, conflicts among these legal requirements or differences in approaches to privacy and security. Security breaches could also cause travelers and potential users to lose confidence in our security, which would have a negative effect on the value of our brand. Failure to adequately protect against attacks or intrusions, whether for our own systems or systems of vendors, could expose us to security breaches that could have an adverse impact on financial performance.

Any of these events could cause system interruption, delays and loss of critical data, and could prevent us from providing content and services to users, travelers and/or third parties for a significant period of time. In addition, remediation may be costly and we may not have adequate insurance to cover such costs. Moreover, the costs of enhancing infrastructure to attain improved stability and redundancy may be time consuming and expensive and may require resources and expertise that are difficult to obtain.

The online short-term and vacation rental market is rapidly evolving and if we fail to predict the manner in which the market develops, our business and prospects may suffer.

We offer short-term and vacation rental services on our TripAdvisor-branded sites as well as through our Rentals offering. The short-term and vacation rental market has been and continues to be, subject to regulatory development globally that affects the industry and the ability of companies like us to list these rental properties online. For example, some states and local jurisdictions, both domestically and internationally, have adopted, or are considering adopting, statutes or ordinances that prohibit property owners and managers from renting certain properties for fewer than 30 consecutive days or otherwise limit their ability to do so, and other states and local jurisdictions may introduce similar regulations. Some states and local jurisdictions also have fair housing or other laws governing whether and how properties may be rented, which they assert apply to vacation rentals. Many homeowners, condominium and neighborhood associations have adopted rules that prohibit or restrict short-term rentals. Many of the fundamental statutes and ordinances that impose taxes or other obligations on travel and lodging companies were established before the growth of the internet and e-commerce, which creates a risk of these laws being used in ways not originally intended that could burden property owners and managers or otherwise harm our business. Operating in this dynamic regulatory environment requires significant management attention and financial resources. We cannot assure that our efforts will be successful, and the investment and additional resources required to manage growth will produce the desired levels of revenue or profitability.

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

We are currently party to a credit agreement with respect to a \$1.2 billion revolving credit facility maturing in May 2022 (as more fully discussed below, the “2015 Credit Facility”). This agreement includes restrictive covenants that may impact the way we manage our business and may limit our ability to secure significant additional financing in the future on favorable terms. Our ability to secure additional financing and satisfy our financial obligations outstanding from time to time will depend upon our future operating performance, which is subject to then prevailing general economic and credit market conditions, including interest rate levels and the availability of credit generally, and financial, business and other factors, many of which are beyond our control. There can be no assurance that sufficient

financing will be available on desirable, or even any, terms to fund investments, acquisitions, stock repurchases, dividends, debt refinancing or extraordinary actions or that counterparties in any such financings would honor their contractual commitments.

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

At September 30, 2018, there was no outstanding long-term debt. However, we continue to have existing credit facilities from which we can borrow significant amounts; as such, we are still subject to risks relating to our indebtedness that include:

◆Increasing our vulnerability to general adverse economic and industry conditions;

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

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

54

---

- ✦ Limiting our flexibility in planning for, or reacting to, changes in our businesses and the markets in which we operate;
- ✦ Possibly placing us at a competitive disadvantage compared to our competitors that have less debt;
- ✦ Limiting our ability to borrow additional funds or to borrow funds at rates or on other terms that we find acceptable; and
- ✦ Exposing us to the risk of increased interest rates because our outstanding debt is expected to be subject to variable rates of interest.

In addition, it is possible that we may need to incur additional indebtedness in the future in the ordinary course of business. The terms of our 2015 Credit Facility allow us to incur additional debt subject to certain limitations; however, there is no assurance that additional financing will be available to us on terms favorable to us, if at all. In addition, if new debt is added to current debt levels, the risks described above could intensify.

Our 2015 Credit Facility provides for various provisions that limit our discretion in the operation of our business and require us to meet financial maintenance tests and other covenants and the failure to comply with their covenants could have a material adverse effect on us.

We are party to a credit agreement providing for our 2015 Credit Facility. The agreements that govern the 2015 Credit Facility contain various covenants, including those that limit our ability to, among other things:

- ✦ Incur indebtedness;
- ✦ Pay dividends on, redeem or repurchase our capital stock;
- ✦ Enter into certain asset sale transactions, including partial or full spin-off transactions;
- ✦ Enter into secured financing arrangements;
- ✦ Enter into sale and leaseback transactions; and
- ✦ Enter into unrelated businesses.

These covenants may limit our ability to optimally operate our business. In addition, our 2015 Credit Facility requires that we meet certain financial tests, including a leverage ratio test. Any failure to comply with the restrictions of our credit facility may result in an event of default under the agreements governing such facility. Such default may allow the creditors to accelerate the debt incurred thereunder. In addition, lenders may be able to terminate any commitments they had made to supply us with further funds (including periodic rollovers of existing borrowings).

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

Due to the global nature of our business, we are subject to income taxes in the United States and other foreign jurisdictions. In the event we incur net income in certain jurisdictions but incur losses in other jurisdictions, we generally cannot offset the income from one jurisdiction with the loss from another. This lack of flexibility increases our effective tax rate. Furthermore, significant judgment is required to calculate our worldwide provision for income taxes and depends on our ability to operate our business in a manner consistent with our corporate structure and intercompany arrangements. In the ordinary course of our business there are many transactions and calculations where the ultimate tax determination is uncertain.

We believe our tax estimates are reasonable. However, we are routinely under audit by federal, state and foreign taxing authorities. The taxing authorities of jurisdictions in which we operate may challenge our methodologies for valuing developed technology or intercompany arrangements, including our transfer pricing, or determine that the manner in which we operate our business does not achieve the intended tax consequences, which would increase our effective tax rate and harm our financial position and results of operations. As we operate in numerous taxing jurisdictions, the application of tax laws can also be subject to diverging and sometimes conflicting interpretations by taxing authorities of these jurisdictions. It is not uncommon for taxing authorities of different countries to have

conflicting views, for instance, with respect to, among other things, the manner in which the arm's length standard is applied for transfer pricing purposes, or with respect to the valuation of intellectual property. The final determination of audits could be materially different from our income tax provisions and accruals and could have a material effect on our financial position, results of operations, or cash flows in the period or periods for which that determination is made.

The income tax effects of the accounting for share-based compensation may significantly impact our effective tax rate. In periods in which our stock price is higher than the grant price of the share-based compensation awards vesting in that period, we will

recognize excess tax benefits that will decrease our effective tax rate. In periods in which our stock price is lower than the grant price of the share-based compensation awards vesting in that period, our effective tax rate will increase.

Additionally, we continue to accumulate positive cash flow in foreign jurisdictions, which we consider indefinitely reinvested, although we will continue to evaluate the impact of the 2017 Tax Act on our capital deployment within and outside the U.S. Any repatriation of funds currently held in foreign jurisdictions may result in withholding taxes and state taxes.

Changes in tax laws or tax rulings, or the examination of our tax positions, could materially affect our financial position and results of operations.

Tax laws are dynamic and subject to change as new laws are passed and new interpretations of the law are issued or applied. Our existing corporate structure and intercompany arrangements have been implemented in a manner we believe is in compliance with current prevailing tax laws. However, the tax benefits that we intend to eventually derive could be undermined due to changing tax laws. A number of countries are actively pursuing changes to their tax laws applicable to corporate multinationals, such as the recently enacted 2017 Tax Act. Foreign governments or U.S. states may enact tax laws that could result in further changes to global taxation and materially affect our financial position and results of operations.

The 2017 Tax Act has resulted in significant changes to the U.S. corporate income tax system. The 2017 Tax Act requires complex computations to be performed that were not previously required in U.S. tax law, significant judgments to be made in interpretation of the provisions of the 2017 Tax Act, significant estimates in calculations, and the preparation of analysis of information not previously relevant or regularly produced. The U.S. Treasury Department, the IRS and other standard-setting bodies could interpret or issue guidance on how provisions of the 2017 Tax Act will be applied or otherwise administered that is different from our interpretation. As we complete our analysis of the 2017 Tax Act, collect and prepare necessary data, and interpret additional guidance, we may make adjustments to provisional amounts that we have recorded that may materially impact our provision for income taxes in the period in which the adjustments are made.

In addition, the taxing authorities in the United States and other jurisdictions where we do business regularly examine our income and other tax returns as well as the tax returns of Expedia, our former parent. The ultimate outcome of these examinations (including the IRS audit described below) cannot be predicted with certainty. Should the IRS or other taxing authorities assess additional taxes as a result of examinations, we may be required to record charges to our operations, which could harm our operating results and financial condition.

In July 2015, the United States Tax Court issued an opinion favorable to Altera Corporation, accepting Altera's position of excluding stock-based compensation from its intercompany cost-sharing arrangement. The IRS subsequently appealed the Court decision on February 19, 2016. On July 24, 2018, the IRS won an appeals court case at the Ninth Circuit, however, on August 7, 2018, the Ninth Circuit withdrew its decision regarding Altera and the case will be reheard. While we have recorded an income tax benefit based on the Court's 2015 opinion, we may be required to reverse the income tax benefit if an unfavorable opinion is issued by the Court when the case is reheard.

In connection with the Spin-Off, we could be subject to significant tax liabilities.

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

We continue to be responsible for potential tax liabilities in connection with consolidated income tax returns filed with Expedia prior to or in connection with the Spin-Off. By virtue of previously filed consolidated tax returns with Expedia, we are currently under an IRS audit for the 2009, 2010, and short-period 2011 tax years. In connection with that audit, we received, in January 2017, notices of proposed adjustment from the IRS for the 2009 and 2010 tax years, which would result in an increase in our worldwide income tax expense. The proposed adjustments would result in an increase to our worldwide income tax expense in an estimated range totaling \$10 million to \$14 million for those specific years after consideration of competent authority relief, exclusive of interest and penalties. We are also subject to various ongoing state income tax audits. The outcome of these matters or any other audits could subject us to significant tax liabilities.



We are subject to fluctuation in foreign currency exchange risk.

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

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

Significant fluctuations in foreign currency exchange rates can affect consumer travel behavior. Volatility in foreign currency exchange rates and its impact on consumer behavior, which may differ across regions, makes it more difficult to forecast industry and consumer trends and the timing and degree of their impact on our markets and business, which in turn could adversely affect our ability to effectively manage our business and adversely affect our results of operations.

Liberty TripAdvisor Holdings, Inc. currently is a controlling stockholder.

Liberty TripAdvisor Holdings, Inc., or LTRIP, effectively controls the outcome of all matters submitted to a vote or for the consent of our stockholders (other than with respect to the election by the holders of our common stock of 25% of the members of our Board of Directors and matters as to which Delaware law requires separate class votes), including but not limited to, corporate transactions such as mergers, business combinations or dispositions of assets, the authorization or issuance of new equity or debt securities and determinations with respect to our business direction and policies. Our Chairman Gregory Maffei and one of our Directors Albert Rosenthaler also serve as officers and directors of LTRIP. LTRIP may have interests that differ from those of our other stockholders and they may vote in a way with which our other stockholders may not agree or that may be adverse to other stockholders' interests. LTRIP is not restricted from investing in other businesses involving or related to our business. LTRIP's control of us, as well as the existing provisions of our organizational documents and Delaware law, may discourage or prevent a change of control that might otherwise be beneficial, which may reduce the market price of our common stock.

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

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

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

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

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

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

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

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

The market price and trading volume of our common stock may be volatile and may face negative pressure.

Our stock price has experienced, and could continue to experience in the future, substantial volatility. The market price of our common stock is affected by a number of factors, including the risk factors described in this section and other factors beyond our control. Factors affecting the trading price of our common stock could include:

- Quarterly variations in our or our competitors' results of operations;
- Changes in earnings estimates or recommendations by securities analysts;
- Failure to meet market expectations;
- The announcement of new products or product enhancements by us or our competitors;
- Repurchases of our common stock pursuant to our share repurchase program which could also cause our stock price to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our stock;
  - Developments in our industry, including changes in governmental regulations; and
- General market conditions and other factors, including factors related to our operating performance or the operating performance of our competitors.

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 foreign currency exchange fluctuations, may negatively impact the market price of our common stock regardless of our actual operating performance.

Our financial results will fluctuate from quarter to quarter and are difficult to predict.

Our quarterly financial results have fluctuated in the past and will likely fluctuate in the future. Additionally, we have limited operating history with the current scale of our business, which means it is difficult to forecast our financial results. As a result, you should not rely upon our quarterly financial results as indicators of future performance. Our financial results in any given quarter can be influenced by numerous factors, many of which we are unable to predict or are outside of our control, including:

- Our ability to maintain and grow our user base and to increase user engagement;

- Increase in marketing, sales and other operation expenses that we will incur to grow and expand our operations and to remain competitive;
- Fluctuations in the marketing spend of our advertising partners due to seasonality, episodic global or regional events or other factors;
- The pricing of our ads and other products;
- User behavior or product changes that may reduce traffic to features or products that we successfully monetize;
- System failure or outages, which would prevent us from serving ads for any period of time;

58

---

- Breaches of security or privacy and the costs associated with any such breaches and remediation;
- Fees paid to third parties for content or promotion of our products and services;
- Adverse litigation judgements, settlement or other litigation related costs;
- Changes in the legislative or regulatory environment, including with respect to privacy and data protection, or engagement by government regulators, including final orders or consent decrees;
- The impact of changes in tax laws, which are recorded in the period enacted and may significantly affect our effective tax rates;
- Tax obligations that may arise from resolutions of tax examinations, including the examinations we are currently under; that may materially differ from the amounts we have anticipated;
- Fluctuations in currency exchange rates and changes in the proportion of our revenue and expenses denominated in foreign currencies;
- Changes in U.S. generally accepted accounting principles; and
- Changes in global business and macroeconomic conditions.

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

For the nine months ended September 30, 2018, the average daily trading volume of our common stock on NASDAQ was approximately 2.6 million shares. If our existing stockholders or their distributees sell substantial amounts of our common stock in the public market, the market price of the common stock could decrease significantly. The perception in the public market that our existing stockholders might sell shares of common stock could also depress the trading price of our common stock. In addition, certain stockholders have rights, subject to some conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or other stockholders. If LTRIP or some other stockholder sells substantial amounts of our common stock in the public market, or if there is a perception in the public market that LTRIP might sell shares of our common stock, the market price of our common stock could decrease significantly. A decline in the price of shares of our common stock might impede our ability to raise capital through the issuance of additional shares of our common stock or other equity securities.

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

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

- Authorization and issuance of Class B common stock that entitles holders to ten votes per share;
- Authorization of the issuance of preferred stock which can be created and issued by the Board of Directors without prior stockholder approval, with rights senior to those of our common stock;
- Prohibiting our stockholders from filling board vacancies or calling special stockholder meetings; and
- Limiting who may call special meetings of stockholders.

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



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

Unregistered Sales of Equity Securities

During the quarter ended September 30, 2018, we did not issue or sell any shares of our common stock, Class B common stock or other equity securities pursuant to unregistered transactions in reliance upon an exemption from the registration requirements of the Securities Act of 1933, as amended.

Share Repurchases

On January 31, 2018, TripAdvisor's Board of Directors authorized up to \$250 million of share repurchases. Our Board of Directors authorized and directed management, working with the Executive Committee of our Board of Directors, to affect the share repurchase program in compliance with applicable legal requirements. This new repurchase program has no expiration but may be suspended or terminated by the Board of Directors at any time.

We did not repurchase any shares of our common stock during the three months ended September 30, 2018. As of September 30, 2018, we have repurchased a total of 2,582,198 shares of outstanding common stock under the share repurchase program for an aggregate cost of \$100 million, or an average price of \$38.73 per share, exclusive of fees and commissions.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

## Item 6. Exhibits

The exhibits listed below are filed as part of this Quarterly Report on Form 10-Q.

Exhibit No.	Exhibit Description	Filed Herewith	Incorporated by Reference		Filing Date
			Form	SEC File No. Exhibit	
31.1	<u>Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>	X			
31.2	<u>Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>	X			
32.1	<u>Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>	X			
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X			
101	The following financial statements from the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2018, formatted in XBRL: (i) Unaudited Condensed Consolidated Statements of Operations, (ii) Unaudited Condensed Consolidated Statements of Comprehensive Income, (iii) Unaudited Condensed Consolidated Balance Sheets, (iv) Unaudited Condensed Consolidated Statement of Changes in Stockholders' Equity, (v) Unaudited Condensed Consolidated Statements of Cash Flows, and (vi) Notes to Unaudited Condensed Consolidated Financial Statements.	X			



SIGNATURES

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

TripAdvisor, Inc.

By: /s/ Ernst Teunissen  
Ernst Teunissen  
Chief Financial Officer

By: /s/ Noel Watson  
Noel Watson  
Chief Accounting Officer

November 7, 2018